Q4 2017 Earnings Call

Company Participants

- Constantine Iordanou, Chairman & Chief Executive Officer
- Marc Grandisson, President and Chief Operating Officer
- Mark Lyons, Executive Vice President, Chief Financial Officer

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Geoffrey Dunn, Analyst
- Ian Gutterman, Analyst
- Jay Cohen, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2017 Arch Capital Group Earnings Conference Call. At this time, all participants are in a listen-only mode.Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference call is being recorded.

Before the company gets started with its update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the federal securities laws. These statements are based upon management's current assessments and assumptions and are subject to a number of risks and uncertainties. Consequently, actual results may differ materially from those expressed or implied. For more information on the risks and other factors that may affect future performance, investors should review periodic reports that are filed by the company with the SEC from time to time.

Additionally, certain statements contained in the call that are not based on historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The company intends the forward-looking statements in the call to be subject to the safe harbor created thereby. Management also will make reference to some non-GAAP measures of financial performance. The reconciliation to GAAP and definition of operating income can be found in the company's current report on Form 8-K furnished to the SEC yesterday, which contains the company's earnings press release and is available on the company's website.

I would now like to introduce your hosts for today's conference, Mr. Dinos Iordanou; Mr. Marc Grandisson; and Mr. Mark Lyons. You may begin.

Constantine Iordanou {BIO 2397727 <GO>}

Thank you, Krystal. Good morning, everyone, and thank you for joining us today for our fourth quarter earnings call. As many of you know, this is my last earnings call as CEO of Arch Capital and I could not be more proud of the team and organization that we have built over the past 16 years. We announced our CEO transition plan three years ago, and I'm very pleased with the work, Mark and the entire executive team have done to position Arch, for the challenges they will face in the future.

In our 16 years as a company, we have come a long way. We have taken an idea to build from scratch, a specialty insurance and reinsurance platform that can generate superior risk adjusted returns, and we have done that. We also saw an opportunity after the financial crisis to add a new segment mortgage that profitably diversifies our company and we have achieved that also.

Through the P&C cycle, Arch has produced average annual returns of 16% and book value for shareholders, average returns of 16% and book value per share growth, growing 10 times from $6.03 a share in March of 2002 to $60.91 per share at December 31, 2017. And a share price of $87 before this call, from a split-adjusted $8.84 back in 2002.

On my own I cannot have accomplished these results, but with the help of many people, much has been accomplished. The challenge for all of us was to improve the intellectual capability of the company and its ability to manufacture, as I always say profitable decisions. Most companies do not pay enough attention to their most important asset they posses, their employees. Here at Arch, is the foundation of our success.

For Arch, the question has been how do you create a culture in a cyclical business that not only empowers but also helps our employees to make the best decision that they can. You have to pay off for them, you have to share knowledge, you have to teach, you have to be reward them, you have to provide an opportunity for employees to constantly learn and transfer knowledge up and down the organization, as well as our core segments and channels.

The more knowledge your employees possess, the better decision makers they are, and that is what producing -- that is what produces outstanding results. You have to believe in the success of the team, or with the success of the individual, and you have to be willing to challenge and be challenged. Collaboration is the secret sauce that enables quick execution and achieving extraordinary result. For the past 16 years, I've had the honor and privilege to help lead Arch and to have a hand in its formation and success is one of my greatest personnel achievements.

I'm now passing the baton over to Mark. And I'm confident that we will see not only a continuation of the culture, that has made Arch successful, but that also I expect the future awards will be enhanced under his leadership.

To take an analogy out of car racing, which I'm a fan of, Marc, here are the keys baby. The Ferraris, are in the starting position, the fuel ready to go, achieve greatness, my friend.

Marc Grandisson {BIO 4369887 <GO>}

Thank you, Dinos. Wow. You'll see me on my Vespa in Bermuda. Stay with the Italian team. But good morning to you all, I've had the privilege of working with Dinos for more than 16 years, and I feel its appropriate to pause on this earnings call. Dinos' 59th consecutive earnings call and to express a big thank you from all of us, at ACGL. Thank you for your leadership, for the values and culture that you've helped to establish here at Arch. Enjoy your family with the two newest addition Mariel [ph]and Evelyn, [ph] Mr. grandpa.

Turning to the quarter and year-end review. 2017 brought catastrophe losses of about 135 billion to the industry and cost Arch shareholders about $386 million. For the year ended December 31, 2017, Arch produced after-tax operating income of 447 million, or $3.21 per share for 5.7% operating return on equity. On a net income basis, the results were slightly better as a company reported $566 million, or $4.07 per share for the year ending December 31, 2017, producing a net return equity of 7.2%.

Our investment returns were good this quarter, as you probably know, we manage our investment portfolio on a total return basis, which in US dollar basis was a positive 79 basis points for the quarter, 71 bps on a local currency basis. Our book value per share in the quarter rose, as Dinos mentioned to $60.91, an increase of 10.4% for the full year and our risk management structure and diversified business platforms performed as designed in a face of challenging P&C market condition and significant cat activity.

One year into our acquisition of UGC, we are pleased with the contribution that our mortgage segment makes to our returns and value creation. Our group-wide insurance in force or IIF grew to $352 billion at year-end '17 from nearly 316 billion the prior year, helped by the UGC acquisition gross written premium grew a 142% to $335 million for the fourth quarter of '17 versus fourth quarter of '16 for the entire mortgage segment.

Reinsurance sessions to our Bellamy 3 insurance linked securities and other third-party reinsurers, as well as target reductions in US single business and Australian reinsurance, led to receive sequential decrease of 6% in net premiums written to 272 million for the fourth quarter of '17.

Earned premium worldwide grew 2% in the fourth quarter to 280 million, as a result of growth in our insurance in force. For our primary US mortgage business, NIW of 14.4 billion in the fourth quarter of 2017 was down from 17.7 billion in the third quarter. Part of this decline is due to normal seasonality in the fourth quarter, but it also reflects our efforts to manage growth in the higher to loan-to-value above 95 mortgages, and our ongoing conservative approach to the pricing of singles. We estimate that our market share of NIW in the US for the fourth quarter of '17 was just below 21%, which is consistent with our expectations we discussed since completing the acquisition of UGC.

Mortgage market conditions remain favorable in the US, however, competition is increasing in the CRT space as well as in the primary mortgage insurance market. While we are being marginally more selective in our underwriting, the overall quality of the risks written are strong and the mortgage segment are continue to generate risk adjusted returns above our long-term target of 15%.

