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Q1 2013 Earnings Call

Company Participants

- Dinos Iordanou, Chairman, President and CEO
- Mark Lyons, EVP, CFO and Treasurer

Other Participants

- Amit Kumar, Analyst
- Arash Soleimani, Analyst
- Ian Gutterman, Analyst
- Jay Gelb, Analyst
- Josh Shanker, Analyst
- Michael Nannizzi, Analyst
- Mike Zaremski, Analyst
- Ryan Brynes, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Q1 2013 Arch Capital Group earnings conference call. My name is Allison and I will be your operator for today. At this time, all participants are in listen only mode. We will conduct a question-and-answer session toward the end of this conference.

(Operator Instructions)

As a reminder today's conference is being recorded for replay purposes. 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 will also 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'd like to turn the call over to Mr. Dinos Iordanou and Mr. Mark Lyons. Please proceed, gentlemen.

Dinos Iordanou {BIO 2397727 <GO>}

Thank you, Allison. Good morning, everyone, and thank you for joining us today. We began the year with an excellent First Quarter from just about every perspective. Earnings was solid, connectivity was benign [ph], as they say, thank you God. And premium growth occurring lines where we can produce attractive ROEs. On an operating basis, we earned $1.17 per share, which produced an annualized 13.9 return on equity for the First Quarter. On a net income basis, we earned $1.85 per share, which corresponds to a 20.4% annualized ROE. This trend of net ROE exceeding operating ROE has changed for Arch since '08 when we began allocating more of our investable assets to alternative investments that in many cases need to be accounted under the equity map. If we had made these investments directly and not through third-party fund managers, the yield from these fixed asset high yield income assets would've been accounted as investment income.

Over the past four years, our annual operating ROE has trailed our net ROE by an average of 5.2%. By comparison, for the '02 to '08 period, operating ROE on average exceeded net ROE by 1.9%. Of course, I want to remind you net income remains more volatile than operating income as foreign exchange equity markets and interest rate movements affect market valuations -- market values. However, our shift alternative investments over the past few years has enabled Arch to enhance total return and book value in our accretion. Our reported results in the First Quarter were excellent, aided by the lack of CAT activity, favorable result developments, and accident year improvements as reflected by a combined ratio of 84.6%. Our investment performance was also good as we achieved a total return of 50 basis points, including the effects of foreign exchange, despite a slight upward movement of interest rates during the quarter. Our operating cash flow for the quarter was $205 million, an increase of $61 million over a year ago.

The book value per common share increased 4.1% to $37.66 at March 31, and increased by 13% relative to the First Quarter of a year ago. The insurance market continues to recover with noticeable improvements in rates from last quarter. In our insurance operations, which gives us a good indication because we have more granular data. We experienced rate increases in the quarter over 300 basis points in excess of lost rent, exceeding last quarter's weaker [ph] margin improvement by 100 bips. These improvements on a line-by-line basis range from minus 100 basis points, some line still get rate reductions, to as high as a positive 1600 basis points.

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The movement of business from the admitted market back to the ENS market is ongoing. This provides us with additional opportunities, and in March of this year we expanded our underwriting platform in the excess and surplus lines market by starting binding authority with insurance facility that caters to small accounts written through the wholesale distribution channel. This platform extension has been in our plans for some time now, but the right combination of available talent and a favorable market environment led us to act now. In our view on an absolute basis, most long-term casualty business, based on current interest rate environment, still requires more rate improvement to meet our return requirements.

Regarding new versus renewal pricing, our monitoring systems indicate details of two cities. In certain lines, new business pricing is stronger than renewal pricing. For our book of business, this is true for approximately one third of our product lines. Unfortunately, two thirds of them, which is the remaining of the book, still showing weaker new business pricing relative to renewal pricing. As a general rule, the long-tail product lines have new business pricing that is weaker than renewal pricing. On a consolidated basis, gross premiums were up 9.1%, and net premium were up 10.3% for the First Quarter this year. Looking at growth by segment, the Insurance Group global premium was flat on a gross basis and rose 3% on a net basis as we reduce our participation in our UK professional facility due to the lack of positive rate movement in the European markets. The reinsurance group's premium volume was up 25% on a gross basis and 20% on net. These increases primarily resulted from several opportunities, generally emanating from the same sector as we mentioned in our call last quarter.

Groupwide, on an expected basis, we believe the ROE on the business we wrote this year we will produce an underwriting year ROE in the range of 11% to 13%. The underwriting margin improvements that I mentioned earlier will affect expected ROE positively as they will more than offset the reduction in expected investment of yield reductions. During the First Quarter, we repurchased 931,000 shares at a cost of $41 million. We remain in excess capital position, and our position has been and continues to be to return excess capital to shareholders unless we can deploy it effectively in our business. As we have discussed before, we always take several factors into consideration, including where our stock is trading relative to our expectations of forward ROE.

Before I turn it over to Mark, let me update you on our agreement to purchase assets or PMI and CMG and also provide an update on our PMLs. Earlier this year, we announced that Arch is seeking to purchase masses of PMI and CMG. We are in the process of attempting to obtain the required approvals from various regulators. The Arizona receivership court and the GSE's, this process takes time. If the approvals are obtained, we will not expect the transaction to close until at least the latter part of this year. The current hearing date with the Arizona receivership court is set for May 20th, but this date is subject to change. We also cannot predict the timing of any decision by the court since that will be driven by the court process.

Now, let me update you on our CAD PML aggregates. As of April 1st, 2013, our largest 250-year PMLs for a single event were basically unchanged. With $886 million in the Northeast or 18% of common shareholders equity, with $798 million in the gulf where our Florida Tri-County PML now stands at $582 million. Early indications, and we're still doing a lot of work in this area for RMS version 13 suggests that the model will reduce wind PMLs ranging from zero to down 10% in peak zones compared to our proprietary view. Northeast and Tri-County PMLs would decline by approximately 5%, where the Gulf of Mexico exporters will be roughly flat. Other areas will be reduced by approximately 10%. With that, let me turn it over to Mark to comment further on our financial results. Mark?

