S&P Capital IQ

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Arch Capital Group Ltd. NasdaqGS:ACGL

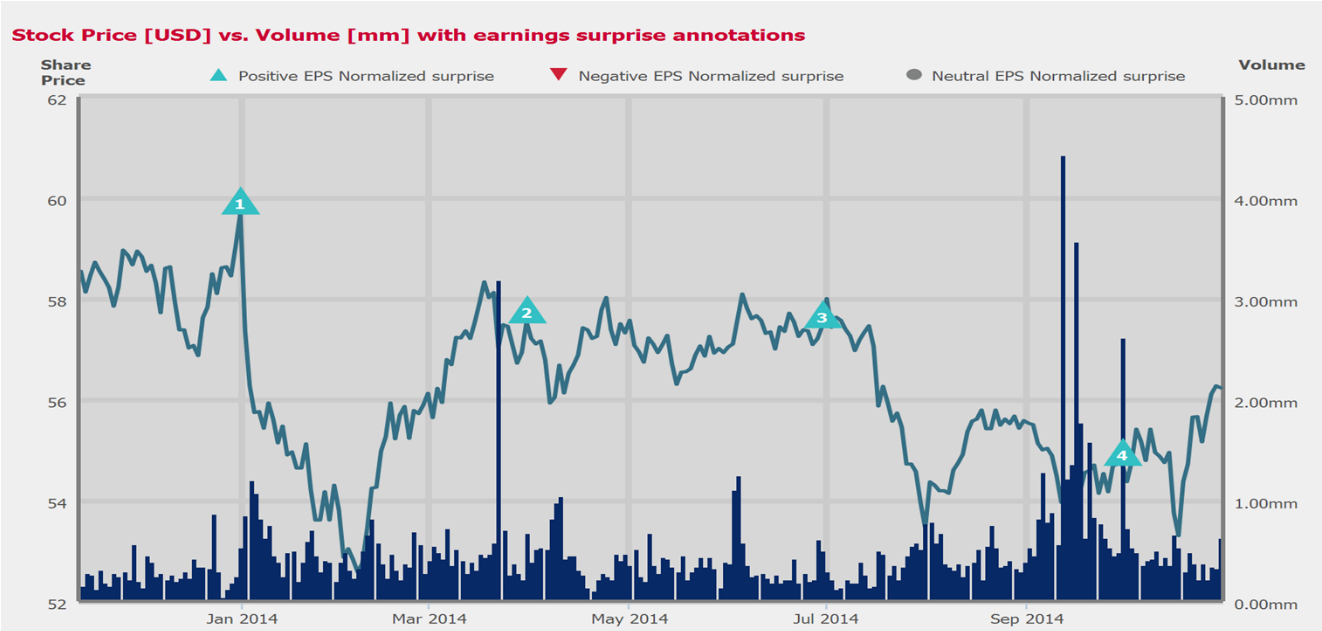
FQ4 2014 Earnings Call Transcripts

Wednesday, February 11, 2015 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.03	1.15	▲11.65	0.95	4.44	4.58
Revenue (mm)	866.73	804.84	▼(7.14 %)	1139.84	3863.02	3617.48

Currency: USD
Consensus as of Feb-11-2015 12:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.96	1.12	▲16.67 %
FQ1 2014	1.06	1.20	▲13.21 %
FQ2 2014	0.98	1.17	▲19.39 %
FQ3 2014	0.95	1.05	▲10.53 %

Call Participants

EXECUTIVES

Constantine P. Iordanou
Chairman and Chief Executive Officer

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Quarter 4, 2014 Arch Capital Group Earnings Conference Call. My name is Laura, and I will be your operator for today. [Operator Instructions] As a reminder, this call is being recorded for replay purposes.

Before the company gets started with this 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. 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 turn the call over to Dinos Iordanou and Mark Lyons. Please proceed.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Thank you, Laura. Good morning, everyone, and thank you for joining us today. We had an excellent fourth quarter in closing a very, very good year in our history over the last 12 years. We had 3 years that we are in over $800 million of net income. And this is one of them. Earnings were driven by excellent reported underwriting results and solid investment results. Net premium revenue grew by 7.5%, as growth in our insurance and mortgage businesses more than offset a decline in reinsurance net writings.