Next, turning to our property casualty operations and our reinsurance segments specifically. As you have already heard on a number of calls this quarter, rate increases in the property cat lines were not nearly as robust as many of us hoped, given the significant cats in 2017. We saw few opportunities to put capital to work at the January 1 renewals, but not enough rate movement to warrant a material increase in our writings. Rates across our reinsurance portfolio were up 2.5%, including 5 to 7.5 for our cat book. As you can see, it's a positive, albeit tepid starting point for the year. Returns for cat business are low by historical standards and in our view, do not fully capture risk volatility in this line of business.

For the fourth quarter of 2017, gross premium written rose about 5% in our reinsurance segment over the same quarter in '16, and 2% on a net basis. The growth came primarily from our specialty businesses, including international motor treaties, while other lines such as our property ex-cats were reduced. Our reported combined ratio for the reinsurance segment was 94.5 in the fourth quarter on a core basis, excluding Watford.

Turning to our insurance segment, gross premiums written of 768 million in the 2017 fourth quarter, or 8.5% higher than in 2016 fourth quarter, while net premium in insurance were 10.1% higher at 513 million. The higher level of net premiums written reflected increases in national accounts, travel and growth in two of our newest programs areas, where we currently see opportunities in US insurance.

Focusing on P&C insurance market overall conditions, they remain challenging, although, we have seen rates stabilize and improving in some lines in the fourth quarter, particularly in property, commercial auto and some casualty lines. Our current view of the market is cautiously optimistic. We are seeing a slight upward movement on the pricing side with some margin expansion. However, after considering changes in terms and conditions and other factors that can influence claim trend on an absolute basis, rate levels are not sufficient to support the allocation of more capital to our insurance segment, especially given our opportunities in the MI segment.

Next, I would like to discuss our PML. As we mentioned last quarter, we're also reporting to you our exposure to mortgage risk from a systemic stress event, what we call a realistic disaster scenario or RDS. It stood at 17% of tangible common equity at the end of the fourth quarter. We have begun using tangible rather than stated equity as a result of UGC acquisition, as we believe that is more appropriate and prudent risk management yardstick. Our net property cat exposures are substantially the same as last quarter with our 1.250 year [ph] PML for the peak zone, the US Northeast at 6.5% of tangible common equity.

In summary, we're always preparing for opportunities that the market presents, but we remain discipline in allocating capital to the various units to maximize risk adjusted returns for our shareholders.

Now, here is Mark with more detailed financial analysis of the quarter. Mark?

Mark Lyons {BIO 6494178 <GO>}

Right. Thank you, Marc, and good morning to all. On today's call, I'm going to comment on the fourth quarter results as usual, I'm also going to focus on some unusual accounting impacts and one-off charges driven by US tax reform and other items in this busy, busy quarter.

Okay. So, now into some summary comments for the fourth quarter. All on a core basis and as just as refresher, the term core corresponds Arch's financial results excluding Watford Re, whereas the term consolidated includes Watford Re. So, core losses recorded in the fourth quarter from 2017 catastrophic events, net of reinsurance recoverable and reinstatement premiums were $800,000 or nearly one-tenth of loss ratio point compared to four loss ratio points in the fourth quarter of last year on the same basis. The activity was primarily driven by the California wildfires, pretax estimate 68.4 million along with approximately 69.1 million reductions associated with the third quarter hurricanes, Harvey, Irma and Maria.

The reductions in the third quarter hurricane estimate results from lower industry loss estimates from outside vendors in conjunction with our own lower than expected reported claims volumes. Most of the reduction emanated from the reinsurance group both (inaudible) and overall estimates for Harvey and Maria were reduced, whereas Irma remained relatively flat.

As for the California wildfires, we see more exposure from the Northern California fires versus Southern California roughly three-to-one and see this primarily as a reinsurance event for us. With respect to net pure loss prior period favorable development approximately 54 million, or 4.9 loss ratio points was recognized in the quarter compared to 6.5 loss ratio points in the fourth quarter of last year. This net favorable development was led by the reinsurance segment with approximately 32 million favorable, while the mortgage segment provided approximately 20 million at favorable development.

The calendar quarter combined ratio on a core basis was 82.5% compared to the fourth quarter of 2016's 88.3%. The core accident quarter combined ratio excluding cats was 87% even compared to 90.74% last year's fourth quarter. The reinsurance segment accident quarter combined ratio, excluding cats of 103.2%, includes two unusual items and the comparison to the fourth quarter of 2016 needs one unusual item comment. The two items impacting the 2017 action quarter are one, the non-recurrent 1% federal excise tax or FET associated with the fourth quarter inter-company loss portfolio transfers previously announced, which resulted in a 5.3 point increase to the reinsurance segment expense ratio through the acquisition line. And second, the reinsurance group incurred approximately two combined ratio points of negative impact associated with the former Gulf Re operation over the prior year's comparable quarter.

The item affecting the fourth quarter of last year was a large retrocessional recoverable of approximately 11.5 million that had no counterpart in the fourth quarter of 2017, and represents a 4.6 combined ratio point impact. Taking all of these items into account, resulted a 95.9% fourth quarter accident quarter combined ratio, which therefore, represents only a 20 basis point increase over the adjusted fourth quarter for last year.

Moving on to the insurance segment, the accident quarter combined ratio, excluding cats was 99.7%, which included 2.2 loss ratio points of large attritional losses relative and higher than the fourth quarter of 2016 along with a flat expense ratio. This is approximately a 130 basis points higher than the comparable accident quarter in 2016. This is a loss ratio increase and primarily represents higher loss tax due to our view of competitive marketplace conditions on an earned basis.

The competitive conditions experienced in the insurance and reinsurance segments were more than offset by the continued strong profitability in mortgage segment amplified by the net earned premium being a larger proportion of the total. The mortgage segment's accident quarter combined ratio improved to 47.1% from 54.8% quarter-over-quarter and their net earned premiums represented nearly 26% of the total core net earned premium compared to only 9.6% in the fourth quarter of 2016.

The accident quarter loss ratio of 25% was negatively impacted by approximately 10.4 million of charges, primarily associated with higher delinquencies stemming from the third quarter hurricane events, a catch-up of 2017 reported losses from one lender and a small adjustment to put loss reserves on parity between our East and West operations. The accident quarter loss ratio after taking these items into account would have been 21.3%.

I'd also like to point out the subsequent to UGC acquisition, which closed at the end of last year, the 2017 accident quarter loss ratios for the mortgage segment have sequentially been as follows from first to fourth quarter: 21.5%, 19.5%, 20.6% and this quarter is 21.3% on an adjusted basis. The expense ratio improved from 37.9% in the fourth quarter of last year to 22.1% this quarter. On a sequential basis to the third quarter of 2017, however, the expense ratio increased by 150 basis points from 20.6%. This was primarily driven by increase in the amortization of deferred acquisition expenses. Remember, that is closing the UGC transaction at last year-end, all deferred acquisition expenses were written off to zero, they are now rebuilding and being amortized into income.