Mark Lyons {BIO 6494178 <GO>}

Great. Thank you, Dinos. And good morning, everyone. The consolidated combined ratio for this quarter, as Dinos has mentioned, is 84.6% with 1.5 points of current accident year CAT related events that are net of reinsurance and reinstatement premiums compared to the 2012 First Quarter combined ratio of 90.1%, which reflected 3.4 points of CAT related events. Net losses from 2003 [ph] First Quarter catastrophic events totaled $11.2 million, primarily emanating from Australian tropical storm Oswald. As for 2012 super storm Sandy, our current estimate remains consistent with our view last quarter. The 2013 First Quarter consolidated combined ratio also reflected 7.1 points of prior year net favorable development, net of reinsurance of related acquisition expenses compared to an identical 7.1 points of prior period development on the same basis in the 2012 First Quarter. This results in a 90.2% current accident year combined ratio excluding CAT for the First Quarter 2013 compared to 93.8% accident year combined ratio in the First Quarter of 2012.

Approximately 90% of the net favorable development in the 2013 First Quarter was in the reinsurance segment with approximately 70% of that due to net favorable development on short tailed lines concentrated in the more recent underwriting years, despite further upper development in 2012 crop losses, which amounted to 3.3 points on the reinsurance segment First Quarter loss ratio. Furthermore, roughly 12% of the reinsurance segments net favorable development was attributable to median tailed lines spaced throughout many underwriting years and about 18% due to net favorable development on longer tailed lines primarily from the 2002 to 2005 underwriting years. The remaining net favorable development in the 2013 First Quarter was attributable to the insurance segment and was mainly driven by shorter tailed lines. Similar to prior periods, approximately 68% of our $7 billion of total net reserves for loss and loss adjustment expenses are IVR, additional case reserves, which is fairly consistent ratio across both the reinsurance and insurance segments.

On a consolidated basis, the First Quarter of 2013 expense ratio was 50 points lower relative to the prior year comparable quarter, wholly due to a lower net acquisition expense ratio. The net reduction of 50 points was due to an amalgam of forces, such as the overall insurance reinsurance mixture, the excess of loss for pro-rata blend in the reinsurance segment, the wholesale versus retail versus managing general agent mix in the insurance segment, along with the insurance segments changing net to gross ratio. Premium tax shift between admitted and non-admitted, and the ongoing commented upon every quarter, strategic shift towards smaller account business which carries a higher commission ratio.

The other operating expense ratio was flat relative to the First Quarter of 2012 but improved 80 basis points relative to the Fourth Quarter of 2012 on a sequential basis. This

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improvement occurred despite the incremental addition to expense due to select platform expansion in both our reinsurance and insurance businesses. The ratio of net premium to gross premium in the quarter on a consolidated basis was 81.9% versus 81% even a year ago. The reinsurance segment, the net to gross was 94.1% in the 2013 First Quarter compared to 98.1% a year ago, reflecting more retro purchases, protecting their property book. The insurance segment added 73.2% ratio compared to 71.3% a year earlier as a result of their ongoing strategy to grow the less volatile, smaller account businesses and reduced exposure in higher severity businesses. Overall, on a consolidated basis, the First Quarter of 2013, as Dinos has mention, saw a 9.1% gross written premium growth, and 10% growth on the net written basis. The reinsurance segment grew by 20% where as the insurance segment grew by approximately 3%.

In the reinsurance segment, the 2013 accident quarter are combined ratio, excluding CAT, was 79.2% compared to 82.8% in the 2012 First Quarter. The reinsurance segments results this quarter reflect changes in the mix of business, on a written basis, with a higher contribution for more reinsurance, multiline, and life businesses than in the First Quarter of 2012. Net premium growth of approximately 20% was seen throughout both the treaty and the facultative units. The 2013 First Quarter results for the reinsurance group has been true since the 2012 Second Quarter includes the effect of the April 2012 acquisition of the international credit maturity operations, the variable rate out of Switzerland. Net premiums earned for this acquisition for the 2013 First Quarter were approximately $12 million with the remaining on the premium reserve as of March 31st of $24 million. I will likely not comment on this during the next call as both year Second Quarter's will have had the acquisition reflected.

In the insurance segment, the 2013 accident quarter combined ratio excluding CAT, was 97.9% compared to an accident quarter combined ratio of 99.7% a year ago. This improvement is primarily due to poor margin expansion on an earned basis and mix of business changes. Margin expansion in our core U.S. insurance operations continued this quarter with a weighted average 330 basis point improvement over the First Quarter of 2012.

As Dinos has mentioned, this average ranged from having margin contraction in some units, such as healthcare, up to 1000 to 1600 basis point core margin improvements in construction, excess comp, and some specialty casualty lines. Even lines of businesses experiencing margin contraction still achieve positive effective rate increases this quarter. These figures represent the excess of written effective rate increases over estimated lost trend and provide continuing evidence of improving market conditions. As always, we make mix of business decisions based on our view of the absolute returns and not relative improvements alone.

The insurance segment had net written premium growth predominately emanating from the U.S. operations was represents approximately 70% of the worldwide volume. The U.S. operations grew net written premium by 11.4% with partially offsetting reductions elsewhere around the world, as Dinos has noted. The U.S. growth came predominantly from programs, construction, national accounts, and A&H businesses with a continued reduction in U.S. casualty lines and declines in tech risk across geographies. The program unit saw growth primarily from underlying quote-unquote same store rate of exposure

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increases, reflecting improvements in economic conditions, compounded by an improvement -- improving level of rate increase. Additionally, some newer and regain programs have experienced ramp up traction compared to a year ago.

Construction and national account businesses had exceptional renewal retentions, strong new business, rateable exposure growth, and favorable audit premiums. The total return on our investment portfolio was 50 bips in the 2013 First Quarter, reflecting strong return on equities in alternatives and flat to negative returns on fixed income investments. Excluding foreign exchange, total return was 101 bips in the 2013 First Quarter. Our embedded pre-tax book yield, before expenses, was 2.45% as of March 31st compared to 2.6% at December 31st, 2012, while the duration of the portfolio shortened slightly to 2.94 years, reflecting our conservative view and position on duration and the current yield environment. Our exposure to Euro-zone countries is listed in the supplement with continued minimal exposure at countries undergoing severe economic hardship.