As a reminder, our U.S. direct mortgage business was acquired in the first quarter of 2014, and therefore, the year-over-year comparison should be viewed in that light.

On an operating basis, we earned $1.15 per share for the quarter, which produced an annualized return on equity of 10.4% for the 2014 fourth quarter versus 11.7% return in the fourth quarter of 2013.

On a net income basis, Arch earned $1.60 per share this quarter, which corresponds to an annualized 14.5% return on equity. As we discussed in prior calls, starting shortly, after the financial crisis, we have allocated a greater portion of investable assets in alternative categories, which includes all of our equity investments.

Looking back, over the past 5 years from 2010 to 2014, operating return on average equity has averaged 10% annually, where our net income ROE has averaged 14%.

This is a significant delta of 400 basis points over each year and roughly translates into an additional $190 million of annual income for each of the last 5 years.

As I indicated earlier, reported underwriting results in the fourth quarter were excellent, as reflected by a combined ratio of 85.5% and were aided by low level of catastrophe losses and continued favorable loss reserve development.

Net investment income per share on a sequential basis increased for the quarter to $0.56 per share, up from $0.53 per share in the third quarter of 2014.

Our operating cash flow for the quarter was essentially flat at $227 million compared to $224 million in the same period last year.

Despite headwinds from foreign exchange, the total return of the investment portfolio was 85 basis points for the quarter and 134 basis points if expressed in local currency.

As you know, we maintain a natural hedge with our investments as we match our outstanding liabilities in the currency that exists with investments in the same currency.

Our book value per common share at December 31, 2014 was $45.58 per share, an increase of 3.5% sequentially and 14% annualized and 14.5% as it compares to the fourth quarter of 2013.

With respect to capital management, we continued to have capital in excess of our targeted levels. And in the fourth quarter 2014, we repurchased 3.6 million shares at an average price of $56.28 for a total cost of $202 million and have purchased an additional $70 million of our shares so far in the first quarter of 2015.

With increased M&A activity in the sector, we continued to evaluate opportunities such as acquisitions of other business units, people and renewal rights transactions. As you know, we prefer to deploy our excess capital back into our business, but, today, these opportunities have not met our criteria.

The insurance segment's gross written grew by 9.8% and net written premium by a similar 9.6%. The growth emanated from our professional lines, excess and surplus casualty business, including our contract-binding units and alternative markets. And it was partially offset by decrease in construction and national accounts businesses. Mark will have more details on this later in the call.

Most of our organic growth is coming from small accounts with low limits, which should have lower volatility. On the other hand, competitive conditions in the property sector had negatively affected primary property rates and accordingly, our U.S. premium volume in those lines.

In the primary markets, in which our insurance group participates, despite an increased competitive marketplace, we continued to obtain rate increases in most lines of business at approximately the same level as we have observed last quarter.

On the reinsurance side of the business, as you might have heard on other calls from our competitors, we have seen a continuation of softening in pricing and broadening pressures on terms and conditions.

From a premium production point of view, net written premium was down 6.5% in the quarter for the reinsurance group, where gross premiums rose by nearly 5% with growth in the segment primarily coming from businesses we produced on behalf of Watford Re.

Our mortgage segment includes primary mortgage insurance, written through Arch MI in the U.S. and reinsurance treaties covering mortgage risk, which is written globally as well as other risk-sharing transactions. Net premium -- net written premium in this segment declined sequentially in the fourth quarter of 2014 to $53 million from $58 million in the prior quarter.

As we discussed last quarter, some of our growth in the third quarter came from participation on single-pay premium policies. These are loans where the mortgage insurance premium is paid upfront. In the fourth quarter, we have seen increased competition in the single-pay premium policies and as a result, we reduced our writing significantly.

As in all of our units, underwriting discipline is the foundation that Arch was built on, and we will continue to exercise that discipline in all of our segments.

What is important to note is that our sales force is now fully staffed and as a result of their efforts, we continue to gain traction in the back channel. As of December 31, we have approved more than 481 master policy applications from banks, and more than 150 of these banks have already submitted loans for us for our approval. Of these master policies, 34 represent national accounts and the balance are regional banks. Of the top 25 mortgage originators for confirming mortgage sold to the GSEs with, of course, attached mortgage insurance, we now have approval on master policies with 19 of those 25 lenders.