Moving on to other unusual financial statements in this busy quarter. Let me begin by discussing three items that have been included as reflected within operating income. First, as I noted earlier, we executed one-time inter-company loss portfolio transfer this quarter and incurred 13.6 million of federal excise taxes were approximately $0.10 per share. Second, we established the $10 million valuation allowance against our UK insurance syndicate deferred tax asset this quarter was $0.07 per share. Third, as discussed earlier, the mortgage segment recognized approximately 10 million plus of pre-tax charges and 6.8 million of after-tax charges representing $0.05 a share. All-in, these one-off items within operating income as described, total $0.22 per share.

Shifting to an update on integration costs associated with the UGC transaction, the original combined workforce has been reduced by approximately 30% as of year end 2017 along with 120 contractors. There was $1 million in severance-related costs in the quarter, totaling 14 million for the full year and the run rate of quarterly pure salary savings is 9.5 million, or 38 million on the annual basis. The vast majority of employee-related savings has now been realized, if any additional future benefits likely being a system-integration oriented.

As for the beneficial accretion stemming from the acquisition of the UGC on an EPS basis, we examined the full year performance of the overall company, the mortgage segment and UGC incremental addition and adjusting for the normal level of cat losses, shows the earnings accretion projected to reach 35% within three-year period has been nearly 75% achieved just one year later.

Total investment returns for the quarter was a positive 79 bps on a US basis, as Marc mentioned and 71 basis points on a local currency basis.

Returns on equities, alternatives and non-investment grade fixed income primarily drove the return. The full 2017 year total return was 5.87% on a US dollar basis, the investment duration was 2.83 years at the end of this year, down sequentially from 3.14 years in anticipation of inflationary pressures.

Operating cash flow on a core basis was negative 32 million, primarily due to an increase in net paid losses stemming mostly from third quarter cat activity. The return on cash collateral associated with a long -- a large and long time customer and the timing of tax payments between both the quarters.

As for taxes, we incurred $21.5 million charge this quarter, that results from the change in the US corporate tax rate from 35% to 21% on our deferred tax asset. This has been excluded from operating income, since this is not reflected of operational performance. The effective tax rate in the quarter, our pretax operating income was 15.4%, excluding the impact of the change in US tax rate, I just commented about and 17.6% for the full 2017 year on the same basis.

Now, we don't like to give guidance, but there's been so much havoc on the third and fourth quarter of this year. We'd like to provide our view that 2018's tax rate on pre-tax operating income is expected to be between 11% and 14%. Although this range results from various scenarios tested, actual results could still fall outside this range depends on the level of location of income or loss, the level a location of catastrophic activity and their impacts rates in each jurisdiction. As respect to financial leverage, we repaid another 25 million down in the revolving credit facility this quarter and that combined with strong earnings, continue to improve our leverage ratios.

During the quarter, we also issued 100 million of Series F preferred at 5.4% and redeemed all of the remaining 92.6 million of Series C 6.75% preferred, with the clearing date of January 2, of 2018. As a result with the two-day overlap of having both Series C and Series F outstanding, so we adjusted that overlap resulted in GAAP debt plus preferred ratio of 25.8% at year-end 2017 versus 28.7% at year-end '16, which is 290 basis point improvement in net leverage. The ongoing preferred dividend amount is 10.4 million a quarter, which will result in 4.4 million of lower dividend amount in 2018 than in 2017. We did not repurchase any shares during the quarter and our Board authorization remains at $446 million plus.

On a personal note, Dinos, we have been working together now for about 35 years, and I'm still waiting for you to get something right. No, I'm kidding. But seriously, because of your leadership, the company is smarter, our families are happier and each one of us is a whole lot more wealthy. So, thanks very much for your leadership, Dinos. (Foreign Language) Dinos.

Constantine Iordanou {BIO 2397727 <GO>}

You're welcome, Mark.

Mark Lyons {BIO 6494178 <GO>}

Now with that, we'll be happy to take your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Elyse Greenspan from Wells Fargo. Your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Good morning. First off, congratulations on Dinos on your retirement. It's obviously great job for all of us working with you through the years. To the quarter, my first question, in any of your two segments, was there any kind of current accident in your catch-up in terms of the margin, specifically the loss ratios and how do we think about, just given the market commentary that you've provided still being pretty defensive, I would say in both insurance and reinsurance. How do you think about the margin profile in both of those businesses, sorry, as we look out to 2018?

A - Constantine Iordanou {BIO 2397727 <GO>}

Hey, Elyse, it's a good question, I think we're prepared for that one, obviously. I think there was somewhat of a small margin expansion in the fourth quarter of this year, this is clear that we have seen it. We think it's about 30 bps on our portfolio, maybe 50 dps. It's a positive, it's small, but it's a positive and it's also on the heels of 2.5 years of margin compression. With that you have to keep that in mind the one quarter change does not know repair 2.5 years of margin depression. That's what we are cautiously optimistic. It's holding in January our initial discussions with our team is that the market is holding up the rate level, the same as it was in the last quarter.

Essentially, if you talk to our teams, they will tell you that 2017, the last quarter of rate changes pretty much meant that 2017 was a wash. So, we sort of have a stable year versus '16, and this is what's behind our commentary about the market. So, we -- it's holding, slightly improving and clearly there has been -- there is an improvement at that level. There's also an improvement in ROEs and return on margins and a lot of it has not -- does not have a whole lot to do with the rate level themselves. A lot of it has to do with the tax rate changes, specifically in the US and as well as their interest rate environment that we see all around us, right.

So, those two together account for about 200 basis points of pick up in return. So, historically, we've told you, we have about a 7% to 9% ROE, this was middle of '17. So, I think we're probably moving towards the higher end of that range. But the one thing that I mentioned that I really want to impress upon you, these are all quantifiable changes, risk changes and trend in losses. There's a lot of stuff out there that's called terms and conditions and a lot of it has been given away over the last 2.5 years to 3 years and we don't necessarily factor that very well into our calculation.

And the trend has been going up, the trend was 1.5% and closing in on 2% for this year. So, that's why we are cautious because, yes, we're seeing some compression, margin expansion. For the last quarter it seems to be holding up at the January level -- January 1 renewal. But there's a lot of uncertainty as to where we're starting from and what is -- what it will mean for the next -- for the remainder of 2018.

A - Mark Lyons {BIO 6494178 <GO>}

And I would just add, at least, we've talked about that as a management team. When you look backward, the actual risk depicts never works in a soft market. It's always worse than you think and it's terms and conditions as Marc highlighted. So, that's what our great year comes from. We've been throughout of these things that you have to be thinking more conservatively.