Reported net investment income in the 2013 First Quarter was $66 million or $0.48 per share versus approximately $74 million or $0.53 per share in both the 2012 Fourth Quarter and the First Quarter of 2012. The $8 million decline in net investment income relative in this quarter -- in this quarter, relative to 2012 Fourth Quarter has resulted from several factors. First, $2.2 million increase in investment expenses, that includes $1.3 million of cost on a certain alternative investment fund where some expenses were recognized disproportionately to actual funding contributions and should not be considered an ongoing run rate effect. Secondly, a $1.9 million reduction occurred relative to the Fourth Quarter of 2012 associated with inflation adjustments on U.S. Treasury Inflation Protected Securities or TIPS. These adjustments are lumpy, due to fluctuations in the unseasonably adjusted monthly consumer price index as evidenced by last quarter's $1 million contribution to income and this quarter's $900,000 reduction to income.

Thirdly, there was a reduction in gross income related to TALF assets, which contributed $1 million to income in the 2012 Fourth Quarter partially offset by $200,000 of interest expense and were sold prior to year end. Lastly, the balance is due to the effects of the reduction in the embedded yield on the fixed income portfolio, smaller investable base for income producing assets due to the decreased allocation to the alternative and equity asset classes and the impact of our share repurchases totaling $213 million over the last two quarters. Our effective tax rate on pretax operating income for the First Quarter of 2013 was an expense of 1.7% compared to a benefit of 1% even in the First Quarter of 2012. This estimate -- sorry, this rate is an estimate of the full year effective tax rate that is based on one quarter of actual results and three-quarter forecasted results. Fluctuation from the effective tax rate can result from variability in the relative mix of income or loss, reported by jurisdiction along with forecast variance for the last nine months of the 2013 year.

Current quarter preferred dividend expense of $5.5 million was identical to the third and Fourth Quarters of 2012 but approximately $1 million less than the preferred dividend expense occurring in the 2012 First Quarter. As discussed on last quarter's call, this reduction relative to the 2012 First Quarter is due to the refinancing of our preferred shares by retiring our series A and B classes and replacing them with a more effective series C class. The $5.5 million is the true quarterly run rate. Our total capital was $5.74

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billion at the end of the 2013 First Quarter, up 3% relative to year end 2012 and up 9.5% relative to the First Quarter of 2012.

During this quarter, we repurchased $41 million of our common stock at an average 1.19 multiple to book value which had a 4% impact on book value per share. Our debt to capital ratio remains low at 7% and debt plus hybrids represents only 12.6% of our total capital giving us significant financial flexibility. We continue to escalate having capital in excess of our targeted capital position. Book value per share was $37.66, as Dinos also noted, which represents a 4.1% increase versus year-end 2012 and 13% gain relative to March 31st of last year. This growth in book value per share primarily reflects the Company's strong operating results. With these introductory comments, we are now pleased to take your questions.

Dinos Iordanou {BIO 2397727 <GO>}

Allison, we're ready for questions.

Questions And Answers

Operator

(Operator Instructions)

Please stand by for your first question. Your first question comes from the line of Michael Nannizzi of Goldman Sachs. Please proceed.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Hi, thank you. Hi. Dinos, I was wondering if you could elaborate a bit on your comment about the new versus renewal business. What would drive a company or carrier to give a business that has adequate margin? It doesn't seem like we are seeing capital stream to any meaningful degree in any segment of the market. I'm just curious.

A - Dinos Iordanou {BIO 2397727 <GO>}

For many -- I think we introduce a system which I described in detail about five years ago. We went through these elaborate exercise not only on class-rated classes that the insurance service offerings [ph] will give us exposure times rate type of statistics so we can compare things. Everything that is in specialty lines we created. Systems that monitor us on an exposure basis the rate we get for like exposures independent if it's new business or renewal. And we monitor that across the enterprise.

We have our pricing actuaries, independent of the underwriters, do that. We do it electronically. This way, there's no playing with the numbers. You know the old story. Figures never lie but liars figure. We are consistent with that approach. So what I reported is what is happening in the marketplace.

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Now, for one-third of our business, that means there is more distress or at least perception of distress in those classes by -- predominantly is by the admitted markets. They are throwing that business into the ENS market, because this phenomenon is happening mostly in the E&S market. So in certain sectors, even though there is ample capacity in general, there is not enough capacity.

I will give you the most acute example. If you have contractors in New York because of the tough labor laws, et cetera, it's almost impossible to place today. Clearly, the renewed books, which most carriers have and they have better relationships with customers, get a certain price and new business that is trying to find a place, for whatever reason, because they've been expelled or non-renewal by others, they are paying a much higher price. I'm just reporting what we are monitoring.

I wish 100% of the business, you would've been behaving like that. Then we really have a hard market. But we don't. Two-thirds, as I said in my prepared remarks, still indicate highly competitive market conditions with new business pricing lower on a comparison to the same exposure to renewal business. So that's the facts. Do I have a complete explanation as to why it's happening? No, but it's good to measure and it's good to have a view into the marketplace because you can direct your underwriters as to where to step on the break versus step on the accelerator.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Very thoughtful, thank you so much. I guess to dovetail on that with your E&S, moving from admitted to E&NS markets, I'm trying to square that with the fact that we are still seen admitted carriers talk about on the spectrum the highest rate gains versus much more mixed in specialty and E&S lines. How does all that kind of fit into the way you are perceiving the market right now?

A - Dinos Iordanou {BIO 2397727 <GO>}

Well the admitted market, is predominantly a market of class rated business to a great extent. There is file rate and exposure times rate. It is measurable, et cetera. The E&S market is more aligned to freedom not only on terms and conditions but rate. Sometimes it's not just premium going up, it's the effective change because of more restrictive terms that have to be interpolated into pricing increases.

So the two separate markets -- let me give you an example to make the point. When you look in the property lines, our E&S is showing new business being priced at or better renewal, where on global accounts, which is more on an admitted basis, we showed the exact opposite, and both lines are property lines.

Not always a great explanation why it's happening, but -- if a standard carrier is not willing to write a property line because it used to be an old package policy that he had section one, section two, and they don't like the property anymore and they throw it into the E&S, that would be all new pricing. It has nothing to do with file rate. Mark, do you want to elaborate?