We continue to see GSE risk-sharing transactions increasing in 2015, with the GSE-established goals for credit risk-sharing rising from $90 billion. This is notional value of mortgage loans for each, Fannie and Freddie, in 2014 to $150 billion and $120 billion for Fannie and Freddie, respectively, in 2015. That's a significant increase.

Today, on average, approximately 70% of the risk-sharing has been provided by the capital markets, although an increasing percentage of the risk pool has been allocated to the insurance and reinsurance markets in 2015.

While current accounting treatment requires us to use derivative accounting for the GSE risk-sharing transactions, we expect these contracts to receive insurance accounting treatment on a prospective basis for all in-force and any new transactions in the near future.

Group-wide, on an expected basis, we believe the ROE on the business we underwrote this past year will produce an underwriting year ROE in the range of 10% to 12%, as on a percentage value basis, improvement in the insurance group and the addition of the mortgage segment approximately offset lower expected returns in the reinsurance segment.

Before I turn it over to Mark, I would like also to give you our PMLs. As usual, I would like to point out that our cat PML aggregates reflect business bound through January 1, while the premium numbers indicated in our financial statements are through December 31, and that the PMLs are reflected net of all reinsurance and retrocessions we purchased.

As of January 1, 2015, our largest 250-year PMLs for a single event decreased significantly in the Northeast to $544 million or 9% of common shareholders' equity, while Gulf PMLs also decreased to $527 million, and our Florida Tri-County PML now stands at $490 [ph] million.

Last quarter, I said that was the lowest numbers as of that time. This quarter, now brought us to even lower PML accumulation for the group.

I will now turn it over to Mark to comment further on our financials, and then we'll come back and take your questions. Great. Mark?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Thank you, Dinos, and good morning, everyone. As was true on last quarter's call, my comments that follows today are on a pure Arch basis, which excludes the other segment that being Watford Re, unless otherwise noted. Furthermore, since the accounting definition of the word consolidated includes the results of Watford, I will not be using that term, but instead, will be using the word core to refer to our combined segments of insurance, reinsurance and mortgage. This permits an apples-to-apples comparison of Arch's current results with prior periods.

So moving on now with that being defined, the combined ratio this quarter for our core businesses was 87.5%, with 2.3 points of current accident year cat-related events, net of reinsurance and reinstatement premiums compared to the 2013 fourth quarter combined ratio of 85.4%; which reflected 2 points of cat-related events. Losses recorded in the fourth quarter from 2014 catastrophic events net of reinsurance recoverables and reinstatement premiums totaled $19.9 million, primarily emanating from our reinsurance operations, representing smaller events around the globe.

The 2014 fourth quarter core combined ratio reflected 8.3 points of prior year net favorable development, net of reinsurance and related acquisition expenses compared to 7.9 points of prior period favorable development on the same basis in the 2013 fourth quarter. This resulted in 93.5% current core accident quarter combined ratio excluding cats for the fourth quarter of 2014 compared to the 91.3% accident quarter combined ratio in the fourth quarter of 2013.

In the insurance segment, the 2014 accident quarter combined ratio excluding cats was 96.4% compared to an accident quarter combined ratio of 96.5% a year ago, and also represents a sequential improvement from the 98.0% accident quarter combined ratio last quarter.

The reinsurance segment 2014 accident quarter combined ratio without cats was 87.3% compared to 84.9% in the 2013 fourth quarter, but this also represents a sequential improvement from the 90.6% combined ratio last quarter.

As noted in prior quarters, the reinsurance segment's results reflect changes in the mix of premiums earned, including a lower contribution from property catastrophe business.

The mortgage segment 2014 accident quarter combined ratio was 98.9% compared to 62.1% for the fourth quarter of 2013. This increase is predominantly driven by the substantial change in mix, resulting from the January 2014 acquisition of our U.S. primary mortgage operations.

The full accident year 2014 core combined ratio without cats was 94% even, versus 91.3% for the full 2013 accident year.

By segment, the insurance group's full 2014 accident year was 96.3% versus 97.5% for the 2013 accident year. And the reinsurance group combined ratio for the full 2014 year was 90.7% versus 82.9% for the 2013 accident year.

The insurance segment accounts for roughly 16% of the total net favorable development in the 2014 fourth quarter, excluding the associated impact of acquisition expenses, and this was primarily driven by shorter-tailed lines from the 2007 through 2013 accident years.