A - Constantine Iordanou {BIO 2397727 <GO>}

It's prudent, from an old guy it's always prudent when you can't calculate something. And I think in my 42 years in the business, the effect of the change in terms and conditions never really mathematically can get factor, is prudent to be a bit more cautious. And I think what Mark and the team have done for determining the accident year is prudent in my view.

A - Marc Grandisson {BIO 4369887 <GO>}

And Elyse, again, this is just one quarter worth of the information and we'll have to wait another 3 to 4 years to see whether that -- these numbers are holding up to what we think that holding up and that also means that we pick 2013 through 2017 at the right level, which one could argue that not everything is as probably as really as people might think, the proverbial bond maybe little bit are the bond as we would like to say.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. And then my second question, in terms of capital, when you guys announced the UGC deal, you effectively said that you weren't going to be buying back stock for 2017, as we think about 2018 and just capital, obviously, there is some potential PMIER changes related to your mortgage business, you also with that the lapse, the AIG quota share only runs for '14, the '16, so you are holding on to more mortgage business. How do we -- you guys think about that holistically and could we see Arch buying back some stock in 2018?

A - Constantine Iordanou {BIO 2397727 <GO>}

So, right now, the best -- as best we can tell is, we would return capital to shareholders if we didn't see opportunities. And frankly, we are seeing opportunities and clearly MI is one glaring area, where we think the returns are very appropriate. So, right now where we stand is, we have opportunities that may develop or may not develop and it behooves us to keep the capital, at least, hold it behind so that we could maybe able to deploy it in this year and in the subsequent years. That's really what I would -- Mark, you want to add something?

A - Mark Lyons {BIO 6494178 <GO>}

Yeah. I would just add Elyse. This was six months ago, the idea of returning if we couldn't deploy it would have been tougher. Now it's -- we're trading about 142% of book. I think as of this morning over three years, that's 12% plus getting closer, not at, but closer to where we are. So, it's not impossible, but we're looking to deploy in our businesses, first and foremost.

A - Constantine Iordanou {BIO 2397727 <GO>}

Exactly, on the PMI note, that's a good question you're asking, it's going to be asked. Currently, we don't see any change in our capital plan. We're totally -- everything is in line. It's going to be some changes, we can't talk about it, but it's already within the plan and budget. So, nothing to talk about.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks so much. I appreciate the color.

A - Constantine Iordanou {BIO 2397727 <GO>}

Thanks.

Operator

Thank you. Our next question comes from Kai Pan from Morgan Stanley. Your line is open.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. I would congratulate Dinos on the retirements and I think the long-term shareholders owe you a deep debt of gratitude and you leave the company in good hands and we'll miss your commentary on the (inaudible) as we approach the lunch time.

A - Constantine Iordanou {BIO 2397727 <GO>}

They are going to bring me back just to pick up the menu every quarter, because I don't think they're experts on Greek food, but I am.

Q - Kai Pan {BIO 18669701 <GO>}

You're right. So, that might add 1 bps point to your expense ratio, I guess. So, my first question is on the pricing outlook, it looks like the January renewals have been sort of modest increase, given what you know today and what's your outlook for new year renewals? And how much rate increase you would need for you to get back in the property cat reinsurance business, or increase riding on that?

A - Constantine Iordanou {BIO 2397727 <GO>}

Yeah, we talked about last quarter I think the number I put in the ground for to make it valuable, in terms of to get back to historical returns, we would want from the property cat perspective, precisely because of the volatility around it. We would have won about 30% increase. And now where we are, we probably gained anywhere between 5% to 10%. So, we would need not an insignificant amount of rate increases. So, one thing I'll tell you about the middle of the year, this is property cat exposed business insurance or reinsurance, they're very, very similarly in terms of rate needs.

It's too early to tell. I think there's a lot of adjusting for position in the marketplace. One thing that surprise us, I'll tell you for January 1 and it might be another reason, why we're bit conservative in our comments is that, capital does not seem to go away at all if anything -- I think capital has been increased as 1-1 renewal. And the capital is committed for one year. So, maybe we would expect very similar round of rate change by mid-year. We think it should be much bigger than this, much higher than this, but we may not be able to get this because of the microeconomic forces of supplying the amount of capital potentially.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. And then switch to MI, just have a couple questions there, one is the delinquency going up for the quarter sequentially, because you think the impact from hurricanes will be one-time rather than long-term trends in terms of delinquency trends.

And then the second, what's your run rate do you think on your -- like expense ratio as well as the acquisition ratio is like 2017 would be a good run rate going forward?

A - Marc Grandisson {BIO 4369887 <GO>}

Yes. Delinquencies are getting better and we have our delinquencies, the case of delinquents that we have on our portfolio, if you exclude, to your point, the recent storms, it is still decreasing and sequentially as it with everybody else in the sector. We have seen a blip about 3,200 new claims. We think it's kind of hard to see through all the claims specifically, but we estimate about 3,200 claims from the storms. You're quite right, it's a blip. It went up from one quarter, we expect the fuel rate for those claims as you heard from other people to be very, very high.

Typical delinquency now that we see that non-hurricane related, probably cures tune to the tune of 87% to 92%, the ones on the storms are going to be way -- expect north of 95%. But you're right. So blip, we have to recognize it. There were some reserves put aside for this, as a result of that event. But we are expecting this to be a blip and go away.

As of recent, I think the Mark, we have already a decrease in claim, yes 3,200 at the end of the year, I think of January, I believe. We already have 400, that cured. So, we expect it to be fully curing, also we should know, probably you've heard about some other call that Fannie and Freddie had put programs to stay any delinquency to give people credit and give some leniency on that payment -- on the payment of the storm to recognize the rest on which they are, for the storm. So, anything that we hear and see indicates that it certainly will repeat itself, and there will be a blip that goes away in a large part.

A - Mark Lyons {BIO 6494178 <GO>}

And if I -- Marc, didn't mention, I apologize if he did. But when you adjust for those hurricane-related without the delinquency rate 1.9 [ph] it's virtually flat with the prior by quarter end. So, that really accounts for. As far as your second question on expenses, for the quarter the segment was 20, little over 22. We have to keep in mind is, yes, we're growing on our premium and you got the AIG quota share session starting to wane marginally a bit. But as I commented on in the prepared comments, the deferred acquisition costs were zero on the UGC transaction. So, they are building back up and being amortized. So, I would not to give crazy guidance, but I would say at best, it would marginally improve from the 20 to 21 [ph]. So, that's I can do for you.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, great. Thank you so much.