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A - Mark Lyons {BIO 6494178 <GO>}

Just one piece of color to add. To contrast, a property piece of business being thrown over back to the surplus [ph] markets versus casualty, I think you find the property units are recognizing that exposure difference more so than where it came from and more pricing adjustments and terms and conditions adjustments are happening.

On the casually site, it's a little more irrational. It's a longer-duration business. There is, I think, more of not quite a feeding frenzy, but I think there's a lot more competitors going after that, and it may be ameliorating some of the increases that you are seeing on the casualty side.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Mark, just one quick follow-up, if I could. It looks like the portfolio turnover is pretty high. I'm guessing there's a subset of the investment portfolio that's turning over more rapidly than the rest. Could you just give a little bit of color on that and kind of how that dovetails with your investment strategy? Thanks.

A - Mark Lyons {BIO 6494178 <GO>}

I think you mostly you'd see the turnover in treasuries. We look to take advantage of some -- well, generally most of the options that occur. Also, to take advantage of the different points on the curve, when you may have a 7-year bond and then you hold it for a while and you could resell it as a two-year -- a five-year bond and differentials that you can take on those. There hasn't been a lot of turn on the municipal side, for example.

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Q - Michael Nannizzi {BIO 15198493 <GO>}

So you have one segment of the portfolio that's turning over may be several times?

A - Mark Lyons {BIO 6494178 <GO>}

Yes, I think that's right.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Mike Zaremski of Credit Suisse. Please go ahead.

Q - Mike Zaremski {BIO 20606248 <GO>}

My first question is on the margins. If I exclude the Costa Concordia and oil rig losses from 1Q last year, and maybe you don't think that's a fair adjustment, but if I do that, it looks like the accident year ex-CAT loss ratio deteriorated just a little bit. I'm curious why we aren't seeing some improvement there given the pricing environment.

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A - Dinos Iordanou {BIO 2397727 <GO>}

I don't know what numbers you are referring to, but that's not accurate. Let me give you the specifics on the margin improvement. When we look on a written basis, comparison to our entire portfolio, we had an improvement over the loss trend of 3.3%. When you look at it on an earned basis, it was approximately 1.9%. This is on an entire portfolio. So if you pick one or two losses, it won't tell you very much.

What you've got to look is you have to look at the book of business and where is the -- you know, where is the pricing and how that compares to the prior underwriting year. We do all of our calculations on an underwriting year basis. What we are writing this year versus what we wrote a year ago. But if you want more granular information, I will turn it over to Mark, who is usually a lot more up-to-date to the granularity of that exercise. Mark?

A - Mark Lyons {BIO 6494178 <GO>}

Dinos is right. The earned affect is really a consequence of the individual decisions you make on the written basis. You know, Dinos's point, your earn will lag the improvement associated with the written change. If things stay constant for the next three quarters and we maintain a 330-basis-point spread, then that's what you should see on an earn basis, assuming annual policies as it bleeds through.

Mix is always a big issue here. On both sides, insurance and reinsurance side. So I think by controlling for line of business and business type mix and things like that is the real difference that we look at that doesn't jump out at you from the summarized results.

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A - Dinos Iordanou {BIO 2397727 <GO>}

You know, and to emphasize that, if you don't get into the mix, you will get to totally a different conclusion. I will give you an example. If you are writing a short-tail property business that basically you need to write to 80 combined, meaning 50 loss ratio and 30 expense ratio, and then you are writing casualty business that you can write to 90 combined, 60 loss ratio and 30, both of them economically equivalent. If you change that mix, you might show an aggregate accident year, lower or higher, but you draw the wrong conclusions by not looking at what changes in the mix.

Q - Mike Zaremski {BIO 20606248 <GO>}

And the 330 basis points on the written basis, I think that's higher than last quarter. Is there any particular lines you can point to where the rate momentum is coming from?

A - Dinos Iordanou {BIO 2397727 <GO>}

Yes. I will turn it over to Mark.

A - Mark Lyons {BIO 6494178 <GO>}

Yes, certainly. Dinos commented on some. Let me explain it into two pieces. We are seeing still some fairly significant margin expansion and lines of business that are improving but still not making the cut. So some of the longer-tailed lines Dinos referenced in his comments, they are improving, we're glad to see that. They are not quite there to turn it to green-light status.

However, some other profit centers such as our loss-sensitive profit centers, in construction and national accounts, where the pricing has not fallen anywhere near as much as some other lines of business, we are seeing some very good recovery there to the point that they are into the green category where they may have been in yellow in the past. I could do others, but I think they're probably the two best pockets of example.

A - Dinos Iordanou {BIO 2397727 <GO>}

And when he talks about green meaning that we are willing to write more business in that sector, yellow we are cautious, and red, we better have our foot on the brake.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, that's helpful. Lastly, I was curious if you guys would be forthcoming and commenting on the Berkshire news about them getting bigger in the ENS platform and potentially comment on how much competitive overlap you currently have with the largest player in the E &S market.

A - Dinos Iordanou {BIO 2397727 <GO>}

You have to understand about their strategy. Berkshire Hathaway has been in the E&S market in many different ways, either through insurance transactions or directly writing it. I don't know what their plans are. I think they hired four excellent executives. Talent always is hard to find, and they found four talented executives to join them, so I think it's a positive for them. Beyond that, Berkshire was always in the E&S market, and will continue to be.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. Thank you.

Operator

Thank you. And your next question comes from Amit Kumar of Macquarie Capital. Please proceed.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks. Good morning. Congrats on the quarter. Two quick questions. First of all, can you share your thoughts on the upcoming June 1st renewals? How do you expect that to play out for the marketplace?

A - Dinos Iordanou {BIO 2397727 <GO>}

It's a bit early as of yet, because there is a war between brokers' request versus underwriter's offerings. Not a lot of firm orders have been placed. Our expectation

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though should be around 5% to 10% reduction. That's what we are expecting. But there is -- there is changes. In different parts of the country and if it's in a nationwide program versus Florida-only program or Northeast.

Let me give you an example. In the Northeast, we got anywhere from plus 2 to 3 to as high as plus 10 on layers that they had in effect from Sandy. On high access layers that Sandy didn't effect, the reduction was anywhere from minus 2 to minus 10, depending on programs.