The reinsurance segment accounts for approximately 84% of the total net favorable development this quarter, with approximately half of that due to net favorable development on short-tailed lines, concentrated in the more recent underwriting years and about half due to net favorable development on longer-tailed lines, primarily from the 2002 through 2006 and 2009 through 2011 underwriting years.

Our core operations across the full 2014 calendar year experienced $307 million of net favorable development net of reinsurance, reinstatement premiums and related acquisition expenses; which represents 8.8% combined ratio points, versus $254 million of net favorable development last year for the 2013 calendar year; which represents 8.1% combined ratio points.

This full 2014 calendar year net favorable development was approximately split 15% in the insurance group and 85% in the reinsurance segment.

Approximately 68% of our core $7.3 billion of total net reserves for loss and loss-adjustment expenses are IBNR and additional case reserves, which remains fairly consistent across both the reinsurance and insurance segments.

The core expense ratio for the fourth quarter of 2014 was 34.7%, versus the prior year's comparative quarter expense ratio of 33.7%, driven by an increase in the operating expense ratio, partially offset by a decrease in the acquisition expense ratio. The increase in the operating expense ratio component continues to reflect the addition of our U.S. mortgage insurance operations, which is operating at a higher expense ratio until business hits a steady state, as well as the effect of incremental expenses due to certain platform expansions in both our reinsurance and insurance businesses.

The insurance segment improved to a 32.4% expense ratio for the quarter compared to 33.9% a year ago, primarily reflecting a lower net acquisition ratio, driven mostly by a change in the accounting treatment of New York Workers' Compensation surcharges and securing improved treaties ceding commissions on quarterly share contracts ceded.

The reinsurance segment expense ratio increased from 31.7% in the fourth quarter to 32 point -- the fourth quarter of 2013 to 32.5% this quarter, primarily due to a higher level of operating expenses supporting selected platform expansions.

The ratio of net premium to gross premium of our core operations in the quarter was 75.2% versus 78.4% a year ago. The insurance segment had a virtually constant ratio of 69.1%. The reinsurance segment net to gross ratio was 85.5% this quarter compared to 96% a year ago, primarily reflecting sessions to Watford Re as a reinsurer.

Our U.S. insurance operations achieved a plus 3.3% effective renewal rate increase this quarter, net of reinsurance. As commented on last quarter, the pricing environment is quite different for short-tailed lines versus long-tailed lines. Short-tailed lines of business had an effective 2% renewal rate decrease for the quarter compared to a 4% effective renewal rate increase for the longer-tailed lines, both on a net of reinsurance basis.

Rate increases on longer-tailed lines continue to be above our view of weighted loss cost trends.

Looking more deeply, some lines incurred rate reductions, such as nearly 6% reduction in property and 3.5% reduction in our high-capacity D&O lines. While others enjoyed healthy increases, such as a 9% effective rate increase in our lower capacity D&O lines; 10% increase in national accounts businesses; 6.5% rate increases in our contract binding book; 6% increases in our A&H or accident and health businesses and 4.5% rate increases in programs.

Also, certain lines continued their achievement of strong cumulative rate increases. So for example, our lower capacity D&O lines have now achieved 14 consecutive quarters of rate increases and have, in fact, secured double-digit rate increases in 10 of those 14 consecutive quarters.

The mortgage segment posted a 100.6% combined ratio for the calendar quarter. The expense ratio, as expected and as mentioned earlier, continues to be high as the operating ratio related to our U.S. primary operation will remain elevated until proper scale is achieved.

The net written premium of $52.7 million in the quarter is driven by the $25.3 million from our U.S. primary operation and $27.4 million of net written premium from our reinsurance mortgage operations, including the 100% quarter share of PMI's, 2009 to 2011 underwriting years as part of the acquisition of the CMG Companies in the PMI platform. This reflects a lower sequential level of written premium on competitively bid single premium U.S. mortgage insurance, as Dinos has already noted, versus the 2014 serial quarter for the third quarter.

At December 31, 2014, our risk-in-force for mortgage business equaled $10.1 billion, which includes $5.6 billion from our U.S. mortgage insurance operations, $4.4 billion through our worldwide reinsurance operations and $135 million through the risk-sharing transactions.