Operator

Thank you. Our next question comes from Meyer Shields from KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Good morning. Congratulations to you Dinos on a phenomenal career and well-deserved retirement.

A - Constantine Iordanou {BIO 2397727 <GO>}

Thank you. Thank you.

Q - Meyer Shields {BIO 4281064 <GO>}

I'm sorry. One quick question, just in terms of modeling. Do we have sense as to how much the acquisition expense ratios have been impacted, not counting the fourth quarter LPT for excise taxes?

A - Constantine Iordanou {BIO 2397727 <GO>}

The only real impact you're really seeing a significant is in mortgages, we talked about. I mean there is some growth in NWP, as Marc has delineated on a written basis. But the PC side is really not -- to date has not really impacted, it's really at the mortgage side.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And can you -- I'm not sure I'm asked this. But can you talk about the --

A - Constantine Iordanou {BIO 2397727 <GO>}

I'm sorry, Meyer, yeah, you did have a second point is, now I can just pointed out to me. The FET on the 13.6 million was reflected in the reinsurance group's acquisition ratio. It's all expensed. So, it's five point plus.

Q - Meyer Shields {BIO 4281064 <GO>}

Right okay. You know I got that. Thank you. I was wondering if you could talk about the analog to trend in the mortgage insurance business, whether that's changing? You talk a little bit about pricing getting more competitive.

A - Constantine Iordanou {BIO 2397727 <GO>}

Yeah. The trend -- well, the trend in loss trend really the equivalent for the MI is the trend in credit riskiness of the underlying policyholder, or mortgage interest policy. And for this one, we're not seeing a significant amount of changes, in the regular -- in the regular is to be average lender, a borrower. But having said this, if you look at the overall MI portfolio, there is an increase for instance a 95 and above LTV. So, you do have an underlying riskiness of the portfolio that has changed over the last two years. So, the single, who are already there, they're not necessarily more risky, they are just a different, they are in economic discussion and which we have lowered as you know. But the two elements that are getting riskier in the marketplace are the 95 plus LTV, which I mentioned, which are supported by the GSEs. And the second is the DTI above 43, which is an another one that is encouraged by the duty to serve aspect of the overall mortgage risk provider.

So, these two elements are not -- actually not insignificant, right. I think the DTI over 43 [ph] is about 20% of the NIW for the MI industry and the 95% plus LTV has grown to 12.5%. So, the overall risk of the portfolio is increasing as a result of that specific phenomenon. But if you look at the -- but it's actually buffeted to some extent by house prices depreciation going up and affordability still being at a very healthy level. The DTI for the average borrower still below 30%, which is lower than historical value. So, I think it's -- at the margin, the volatility around the expected I guess is increasing a little bit, you don't have necessarily an average risk going up significantly. So, does that makes sense?

Q - Meyer Shields {BIO 4281064 <GO>}

It does and very helpful. Thank you so much and best of luck.

A - Constantine Iordanou {BIO 2397727 <GO>}

Let me just add a little color. What Marc said is absolutely correct. But I want you to understand that a risk price methodology, adjust for the riskiness and for that reason, our reduction in exposure has been mostly in the 95 LTV and above. And of course, singles that we have been mentioning for the last three quarters. Just a little more color.

A - Marc Grandisson {BIO 4369887 <GO>}

It's accurate. It's accurate, you know. Right.

Operator

Thank you. Our next question comes from Brian Meredith from UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks, and also congratulations, Dinos, on retirement as well as the outstanding career. Question first is on the MI business, I'm just curious on your thoughts on the competition that you kind of highlighted. Do you anticipate the tax reform will have any kind of incremental pressures with respect to pricing in the MI business?

A - Marc Grandisson {BIO 4369887 <GO>}

I think from at a high level, Brian, I think, once investors look at returns after tax. Most of the US MI provider of capital of US MI business are US based, therefore, US taxpayers. So, I would expect in general for that should mean everything else being equal, which should never is that the returns would increase for the US MI provider. Therefore, the question is, is that will be -- will that be okay with this, will investor expect a higher return, or that the risk change in any significant way.

So, I think all has been equal, I would expect the market has been such not only in MI specific, it's also a PMC in any market for that matter phenomenon that if there is more money left after you paid the taxman that there was an adjustment for the returns. So, we would expect to have some kind of effect, I don't think, we're seeing it quite yet, because as we all know collectively, the PMIERs 2.0 on the horizon and that might taper somewhat what happens over the next 6 or 7 quarters. Probably we don't have a crystal ball as you know, but all of being equal, when tax rate go down, when there is more money available for shareholders, everything else being equal and we would expect price to go down slightly, yes, it would.

Q - Brian Meredith {BIO 3108204 <GO>}

And I'm just curious, Marc, in your 15% kind of return assumption the base minimum, if you're looking for the MI business. What is the tax rate that you're assuming on that?

A - Marc Grandisson {BIO 4369887 <GO>}

Mark, can you just (multiple speakers).

A - Mark Lyons {BIO 6494178 <GO>}

Yeah, we would expect an incremental benefit now, Brian. Of course, the 35% to 41% that we have it's all US, we have US tax group that goes beyond mortgage, of course, it's all very -- but that's -- may I have already talked about, the other US stock companies benefiting enormously. If you have other US-based income, you are benefiting too, just as we are.

A - Marc Grandisson {BIO 4369887 <GO>}

And we said, you know, -- and Brian, we said we are meeting the 15% return, which means by implications above that.

Q - Brian Meredith {BIO 3108204 <GO>}

Right, right, right. So, I'd just see it's 35% is what the tax rate you were using, and I guess will be 21%, not kind of your blended tax rate with the quota share offshore?

A - Marc Grandisson {BIO 4369887 <GO>}

Well, before we were paying 35 would -- there was a quota share to ARL for capital management purposes. So, I would blend it to 17.5% absent the SET on the other side, now which the 21% for what's in the US and there's a quota share, although, we have to weigh that with the D-tax that comes in to play as well. So, we are sort of somewhat similar in a similar position after-tax and we were before it's not improved slightly as Mark mentioned.

A - Mark Lyons {BIO 6494178 <GO>}

(Multiple speakers)

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Perfect. And then another one just curious here Watford just looking at the results continue to have fairly high combined ratio this year. What is the kind of outlook right now for Watford as we think about it?

A - Marc Grandisson {BIO 4369887 <GO>}

I think its purpose is still very much alive. I mean we have other guys coming up with total return reinsurance still as of yesterday, I believe, it was announced in the marketplace. So, I think that one thing that happened to Watford is that they were essentially participating on the property cat portfolio and just sort of happened to run into the 2017 cat as well. So, the question is, was this appropriate, then we can the back and be money, money quarter back [ph].