Likewise, we have renewal nationwide programs and significant ones that we have from orders already at only minus 5%. Some people expected much worse than that. For most of the Florida business, it's happening as we speak, so I don't have a lot of flavor -- Mark, do you have any more color to that? We will know in a few weeks. Our expectation is somewhere between 5% and 10% rate reduction.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's helpful. I guess the only other question, I'm not sure if I missed this in the opening remarks, can we revisit the discussion on capital management for the remainder of the year just based on the current multiple and how the stock is trading?

A - Dinos Iordanou {BIO 2397727 <GO>}

I mean, we usually look at three different factors. Where can we deploy capital in our operations? Where are we trading in the multiple that the market is giving us, and then what is our projected ROE? Our ROE, we are getting more optimistic that is going up. I don't know if we do a lot more of share repurchases at the time being unless share price movements propel us to do that because we can get our shares cheaper than we can get them today.

On the basis that we still have this transaction that we need to close on and we have to re-estimate as to how much capital we can deploy in that. Plus, there is a few other things we're looking at in any market. You see opportunities. Nothing that is imminent, but you never know. So we will take all of that into consideration, and then we will make decisions. Our principal of returning excess capital to shareholders hasn't changed. We will find a way to do it. We think a special dividend is appropriate, we might even do that.

A - Mark Lyons {BIO 6494178 <GO>}

As a follow-up to Dinos, if you think back to our thinking, you heard us say before that we were guided by that matrix that we have on the website but we are not bound by it. If you go back and look at what we have traded at over the quarter, it's pretty close to an ever-increasing sequence from 122 book up to about 148 Fourth Quarter book value. It was really about mid-February that we crossed off say the 133 line, which you can kind of rough yeoman's way say 10% returns times three is really that ballast point. So we weren't in any hurry really to go in excess of that at that point.

Now, with the increase in book value, we are trading as of yesterday probably a little south of 14. To echo Dinos's comments, we have to look at things relative to where it's

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traded, not just an absolute basis.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's very helpful. Thanks for the answers.

Operator

Thank you. And your next question comes from the line of Jay Gelb with Barclays. Please proceed.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. Good morning. With the shifts in reinsurance pricing through April and June, what is your sense of modeled return on equity for that business, for property CAT?

A - Dinos Iordanou {BIO 2397727 <GO>}

It's still very, very good. You know, it's high double-digit ROE. You need to write it at that level, otherwise you shouldn't. You are talking about purely CAT XOL, right?

Q - Jay Gelb {BIO 21247396 <GO>}

Yes.

A - Dinos Iordanou {BIO 2397727 <GO>}

Yes. It is a highly volatile line, at the end of the day, you have to be north of the 15% to write that business on an expected basis, you know. That's our attitude.

Q - Jay Gelb {BIO 21247396 <GO>}

So when you say high double digits, that means high teens ROE?

A - Dinos Iordanou {BIO 2397727 <GO>}

Yes.

Q - Jay Gelb {BIO 21247396 <GO>}

On the reinsurance business, I know that the way the premium comes in, it can be lumpy. It has been running at well over 20% for at least five quarters. I would just like to get a sense for modeling purposes when that may lap each other and when that rate of growth may slow, or would that continue for all of 2013 just based on the contracts you currently have in place?

A - Dinos Iordanou {BIO 2397727 <GO>}

Well contracts are annual. They either get renewed or not. What guides us in making decisions is the profitability of the book of business that we would like to reinsure. As we said in prior quarters, a lot of that growth came from the UK. It came from a couple of

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contracts we wrote on the mortgage base. If those get renewed, you will have the growth. If they don't, you won't.

You know, it's lumpy business, reinsurance. We take contract by contract. We look at the opportunity. We have plenty of capital to support those contracts. If we are given opportunity by the clients to continue to provide the capacity for them, we will do it. If not, we won't. You know, it's based on, is it a profitable opportunity for us or not? That's when we make the decision to continue or not.

A - Mark Lyons {BIO 6494178 <GO>}

Jay, I would just add, what are the other takeaways, especially in the UK motor. You shouldn't look at that as the book of business. You should look at it as a few large contracts. Hence, Dinos's point about rebinding them or renewing them or not. It's what is driving it. Because it's not a big book of business.

Q - Jay Gelb {BIO 21247396 <GO>}

Understood. Thank you.

Operator

Thank you. And your next question comes from Vinay Misquith with Evercore Partners. Please proceed.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi. Good morning. The first question is on growth in the primary insurance. Within the US, that seems to have picked up. Could you help me understand if you are getting more positive on that business, because you also mentioned that you're starting a new E&S business.

A - Dinos Iordanou {BIO 2397727 <GO>}

I will let Mark give you the breakdowns. You are looking at the overall growth. Actually in the US, we have grown. We have shrunk in Europe, including Australia. That was a proactive action on our part because on a certain segment of business, we weren't getting enough rate improvement to overcome trend.

You can't stay at the same rates and be happy continuing to renew what's expiring when trend is going to continue to move up. At some point in time, you say, is this going to be an acceptable ROE business or not? That's what happened. Mark, do you want to give any of the details there?

A - Mark Lyons {BIO 6494178 <GO>}

Sure, sure. I think what you'll see, some of that you can deduce from our prepared comments, but in the US, the growth in the loss-sensitive areas, which is construction and national accounts, we have growth in programs as we also commented on. We have some growth in surety, which is really a new team coming in and putting their view on

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things and expanding that into commercial surety, not just contract surety. Our A&H business is really ramping up, and so it's large percentage increase compared to prior.

A - Dinos Iordanou {BIO 2397727 <GO>}

On a small base.

A - Mark Lyons {BIO 6494178 <GO>}

On a small base. And property on a net basis saw some traction in the Insurance Group.

Q - Vinay Misquith {BIO 6989856 <GO>}

So what did you (inaudible) in the US?

A - Mark Lyons {BIO 6494178 <GO>}

The US grew 11%.

A - Dinos Iordanou {BIO 2397727 <GO>}

Offset by reduction in Europe.

Q - Vinay Misquith {BIO 6989856 <GO>}

Great. And you expect Europe to continue to decline, or do you expect that to flatten out in the future?

A - Mark Lyons {BIO 6494178 <GO>}

Well we expect for the balance of this year to probably see relative to Second Quarter 2012, Third Quarter 2012 probably some additional reductions like we saw in this quarter.