Our primary U.S. mortgage operation is down $1.4 billion of new insurance written during the quarter, which represents the aggregate of original principal balances of all loans receiving new coverage during the quarter.

The weighted average FICOs for the U.S. primary portfolio remains strong at 733, and weighted average loan-to-value ratio held steady at 93.4%. No states risk-in-force represents more than 10% of the portfolio, and our U.S. primary mortgage insurance company is operating at an estimated 9.5:1 risk to capital ratio at year-end 2014.

The other segment, which is effectively Watford Re, reported a 101.6% combined ratio for the quarter, a nearly $91 million of net written premiums and $53.6 million of net earned premiums. As a reminder, these premiums as posted, reflect 100% of the business assumed rather than simply Arch's approximate 11% common share interest.

Our joint venture, Gulf Re, produced a $5 million loss for the quarter, due to an unusually high frequency of large technical risk losses stemming from the Middle East. This is reflected on the income statement within the other income line.

Effective October 1, 2014, Arch agreed to acquire complete ownership of Gulf Re and has also instituted a loss portfolio transfer, including an unearned premium reserve transfer and established an ongoing 90% quarter share agreement for new and renewal business. Final approval of the acquisition terms is pending with the Dubai Financial Services Authority.

The total return of our investment portfolio was a reported positive 85 bps in the 2014 fourth quarter, reflecting positive returns in our equity, alternative investment and investment grade fixed income sectors, partially offset by the impact of the strengthening U.S. dollar on most of our foreign-denominated investments.

Excluding foreign exchange, as Dinos has mentioned, total return was a positive 134 bps in the 2014 fourth quarter and on a full 2014 calendar year basis, the total return was a positive 321 bps, and excluding foreign exchange, the return was a positive 426 bps led by our alternative and equity sector.

Our embedded pretax yield before expenses was 2.18% as of year-end compared to 2.21% at September 30, while the duration of the portfolio lengthened slightly to 3.34 years from last quarter's 3.28 years.

Fixed income duration fluctuates due to tactical investment decisions as opposed to long-term strategic shifts. The current duration continues to reflect our conservative position on interest rates in the current yield environment.

Reported net investment income for this quarter was $72.6 million or $0.56 per share versus $72.2 million in the 2014 third quarter or $0.53 per share and -- versus $67.1 million or $0.49 per share in the 2013 fourth quarter.

As always, we evaluate investment performance on a total return basis and not merely by the geography of net investment income.

Interest expense of $12.7 million has returned to the quarterly run rate after last quarter's adjustment that we discussed for certain loss portfolio transfer.

Our effective tax rate on pretax operating income available to our total shareholders for the fourth quarter of 2014 was an expense of 1.7% compared to an expense of 8.3% in the fourth quarter of 2013. The full year of 2014 effective tax rate on pretax operating income was 2.4% versus 4.8% for the -- for calendar year 2013. Fluctuations in the effective tax rate can result from variability in the relative mix of income or loss reported by jurisdiction.

Our total capital was $7.03 billion at the end of this year, up 0.7% relative to September 30 and up 7.4% relative to year-end 2013.

During this quarter, as Dinos mentioned, we purchased nearly 3.6 million shares at an aggregate cost of approximately $202 million, bringing our full year repurchases to $454 million. These repurchases occurred during the third and fourth quarters since we repurchased no stock in the first half of 2014. Our repurchases during the year were accomplished at an approximate 1.25 x multiple to average book value.

Furthermore, approximately $887 million remains under our existing buyback authorization at year-end 2014. These share repurchases in the quarter had the effect of reducing book value per share by $0.29 and $0.59 for the entire year.

Our debt to capital ratio remains low at 12.8% and debt plus hybrids represents only 17.4% of our total capital, which continues to give us significant financial flexibility.