But at the core of what Watford is doing, we are -- there is no much change for its purpose and is still very much alive and what it's doing, the reinsurance play as you guys remember was initially what we're trying to do get Watford into. There has been a shift over the last six quarters, as I mentioned the reinsurance market in terms and conditions that progressively worse since we establish Watford Re, there is a push for Watford to become more of an insurance provider in the US and that will certainly help those kinds of combined ratio and volatility specifically around the results.

A - Mark Lyons {BIO 6494178 <GO>}

And I think another Brian, a good characteristic to keep in mind, is they are north of 50, I think they are 55% in the quarter direct on their own paper, rather being said in last year.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. Helpful. Then last just quick one here in the MI business. Marc, is it possible to give us what the kind of reduction you see on AIG quota share kind of a look like in '18 versus '17?

A - Marc Grandisson {BIO 4369887 <GO>}

In the premium side?

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, the premium. Just like because most of the growth in that obviously right is the AIG, you know, --

A - Mark Lyons {BIO 6494178 <GO>}

It's not a big follow-up as you think, Brian.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay.

A - Mark Lyons {BIO 6494178 <GO>}

And overall annually it's only in the tens of millions.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. Thank you.

A - Marc Grandisson {BIO 4369887 <GO>}

Welcome.

Operator

Thank you. Our next question comes from Amit Kumar from Buckingham Research. Your line is open.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning.

A - Marc Grandisson {BIO 4369887 <GO>}

Good morning.

Q - Amit Kumar {BIO 15025799 <GO>}

And I would also like to echo my congrats to Dinos for being -- leading one of the top value creator franchises out there. Two questions. The first question is going back to the discussion on the insurance, AYLR. And I think you mentioned there was some movement from the attritional losses. Can you just maybe just flush that out a bit more in terms of how we should think about the underlying LR trend going forward? And does it drop off or there is some volatility continue going forward?

A - Constantine Iordanou {BIO 2397727 <GO>}

Let me start it. I think the ongoing movement over the last few years, that Marc highlighted in the past of smaller policies, lower limits continues to constrict the volatility, which is part of the game plan. And large attritional losses you still will occasionally get, we've got the fourth quarter of last year, you've got it again this year. It seems to be a common theme on insurance and reinsurance and the onshore energy being the exposure that's generating that, which is requiring different actions, say it, whether that you have a common view of that across. So, I think the corrections for that are going to go I think a long way towards stabilizing. And you can never say never, but that's a high capacity business that can hit you with large pops.

Q - Amit Kumar {BIO 15025799 <GO>}

And just to be clear, there wasn't any adverse movement netting out against the favorable movement in reserves?

A - Constantine Iordanou {BIO 2397727 <GO>}

Overall, I think favorable --

Q - Amit Kumar {BIO 15025799 <GO>}

In insurance?

A - Marc Grandisson {BIO 4369887 <GO>}

In insurance? Our insurance was basically flat, yeah. It was basically flat.

A - Constantine Iordanou {BIO 2397727 <GO>}

Some pluses and minuses, but, yeah, overall, it's -- yeah. Yeah.

Q - Amit Kumar {BIO 15025799 <GO>}

Nothing material. Okay. I guess, the only other question I have is, maybe a broader question. And this is for Marc. Based on the transition, I was curious -- this obviously has been in the pipeline for some time in terms of your role. Have there been times, when you thought differently than Dinos? And strategically how do you think about Arch from here going on forward?

A - Marc Grandisson {BIO 4369887 <GO>}

See, the best question -- the best way to answer -- I'll ask Dinos to try and to confirm what I am going to say. But I think that Mark Lyons, myself, and Dinos worked together for over 16 years. We've had our differences in our agreements and disagreements. But by and large, I think over time we find ourselves a lot more agreeing on things than not. I think we're both -- and the three of us come from the very rational -- a very economically rational way to analyze businesses and make decisions. And I think that something that is sometimes missed or that you should appreciate that. And I think Dinos would echo this. The strategic -- the strategic visions or strategic play that we've had and we did over the last 16 years were not -- Dinos was certainly the proponent and one publicly advocating and talking. But then all these things were really done and came to, as we talk together, jumble our results were very instrumental on this as well. So, I think that we all grew together in that environment and had more successes than failures. I think we don't do everything right. But I think the overall -- I think we grew to agree more together, not because I came to his view or he came to my view. It's because if you look for the truth and look for the right rational thing to do, we sort of come up to the same all very often and very similar conclusion. That's what I've noticed over that 16 years.

A - Constantine Iordanou {BIO 2397727 <GO>}

Let me give you my two cents on it. What Marc said is absolutely correct. First and foremost, we're a very collaborative management team. And beyond that, we're very collaborative with our Board of Directors. So, the alignment is to where we're going to go. Yes, we do the groundwork. The management team does the groundwork. And Marc mentioned himself and Mark Lyons and me, but there were others. Yeah, it's Nicholas and there is Maamoun, and I can go on and on and on. And there is Mike Price and on and on and on.

So, there is collaboration in examining what opportunities and where we're going to go. And the good thing about it, is that when we arrive at a decision, then beyond is about execution, it's not about. If I step back and I look at the past 16 years, I would put a 95% plus agreement between the senior management team and the Board ratification of where we wanted to go. The other 5%, I don't -- I will never call it as a major disagreement. But directionally, maybe a little more to the right and a little more to the left. And then at the end, we agree as to how we're going to do it. And I expect the future to be pretty much in the same direction.

Having said that, let me also address the other aspect of what we are as a company. We're opportunistic. So, I don't know what opportunities will be detected in two years from now, three years from now, four years from now. But I can say, me -- my duties as a Director and being on the Board and the management team operationally, which occasionally bring ideas up to the Board as to what we're going to do, that collaboration is going to continue. But I can't tell you what the future is going to say. There is a change in strategy. If there is a change, it's because based on our opportunistic approach to the business, we see an opportunity in the future that wasn't present today or in the past as we've done with the mortgage. None of us thought we're going to be in the mortgage insurance business when we started it in '02 all the way until the financial crisis. And then, after that, we saw the opportunity, you know, we worked on it first as a reinsurer. And then, later on, we said, there is more value to be a primary insurer. And we took the steps and the acquisition to get us there.