A - Dinos Iordanou {BIO 2397727 <GO>}

The same level reductions in comparison. You know, we reduced program participation, so in essence until it laps over to one year, you are going to have the comparables, and we've got two more quarters to go.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Okay, that's helpful. Secondly, on the net investment, that fell pretty meaningfully this quarter. Just wanted to get the run rate normally for that. To the existing numbers to add back to $1.3 million higher expense, should we also add back the $1.9 million of the TIPS, or is that not such a high --

A - Mark Lyons {BIO 6494178 <GO>}

Well if you do that, you are basically saying that we should see zero on TIPS on a go-forward basis.

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A - Dinos Iordanou {BIO 2397727 <GO>}

It can reemerge entirely or it can be -- the side might switch entirely. I would say for -- and this is a rough guess on my part -- probably half the reduction is nonrecurring and the other half is probably the effect of lower interest. To me if this quarter was normal, we probably would've seen investment income going from approximately $74 million or $73 million. Don't forget, $1 million of the $74 million was under our officially high last quarter to come down to about $70 million.

But like I said, we don't pay tremendous -- I know you've got to do your models and all of that. That's why it went through this whole explanation between net income ROE versus operating ROE. We are not changing our definition, but also we are not going to change our strategy that we're going to try to maximize total return on an investable asset. Independent if we are going to take some investment income hits for total return because of accounting and structure issues.

A - Mark Lyons {BIO 6494178 <GO>}

One other comment that perhaps helped you. I think that was probably a good view that Dinos just provided you, but you got to think of it, we are kind of in a point of inflection with regards to net investment income. A lot of the alternative investments, as Dinos has mentioned, wind up showing their returns below lines instead of above the line, but there are a handful that will show some above the line benefit, but those are just ramping up.

So for the balance of 2013, that kind of average Dinos talked about is probably reasonable. But there is positive forces that could push that higher than that level in either the very end of 2013 or end of 2014.

A - Dinos Iordanou {BIO 2397727 <GO>}

What Mark is telling you, Vinay, is we try to, even with outside managers, to structure transactions, especially on the high-yield fixed income kind of strategies that we have that we can recognize the investment income as such and not account it under the equity method as realized gains. But accounting is not that simple anymore. They've got 42,000 rules that I have to take three Advil every time I sit with the accountant to discuss it. Sometimes they're nonsensical to begin with.

A - Mark Lyons {BIO 6494178 <GO>}

But to Dinos's key point about we are driven by the economics, not the accounting. The analogy on the business side is worker's compensation. If the industry was bound by how that is booked on excess worker's compensation, there would be no market.

Q - Vinay Misquith {BIO 6989856 <GO>}

Right. Okay. That's helpful. Thank you very much.

A - Dinos Iordanou {BIO 2397727 <GO>}

You're welcome.

Operator

Thank you. And your next question comes from the line of Josh Shanker of Deutsche Bank. Please proceed.

Q - Josh Shanker {BIO 5292022 <GO>}

Good morning, everyone. First of all, given the growth in programs, I assume one or two programs over the last few quarters that have been contributing to that. Do we expect that to slow down starting in 3Q?

A - Mark Lyons {BIO 6494178 <GO>}

No. We don't. We are getting more traction on, as I said, regained programs or pieces of programs, but in the core same-store, we are seeing some, I think, level of increasing ratable exposures. And the flip-flop of having audit premiums be positive, not negative like they've been in the past.

A - Dinos Iordanou {BIO 2397727 <GO>}

So that means the economy is improving so the exposure base on some of our clients is going up so they generate more premiums. Also, there has been rate increases and significant. Don't forget, that's the area we complete a lot with the standard markets, even though these are specialty programs. We still issue a lot of (inaudible) paper. We have fire rates, et cetera, and you compete with the likes of Traveler's and Chubb and CNA. These carriers, you are listening to their calls, et cetera and we've seen in the market. They are pushing for rate. They are getting it. In essence, our agents that they produce the business for our MGUs, they're getting rate increases. I think that will continue.

Q - Josh Shanker {BIO 5292022 <GO>}

As the market improves, does that mean there will be more competition for programs that you guys have or others have, or that actually would want to be bidding on more programs?

A - Dinos Iordanou {BIO 2397727 <GO>}

I think you are going to see that would be more programs make the cut for us because of rate improvements and they are looking for a better home. Don't forget, we are a good home for programs. We're an A plus company, we have great systems. Our service is very good and we have that kind of reputation.

As a matter of fact, the MGUs that we have, a dozen or so of these that we have, we had them for 10 years, and they are all been with us for a long period of time, so we are welcoming new programs as long as they can make the profitability goals that we have. But a lot of our growth is coming from our existing programs, because they are gaining them both. Additional exposure units, as the economy is starting to improve on same customers that they have and also new customers coming into the program on existing business.

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Q - Josh Shanker {BIO 5292022 <GO>}

Okay. That works. And in terms of thinking about -- everyone complains, I've complained about the insurance combined ratio. A lot of your peers have better combined ratios than you have, and they are showing that again right now. To what extent do you think that the current booking is aggressive by the marketplace today and to what extent you think you are being conservative right now in your insurance segment?

A - Dinos Iordanou {BIO 2397727 <GO>}

I have a hard time trying to get mine as accurate as I can because that's the only statements I sign, so I'm not going to worry about the rest of the market. I can tell you, we feel comfortable when we are booking things. We do a lot of analysis. Like I said many times before, for the first two or three years, four years or so, the accident year is the self-grading exam. The real exam comes when the books mature.

Without knowing exactly what others write and what processes they are going and estimating with the current accident year should or shouldn't be, I can't comment on that, but I can comment on ours and I feel very comfortable where we are.

Q - Josh Shanker {BIO 5292022 <GO>}

The only problem is when you are grading your own exam, maybe you are hungrier to take the test.

A - Dinos Iordanou {BIO 2397727 <GO>}

That's true.

Q - Josh Shanker {BIO 5292022 <GO>}

Thank you very much.

A - Dinos Iordanou {BIO 2397727 <GO>}

You're welcome.

Operator

Thank you. And your next question comes from Arash Soleimani of KBW. Please proceed.