As Dinos has already said, we continue to estimate having capital in excess of our targeted position. Dinos has already commented on book value and changes in book value, so I see no need to repeat that.
So with these introductory comments, we are now pleased to take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line Sarah DeWitt, JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

I wanted to hear your view on the recent consolidation in the industry and what are your thoughts on the implications of that from a competitive standpoint? And do you feel the need at all to be bigger, perhaps, it sounds like $10 billion is the new minimum?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, first, the consolidation, I think is positive for the business. You eliminate some competitors. You're creating larger enterprises and hopefully, more responsible enterprises from a pricing and risk-taking point of view. So in -- all in all, I think, I view that as positive. There will be less, what I would call, desperate competitors doing things that -- they can be extremely competitive in the market. So on the size question, I don't -- if you're a tiny company, you might have disadvantages. But I don't know if $5 billion or $10 billion is the new norm. As far as we're concerned, it's quality that we're looking for, not size. Quality in underwriting talent and ability, and not size. We have enough size as a company. Our market cap is approaching $8 billion. We have over $7 billion of net capital. And for that reason, we're more focused to do things that make sense for Arch and our shareholders rather than focusing what size our company is.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, great. And then on mortgage insurance. Could you update us on your long-term outlook for that business? Is it still reasonable to think it could be 15% of your earnings in 5 years, particularly, given some of your comments around some increased competition in particular lines?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Your first question. Yes, I think it can be 15%, even maybe 20%. Don't forget, we have a global mortgage business. It's not just the U.S. primary MI, there is the risk-sharing transactions that are coming from the GSEs. And as I mentioned in my prepared remarks, they're allocating a larger portion of that to the insurance, reinsurance market instead of just the capital market. And also, they're increasing their purchasing. These are -- a lot of these transactions there -- they are protection that Fannie and Freddie buys for their -- the 60 to 80 LTV loans who don't require, by law, to have mortgage insurance. In addition to that, our penetration with the bank channel, even though it's been extremely good, I -- we have signed 19 out of the top 25. But it takes time to start receiving and underwriting and binding that insurance with these channels. And we are more optimistic today than I was 1 year ago that not only the business is still very good, despite some competition in one tiny segment of the business, it's-- the upfront-paid single premium is not a huge part of the business, a significant part, but if there is competition there, we don't need to underwrite business that doesn't fit our return characteristics. And we go to other places. But, overall, I am very optimistic about what we have told our investors about the prospects of the mortgage business for Arch, it will be a significant part of our business, even though it will take a few years to get to steady state.

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple of more quick ones on the MI business. Can you tell us what percentage or what's the breakdown of the U.S. MI insurance in-force that's either -- that's single premium versus the typical monthly business?

Constantine P. Iordanou
Chairman and Chief Executive Officer

I don't have that number on top of my head, but -- Mark, can you get the number and then we'll give it to. Our guys in Walnut Creek will know that in 1.5 seconds. I just don't have it on top of my head.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Yes. We don't have it right in front of us, but we can certainly get it.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. Yes. And I guess when you think about like the base for thinking about your growth in that franchise, I would imagine, is more the monthly business. How should we be thinking about the potential growth of new insurance written from here on? I mean, given some of the master policy developments and some of the other items, just because, aside from just the top line impact, that's obviously going to have an impact on the operating leverage in that segment.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I'll give you a macro answer to it. Everything points to what we originally said to you guys that we expect to be north of 10% market share, and it will take us at least 3 years to get there. And that has not changed in our minds based on what we see. We -- it took us about 3 quarters longer than I thought to close a transaction. So in that sense, we lost at least 6 months, maybe 9 months from our original -- I'm an impatient guy, so I thought things closed a lot faster than they did. But, dealing with a lot of different entities and constituents, it took us longer to close. But I think we're catching up on it because I've been more optimistic as I -- as we have built the sales force. We have about 60 people nationwide. And also, the reception that we have received from the originators in our centering the segment. So 19 out of top 25 is a big accomplishment in almost 5 quarters since we've been in operations. It will take time as those mortgages come, because when you underwrite a mortgage, you do it and then you wait for all that premium to come and it comes over the next 6, 7 years. And that's why you see there is a little pressure on us now on the expense ratio and -- but at the end, all the business we write is good business. We like the return characteristics of it and we're patient with it because that's the nature of the business.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Great.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Yes. I would just add to that, that outlook is dependent on the view and what emerges on the macroeconomic front, on construction building and new housing starts and originations and where that trajectory goes, but you asked, kind of, a general question as well on macro. So about recent developments, one of which would be the FHA pricing, for example. And that may not be negative for the industry -- I mean, that's overwhelmingly focused it as a -- in a differential sense, really, in lower FICO and higher LTV quadrants, if you will; which is more traditionally the FHA wheelhouse, anyway