So, I don't -- I mean, it's a very important question. But I think we've done a great job in not only transitioning leadership and building from within, which basically is another one of our foundations. And a lot of our senior managers, they grow within the Arch culture. And we like to promote from within. And we don't rely significantly on going and bringing outside talent. But it makes it easier later on to execute the strategy because everybody is in alignment. And I believe because we do have that collaborative culture. Listen, John Vollaro officially retired in '09, right. I don't think anybody here thinks he ever retire, right. Like I said, yes, you do retire. You don't -- you are not operational. John was not -- never operational. I will never be operational. The management team's responsibility is to be operational and make all those decisions. But they are for consultation. People are going to call, we're going to discuss things. We are going to discuss them at the Board. And at the end, I don't anticipate major changes, unless the market dictates this because there is an opportunity that none of us is seeing today, but we might see it in the future.

Marc, I --

A - Marc Grandisson {BIO 4369887 <GO>}

Agreed. Agree with you.

A - Constantine Iordanou {BIO 2397727 <GO>}

Yeah.

Q - Amit Kumar {BIO 15025799 <GO>}

That's really helpful.

A - Constantine Iordanou {BIO 2397727 <GO>}

Amit there are a bunch of shrinking wallets on the management.

Q - Amit Kumar {BIO 15025799 <GO>}

I'll stop here. Thanks again. And I'm sure Ian is following. So, I'll stop it here.

A - Constantine Iordanou {BIO 2397727 <GO>}

Oh yeah, he's right there.

Operator

Thank you. Our next question comes from Geoffrey Dunn from Dowling and Partners. Your line is open.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

Thank you. Good morning. I wanted to dig into the credit development on the MI front a little bit more. Stripping out some of the things you highlighted, it looks like you're still running an incidence maybe up around 12%. Can you confirm where you are in your incidence assumptions on new core notices? And if it's still above 10%, what does it take to get you down there?

A - Marc Grandisson {BIO 4369887 <GO>}

The recent ones are getting below 10%. But we were about 12.5% over the last two, three quarters. So, we've crossed this budget one quarter, Geoff. So, who knows if it holds up there.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

But you have touched down on your assumption to 10%?

A - Marc Grandisson {BIO 4369887 <GO>}

No.

A - Mark Lyons {BIO 6494178 <GO>}

Just for the cat.

A - Marc Grandisson {BIO 4369887 <GO>}

Yeah, for the cat. The cat, yeah, I mean, the point of the cat lower than 5%, that's what we expect right now. Still early (multiple speakers).

Q - Geoffrey Dunn {BIO 3447798 <GO>}

Yeah, I'm talking on the core number.

A - Marc Grandisson {BIO 4369887 <GO>}

The regular stuff? Yeah, we're slightly below 10%, yes, for the recent last few quarters of delinquencies. That's what we expect ultimately.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

Great. And then with respect to the PMIERs cushion, how much of a drag on the cushion was there this quarter from the hurricane notices?

A - Mark Lyons {BIO 6494178 <GO>}

Well, the hurricanes pretax load was really not that large. So, you can kind do the split. It's not a big deal. It was south of 5 million.

A - Marc Grandisson {BIO 4369887 <GO>}

Yeah.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

South of a 5 million capital drag?

A - Mark Lyons {BIO 6494178 <GO>}

No, south of 5 million cat reserve provision.

A - Marc Grandisson {BIO 4369887 <GO>}

Or the capital right now it's probably it's a balance --

Q - Geoffrey Dunn {BIO 3447798 <GO>}

No, I'm talking the capital drag on the PMIERs ratio.

A - Marc Grandisson {BIO 4369887 <GO>}

The PMIERs, $72.5 million of drag, we had to put aside for the new notices. That's the question. Sorry, Geoff, we didn't get that.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

All right. And then my last question is, obviously, you're running the highest cushion in the industry right now with respect to PMIERs. It's going to go even higher as you get these notices out of the inventory. Post PMIERs 2.0, what type of cushion do you expect to run?

A - Marc Grandisson {BIO 4369887 <GO>}

We can't be talking about this. You know we are under an NDA. You all people should know this --

Q - Geoffrey Dunn {BIO 3447798 <GO>}

I'm not looking for the capital levels. I guess, I'm looking for the relative cushion. Is it a 10% cushion, is it a 20% cushion to whatever PMIERs 2.0 says?

A - Marc Grandisson {BIO 4369887 <GO>}

We're unable to -- we're unable to tell you this. But we are -- we can't tell you this, Geoff. We'll have to get there, when we finalize it's going to be -- by middle of this year, they are going to have the final thing. This will be more like a second quarter call discussion.

Q - Geoffrey Dunn {BIO 3447798 <GO>}

All right. Thanks.

A - Marc Grandisson {BIO 4369887 <GO>}

Thanks, Geoff.

Operator

Thank you. Our next question comes from Jay Cohen of Bank of America Merrill Lynch. Your line is open.

Q - Jay Cohen {BIO 1498813 <GO>}

Thank you. My questions were answered. I feel like I should make a comment about Dinos.

A - Marc Grandisson {BIO 4369887 <GO>}

Yeah, you should.

Q - Jay Cohen {BIO 1498813 <GO>}

(Multiple Speakers) So, I was involved -- I worked on the IPO of Arch. So, it just goes back many years. At that point, many of you remember there was a lot of companies coming public and being formed, and they all sounded reasonably good, good risk management, good underwriting, good management teams. And the question would often come up, well, which ones are the best? And I would tell people like, ask me at about 15 years and I'll have a good answer. Well, I think we have our answer now. Congratulations, Dinos. Thank you.

A - Constantine Iordanou {BIO 2397727 <GO>}

Yeah, well said. Thank you, Cohen. I'm getting old maybe. My eyes are getting watering now.

Operator

Thank you. Our next question comes from Ian Gutterman from Balyasny. Your line is open.

Q - Ian Gutterman {BIO 3106649 <GO>}

Hi, thank you. I'll just follow-up, which Jay said, which is, as I recall around the same time, Dinos, and you and John will remember these meetings well. Everyone giving your hard time about Zurich and questioning your ability to be successful at Arch. I think a lot of people regret they haven't given a board on sooner. So the --

A - Constantine Iordanou {BIO 2397727 <GO>}

Ian, I take pleasure in making proving people wrong, you know.

Q - Ian Gutterman {BIO 3106649 <GO>}

That's a great motivator. Isn't it?

A - Constantine Iordanou {BIO 2397727 <GO>}

Yes, absolutely.

Q - Ian Gutterman {BIO 3106649 <GO>}

My first tongue-in-cheek question is, how can I sell my thunder here a little bit Marc. But my first question is, will the menu change next quarter?

A - Constantine Iordanou {BIO 2397727 <GO>}

Well, I don't know. My duty is going forward is Board duties, choosing the menu for the calls. I won't participate on the call, but I'm going to be talking to the chefs as to what they are going to offer for lunch. And, of course, I will be available for golf games and dinners, especially if I don't have to pick up the tab. So, you know my number. So, if it is good golf games, if it is good dinners, and I'm always available.