Q - Arash Soleimani {BIO 18869554 <GO>}

-- with a comment about moving back to the E&S market. Is that a trend you expect to sort of speed up over the next year or so, and to what extent do you actually -- I don't know if you can quantify it in any way, but what extent do you expect that to benefit your premium growth?

A - Dinos Iordanou {BIO 2397727 <GO>}

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Right now it's gradual. It's not as supple, but it's gradual. If it accelerates, that means we have a hot market. It's always a very good indicator of a hot market when a lot of that business comes to the E&S market. It hasn't happened yet. There is a little flow coming into the E&S. We measure it through the submission activity. We see in different profit centers around the country. And we're happy about it. But we are not ecstatic, because this is not a hot market yet.

Q - Arash Soleimani {BIO 18869554 <GO>}

Okay, that's helpful. Thank you.

Operator

Thank you. And your next question comes from Ryan Brynes from Langen McAlenny. Please proceed.

Q - Ryan Brynes

I realize we're getting close to lunchtime, so I will just keep it to one question. Dinos, I'd like to get your opinion on the upcoming TRIA renewal. I realize it's a little over a year away, but just wanted to get your thoughts on the opportunities and challenges that it presents the industry and Arch in general.

A - Dinos Iordanou {BIO 2397727 <GO>}

You are not coming through. You can speak closer --

Q - Ryan Brynes

Sure, sorry. Dinos, I just wanted to get your opinion on the upcoming TRIA renewal and what opportunities and challenges it presents for the market and Arch.

A - Dinos Iordanou {BIO 2397727 <GO>}

Well -- listen, I don't have to mention the Boston event again, but I think that the insurance business is willing and able and capable to take a lot of risks, but it's not able to take infinite or unlimited risks. At some point in time, there is there has got to be some backstop at a pretty high level. And if you look at TRIA, we are talking about the backstop is provided so companies, they don't face ruin on a horrific event. So I'm expecting that we will make the point to our regulators and to our legislators in Washington and they will see the light that there is a role that the federal government can play, especially when they mandate coverage.

They require us to provide or offer terrorism coverage to customers which we would like to do, but, on the other hand, we don't want the risk of ruin to be within books of business. Then on certain coverages like worker's compensation, we have exclusive remedy. You can't exclude whatever incident happens. If you are injured at work, you need to get paid. That's the exclusive remedy of comp. We need some sort of catastrophic protection. The only person who has the unlimited ability to do it is the taxing authorities.

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Q - Ryan Brynes

Great. Thank you.

Operator

Thank you. And the next question comes from the line of Ian Gutterman of Adage Capital. Please proceed.

Q - Ian Gutterman {BIO 3106649 <GO>}

Good morning, Dinos.

A - Dinos Iordanou {BIO 2397727 <GO>}

Getting to the final exam. That's why you are in the back of the room again.

Q - Ian Gutterman {BIO 3106649 <GO>}

My first thing is I want to follow up on the Berkshire's raid of Lexington. You guys write a lot of E&S, can you help us understand to the extent they are successful at taking a fair amount of Lexington business, how would that affect -- can you give us maybe some sense of how much excess of AIG you might write across your portfolio or some sort of idea the large account E&S versus small account or some kind of way to understand what the potential impact is?

A - Mark Lyons {BIO 6494178 <GO>}

I think it begins with the recognition of behavior. What's the new behavior going to be with these? It's a set of customers written by one entity versus another entity. It's whether they are more aggressive or less aggressive. Time will tell that. We don't know what that's going to be. I don't think it's appropriate for us to comment on relative adequacy of AIG business versus other carriers' business. We don't write just excess. We have a lot of primary business we write also on an E&S basis. So we won't necessarily just be looking at business on a lead excess basis or something like that over AIG.

A - Dinos Iordanou {BIO 2397727 <GO>}

It depends on their business plan,, which they haven't disclosed to anybody yet. To write a lot of E&S business, you can't do it just with four people. You've got to build infrastructure. You have to build underwriting teams, and you've got to distribute them around country. Especially if you are going to write small, medium-sized accounts. If they are going to shoot elephants, then they can do it with a half a dozen people sitting in one location. But there's so much of that business and the usual suspects compete with them, meaning people that they have significant capacity to do it.

So in my -- not knowing what will happen, it might be a battle between two behemoths, the Berkshire and AIG, fighting for the large -- or it might be more of a systematic creation of an E&S unit that it will take some time to build because they have to build infrastructure and hire the underwriters, et cetera. I think this question you need to ask (inaudible), he would know more as to what he wants to do with his team. They are all capable executives. I will give him a lot of credit for that. I think he hire some very good guys.

A - Mark Lyons {BIO 6494178 <GO>}

And don't underestimate Dinos's comment about infrastructure. Think of it this way. On the retail side, the customer really is the guy cutting the check at the end of the day. On the wholesale side, it's really the wholesale producer because of the aggregation aspect. And you need to be -- the proximity needs to be there to really maximize things with the wholesale producer, so the infrastructure is important.

Q - Ian Gutterman {BIO 3106649 <GO>}

Understood. Make sense. Then I just had a few follow-ups on trends and line of business. I guess, first mortgage insurance on the reinsurance side, it looks like there was about $20 million of growth versus what you been writing this second half. I would assume that was a new contract, but is that sort of the rate we should expect to have that contract going forward, or was that all booked upfront for the year?

A - Dinos Iordanou {BIO 2397727 <GO>}

Don't forget, we had the original contract and then we have the renewal. You might be seeing that.

Q - Ian Gutterman {BIO 3106649 <GO>}

Right, but is that renewal sort of book?

A - Dinos Iordanou {BIO 2397727 <GO>}

Year-end I think, the '13 year. You got '12 and '13 and maybe a little overlap of that. But on mortgage insurance, it's not annual. It comes over four or five years, maybe even six years.

A - Mark Lyons {BIO 6494178 <GO>}

Certainly, over the next few quarters you will continue to have a good stream of business associated with those in-force contracts.

Q - Ian Gutterman {BIO 3106649 <GO>}

That's what I was trying to get it. Can you give us a rough sense of what kind of combined ratio is booked at? I'm assuming that helps the mix on the combined ratio, but I want to get some kind of sense of that.