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Fair. And then just -- when thinking about the insurance segment and, kind of, the growth that we saw in 2014 is impacted by -- I think it was impacted by the SPARTA renewal rates still in the second quarter -- which is not a trivial amount -- how should we think about that? Should we be sort of peeling that out as we look forward? Or should we be assuming that continues to be part of the premium base in 4 years? In -- on that same note, how should we be thinking about premium trends excluding that transaction on a forward basis?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, on the -- on SPARTA, and those kinds of captive [ph] deals. I think you should be viewing that as resident and, therefore, inclusive on your view. On your relative comparisons, you have to control for it because it explains a lot of the differences. But remember, there's not a lot of big nets on those deals, because of the way it was structured; where you write and you cede the bottom rather than traditionally ceding the top on -- actually just ceding the bottoms. So the premium stick to the ribs is 22%, 25%, 27%, things of that nature. So I -- so the short answer is you should continue to view that, I think, as resident within the book of business going forward. Your second point, refresh me.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just -- so we back that out and we think about the remainder of the book. How should we think about -- are we thinking about an 8% to 10% sort of trajectory on that -- on the remaining business? Is that sustainable? I mean, are you seeing enough business where you can continue to run that?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, Michael, as you know, we never give forward guidance on these things. However, the part of a premium growth attributable to rate growth, as I commented on, third-party lines, continue to still have traction there. It's challenging in property, which is why you see, really across the enterprise, property volume, traditionally [ph] property cat volume dropping, really on both sides of the coin. So it's going to be a function of what we can do on our mix. I think we -- that demonstrated we do a pretty good job of shifting and managing it. So -- but in terms of what the markets give us, that's what we react to, so I really can't and I don't think I'm equipped to tell you whether it would be 8% or 7% going forward.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Our principal here is to underwrite business that meet return characteristics. And we don't spend a lot of time thinking about, "Oh, we got to grow by 5% or 10% or shrink by 5% or 10%." It's my old boss says, "Mr. Market is Mr. Market." And he will tell us what it is, hopefully, we'll make good decisions in operating in that market. So not knowing where rates are going to go, not knowing what competition might heat up or ease, you got all these transactions; the M&A activity, usually in our business, 1 plus 1 never equals 2. They're going to be slices of bread and bread crumbs falling off the table. We'll be there to pick it up. We're not bashful. I -- that's how I grew up. I was eating bread crumbs when I grew up. So at the end of the day, it's a hard question because we really don't focus on it. But I can tell you we still like the primary insurance business. Yes, the market is more competitive. I don't think we lost ground as you saw between the third and fourth quarter, just a little bit on our first quarter numbers are [ph] on in, but I get monthly reports and our first quarter was not as projected to be disappointing as some people were predicting. It just happened as we thought it was going to happen. So you can cook all that and come up with your own projection. And if you allow me, I have that number for you guys on the split between -- on the MI business. The single premium volume for the industry is about 13% of the total. So 87% is monthlies and about 13% is upfront single premium.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And that's for the industry or for your...

Constantine P. Iordanou

Chairman and Chief Executive Officer

For the industry. For the industry, yes. We do little in the single-premium sector. As I said, we reduced significantly in the fourth quarter because of the competitive pressures.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Great.

Constantine P. Iordanou
Chairman and Chief Executive Officer

But it's only 13% of the business in general. Right.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

And Michael, before we leave that point, I just -- one thing you can pretty much think about is that -- and we've been harping on this for a while, back to your insurance group question, is that continued emphasis on mix towards smaller-account, low-limit business where you have more strength of price and strength of terms of conditions is likely to continue. And if the continued high-capacity commodity business continues in its current pace, that will continue to shrink.