Q - Ian Gutterman {BIO 3106649 <GO>}

My follow-up question for you on that Dinos, is in your prepared remarks, when you talked about Arch's secret sauce, I thought that was just a tzatziki.

A - Constantine Iordanou {BIO 2397727 <GO>}

The tzatziki is true. This is my mother's secret sausage. I mean secret sauce, which is a lot better than zanziki [ph]. And zanziki, every good restaurant have it.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay, that's good. So, serious questions. Last quarter we had a discussion about the cats, as I'm sure you recall that. The so-called missing losses and the modeling agencies never being write the first time and always being too low and how will this play out? And it seems that the way is played out is actually the modeling estimates what you hide for once and everyone's releasing results just three months out. So, I'm curious, now that you have some more time to assess, what do you think -- what are the implications for that? I mean, is there a reason to believe there is some -- there was a flaw in the models and we might see them be high in the future, again, like this and we need to reassess how we think about hurricane risk, or is just this was an anomaly and every once in a while they're going to be way too high?

A - Marc Grandisson {BIO 4369887 <GO>}

Yeah. So, if you look at that loss, Ian, we thought about it, most of the uncertainty and change in our ultimate were in the reinsurance segment. So, if you look at loss, the high --

the difficulty in analyzing this loss was how widespread it was among many primary companies. And then clearly that was not as concentrated as we thought it was. So, this became clear to us after repeated discussion with our clients on the reinsurance side, I'm talking. Insurance side we haven't changed much of our view. It's still the losses of the losses we have and then it's not going away in a sense that we -- there were just let them estimate. But on the reinsurance side, I'm not seeing that collectively as an industry that might explain some of the exuberance that we've seen on other calls or in the January 1 renewal, that loss is largely an insurance loss.

So, that made it a lot harder. We are reinsurance, where most of our capacity on the cat is allocated to the reinsurance. So, it was very hard at the end of last quarter to revalue where loss was coming from. So I've ask our team in Bermuda to see what kind of return period we're looking at for those kind of losses. And we are in 1 to 20, 1 to 30 years, so it's not as unusual as you might think it is. So, I guess I would just describe due to the fact that the losses spread out and the losses in California, which could have been more concentrated, it's a significant loss, but is not significant enough that we will have that, that much of an impact on -- certainly on the reinsurance segment and on the broader marketplace.

So, I think it's still possibly also too early, there might be some losses develop afterwards, there might be some creep of the policy language that may change things, these are things that will have -- we'll have to see how they develop. But so far, you're right. I think that the missing losses are, not missing that were probably not there to begin with, specifically on the reinsurance side. Dinos, you want to add.

A - Constantine Iordanou {BIO 2397727 <GO>}

I would pick up what Marc said. I mean, yes, the losses in the aggregate I mean is three losses and then you have the California fires and all that. You're still over 100 billion. You're still over a 100 billion. So, this is not what I would call a small event. But as Marc said, the most of the absorbed -- these losses came by the primary rider. And for that reason the reinsurance market and especially some of the -- what you will call alternatives capital did not get hurt as much as potentially could have been hurt . And for that reason that capacity remain in the marketplace and it got easily reloaded et cetera, and that has an effect as to how you're going forward with the rate. I don't know if Marc and his comments was more specific.

In the primary property arena, we've seen gradual improvement on the pricing that is not diminishing, it happened in December and is continuing in January and at the end of the day, I anticipated it would -- it's going to continue, because that's where they heard this. Most of the losses they are getting paid by the primary company. Now it didn't affect the reinsurance as much, and for that reason, I think there is capacity is plentiful and rates have now escalated based on what we were anticipating. Marc mentioned 5% to 10%, which is not what we want. If you were 30%, which it would have met our threshold, you would have seen us writing a lot more cat business than --

A - Marc Grandisson {BIO 4369887 <GO>}

The only chapter we haven't seen I think the last of is, the Maria loss in Puerto Rico. That's the only -- that's the only what I would say, I would throw back at you Ian and saying, it's still not too early, but we still have to see how that one develops. I think Harvey and Irma are pretty much came down right now.

A - Mark Lyons {BIO 6494178 <GO>}

Let me just throw once again, Ian, I know you asked an industry question. But as it relates to Arch, especially with Dinos' and Marc's comments about the primary side. I, in the prepared remarks made the comments that there were reinsurance releases three and facultative. As facultative is sister process, rest in our portfolio, similar to insurance. But attachment point saves you there and the primary guys are ground up, whereas -- in fact the facultative unit is very skilled were to attach.

Q - Ian Gutterman {BIO 3106649 <GO>}

I guess I was trying to ask something a little bit different I guess more than sort of the pricing impact or the return periods is more about -- it seems like damageability across the events, across all three events was a lot less than we all would have thought. And to be honest, Marc, it's not just the reinsurance, the primary is being HARP for release, Allstate release, travel is released and Big Dollars, right. So, everyone's released, it seems like it is damageability per claim has been a lot less in the models expected. I'm wondering if there is some -- is that an anomaly, or do we think there's something meaningful in there that might make us reassess how we think about cat risk?

A - Constantine Iordanou {BIO 2397727 <GO>}

Well, the only thing I would tell you, Ian is -- and I live in Florida, I mean, Marc, while on the high hit right over my house et cetera. My house had very little damage to maybe 20,000, because it's built with a new standard. So, it's cat-5 type of a home. And for that reason, the damage I had it was minute. But I can tell you, when I drive around Marco Island, most of the roof damage has not been repaired yet. There is still tarps and believe me there is price escalation. I have a neighbor that he lost 30 tiles in his roof and the cheapest price he got to repair, it was $4,000, that's over a $100 a tile, I mean. And he says, I'm not getting water in the house so, I'm not going to repair it because -- I'm going to wait for prices to come down, but there is still -- there might be a little creep that we haven't seen yet.

Q - Ian Gutterman {BIO 3106649 <GO>}

Right. Got it. Thank you, guys.

A - Constantine Iordanou {BIO 2397727 <GO>}

Thank you, Ian.

A - Marc Grandisson {BIO 4369887 <GO>}

Thank you.

Operator

Thank you, and I'm showing no further questions from our phone lines. I would now like to turn the conference back over to Mr. Dinos Iordanou, for any closing remarks.

A - Constantine Iordanou {BIO 2397727 <GO>}

Oh my only closing remarks. Thank you all. It has always been a pleasure working with you over the years and remember I'm available for good golf games and I'm available for dinners. So, I'll see you around. Thank you very much.

A - Marc Grandisson {BIO 4369887 <GO>}

Thanks Dinos.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. And, you may all disconnect. Everyone have a wonderful day.