A - Dinos Iordanou {BIO 2397727 <GO>}

Well we've got to get reports from our seasons. Usually we don't disagree significantly with them. It's whatever they report to us, we book. If we have a disagreement, we might put a number that may be slightly different than that, but so far it has been very, very

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good business. I think you will get a better indication by monitoring the numbers of the monolines, like Radiant and others to what they think that business is all about.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay. Then construction. I understand --

A - Dinos Iordanou {BIO 2397727 <GO>}

You dropped.

Operator

I'm sorry, the line seems to have dropped from the call. Would you like to move onto the next question?

A - Dinos Iordanou {BIO 2397727 <GO>}

Yes, please.

Operator

Your next question comes from the line of Michael Nannizzi of Goldman Sachs. Please proceed.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Just one quick follow-up real quick. Can you talk about, Mark, at all, about the impact of the retroactivity you saw on the reinsurance side? You kind of mentioned in the press release, but just kind of quantify a bit more what happened and what impact that had on the net premiums?

A - Mark Lyons {BIO 6494178 <GO>}

You can tell they still eat what they kill. They went down to a 94%, which is still enormously high. There was just a couple transactions to really cover property business. A little bit of marine business. But I wouldn't view it as game changing, if that's what you're after.

Q - Michael Nannizzi {BIO 15198493 <GO>}

No. I was just curious if that should, if you would expect that to continue --

A - Dinos Iordanou {BIO 2397727 <GO>}

We buy retro to balance our books sometimes or when we think we are getting a reasonable rate for the coverage. We are always out to see what the retro market might offer to us, but it's hit or miss. Sometimes if it gets very expensive, we don't buy it. We think that it's a reasonable price, we buy it.

Q - Michael Nannizzi {BIO 15198493 <GO>}

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Just one last one. Have you talked at all, Dinos, about the amount of capital you expect you'll be putting into the mortgage business once the CMG transaction closes? Do we know how much capital is there?

A - Dinos Iordanou {BIO 2397727 <GO>}

No. You are asking for a dynamic kind of an approach to it. It depends on how that business flows in. The more business we write, we are going to support with additional capital. If the business doesn't flow, then it won't require as much capital. So as we mentioned, I think the GSC is looking to a 20 to 1 coverage ratio. Right now, I think some of the competitors, and I haven't on the latest statistics, they are operating at 25 to 1 or some even at 30 to 1. Eventually it is going to gravitate further down into the 20 to 1. Without knowing how much flow you are going to get, you don't know how much capital you need to provide.

Q - Michael Nannizzi {BIO 15198493 <GO>}

You are talking about risk to capital?

A - Dinos Iordanou {BIO 2397727 <GO>}

Yes.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Thank you.

Operator

Thank you. We now have Mr. Gutterman back online of Adage Capitol.

A - Dinos Iordanou {BIO 2397727 <GO>}

He did pay his telephone bill.

Q - Ian Gutterman {BIO 3106649 <GO>}

Can you hear me now?

A - Dinos Iordanou {BIO 2397727 <GO>}

If you pay your bills, they won't cut you off.

Q - Ian Gutterman {BIO 3106649 <GO>}

I was able to hear you, I think the problem was you sit in the back of the class, you have to shout to be heard sometimes. I was just going to ask on the construction growth, especially the improvement in the expected margin. I guess I always thought of construction as being a competitive class. So why aren't we seeing that, or is this sort of the special class construction like New York or something that has been troubled?

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A - Dinos Iordanou {BIO 2397727 <GO>}

New York has been a troubled market for a long, long period of time. California is nothing to write home about either. A lot of what we do in construction is more like national accounts. Streamlined retrospectively rated. This is for medium and large contractors that predominantly they are buying a lot of services and some buffer cover from us. They will take the first $250,000 or $500,000 of risk on their own and then they expect us to provide good services on the claim side.

There are not many competitors in the space. You know, Travelers is a very good company who does that. Zurich does it. We do it, Ace is a company. Of course, AIG is there. And it depends on how good your underwriting units are. In that area, we are seeing positive movement. And it's not just workers comp you are getting rate increases. I think all three lines on the non-subject [ph] barrier, which is the risk area, we are seeing good rate increases. And also, we see improvements in the collateral.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay, got it.

A - Mark Lyons {BIO 6494178 <GO>}

I would just add that we make those comments about margin expansion. It doesn't always translate to $1 of premium. There has been upward movement in the large deductibles associated with that. $250,000 deductible might be a $400,000 deductible now. So you get some proof-rate price increase. You get some exposure movement to give you more premium, and then you get the beneficial trade-off of more premium with a higher attachment point.

Q - Ian Gutterman {BIO 3106649 <GO>}

I guess I was wondering, was there a bad actor in the class before who was underpricing the business has now gotten rational? Is that why we're seeing such big movements?

A - Mark Lyons {BIO 6494178 <GO>}

First off, remember what we said. Dinos, I think, nailed it. This is on a loss-sensitive perspective. These are large, self-ratable contractors. This isn't the one-off guy of the ENS market that has no audited financials.

Q - Ian Gutterman {BIO 3106649 <GO>}

That's why I thought -- (multiple speakers)

A - Dinos Iordanou {BIO 2397727 <GO>}

Well there was some, Ian, that they were written are guaranteed cost basis, then they thrown back.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay, okay. Now I'm with you.

A - Dinos Iordanou {BIO 2397727 <GO>}

Now as a guaranteed course carrier says, no, if you want that same program, I've got to charge you X more. They say, no, let me move it into the loss-sensitive area. I am willing to eat my own cooking, pay the losses through a big deductible and buy the buffer before I get into the excess market. So there is both.

Like I said I am not sitting with the underwriters every single day. I just monitor what they do. But these are real numbers, because we have -- one thing we are very confident in is our monitoring systems. You know they're true because there is an independence. I don't let the underwriters write their own report cards. They are all going to get As. I hate that.

Q - Ian Gutterman {BIO 3106649 <GO>}

Thanks for the help.

Operator

Thank you. I'd now like to turn the call back over to Mr. Iordanou for closing remarks.

A - Dinos Iordanou {BIO 2397727 <GO>}

Thank you, Allison. Enjoy your lunch, everybody, and we will see you next quarter. Have a good afternoon. Bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation.

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