Operator

Your next question comes from Vinay Misquith from Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question, Dinos, if you recall whether you mentioned about the January 1 renewals, as to how you guys did?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, I was making a comment that January 1 renewals, we didn't see a significant change with the numbers that we mentioned. Long-tail lines, rate increases in the 2% to 4% range and property continue to be losing ground in the 5% to 10% range. We reduced significantly on the reinsurance property, property cat, you saw our PMLs go down significantly. Volume-wise, I think we did okay. Lost some volume here and there, we got some new business. But it's too early. It's only -- we're not -- because of our insurance group and also our reinsurance group of participating in a lot of these small enterprises, so to speak, looking to underwrite the same kind of business our insurance group underwrites, our business is more spread throughout the year and is not heavy January 1. But I was not disappointed with January 1.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. But modestly, down will be -- I mean, normal for us to expect, correct?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, yes.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. The second question is on the reinsurance margins. I mean, the actions [ph] there -- combines have been coming in very strong. So is that because of now business mix as a Tower's [ph] transaction end some of the higher losses should transaction go away? And so, should we be looking at the last 2 quarters' average as the base for the future?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, the improvement, as you mentioned, in the fourth quarter is clearly a function of mix. It's -- we have a lot of transactions that can come through that can weight it one direction or the other. So it's kind of hard to say whether the average of the last 2 is representative, because that would exclude one one [ph] business because that's only the second half of last year. But it's going to fluctuate, and it's going to be a function of mix. What I can tell you is that the ultimate projections of the same line of business in those 2 quarters really didn't change. It was simply the mixture of them that changed to wait down -- the fourth quarter to be lower than the prior quarter.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. And the Mortgage Insurance business, the pickup in the expense ratio, do you expect the dollars' worth of expenses to stay at these levels for next year as for '15?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. As a matter fact, we expect expenses to be coming down as we're building the book. Also, we had an unusual expense for this quarter on one transaction. We had a reinsurance transaction in the mortgage space that we bound the seed and had an option to terminate, and then we negotiated that option away. And it comes in as additional...

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Acquisition.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Acquisition expense in that negotiation. So it's business that we like. It's business that will be very profitable for us. But in the quarter that you do the transaction, you take the hit on the expenses. So you're putting the expenses upfront and then you're going to run the premiums over the next 6, 7 years.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

So likely nonrecurrent.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. Okay, that's helpful. And just one -- so 50,000 foot the question, Dinos, there has been a transaction that was announced recently sort of take under of a larger reinsurer. Curious as to your thoughts as to why Arch would have not been involved in that transaction at a lower valuation?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I mean, we don't usually sit there or worry about who is going to show us a transaction or not. That transaction, it was negotiated by 2 parties. We had no knowledge of it. For whatever reason, they didn't think we can be an attractive partner. But I think you ought to ask them as to why they didn't approach us. But all I can tell you is that we were not approached.

Operator

Your next question comes from the line of Ian Gutterman from Balyasny Asset Management.

Ian Gutterman
Balyasny Asset Management L.P.

So my first real question is, Mark, I thought I heard you say earlier, I just want to make sure I heard it right that you're able to get insurance the kind of treatment going forward on used GSE reinsurance [ph] deals, is that correct?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

The feeling is that, that is sooner than later. There's still details and finality to be worked out. But all antenna -- vibrating antenna tell us that, that is probably going to be a 2015 event.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, got it...

Constantine P. Iordanou
Chairman and Chief Executive Officer

2015 and not end of 2015, probably this quarter, late of second quarter. They're reworking the contracts to allow us to have insurance accounting on those contracts on a prospective basis.

Ian Gutterman
Balyasny Asset Management L.P.

Right. Right, on a prospective. So related to that is, I wonder -- I guess I'm trying to piece things together here. It looks like you started a new subsidiary: Arch Mortgage Guarantee. That seems like it's designed for these transactions, is that correct that what the purposes of that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, it's designed to have flexibility, mostly to write mortgage insurance that they come from originators, banks and others that might not really require by law to have mortgage insurance attached to them. These might be jumbo loans. They might be other transactions. But the goal is to use that entity to provide more product and more flexibility in our toolkit for what we do for all those originators.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

And some of the rationale that could be, it sounds like it's packaged in a sense, on conforming loans for the GSE, this is stuff where the banks are having native capital requirements where we could provide some value.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay. I was wondering if there's a confluence of you feeling the need to set up this subsidiary where it was sort of an indicator of faster growth potential in that area, and maybe the accounting as well as an indicator that [indiscernible] being made on doing more of these type of deals.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I mean, these buyers are going to be more sophisticated. I think credit risk is an issue. That entity has the highest credit rating in the business. And when sophisticated buyers of the product, when they're buying protection for maybe their jumbo loans that they're not going to sell to the GSEs, et cetera, that will make a difference. So that's the avenue that we chose to go down to show the strength of the group in obtaining an entity that it has a high financial rating that it will make a difference for sophisticated buyers of the product.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Interesting. And then my other question...

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Ian, one other quick thing. I think one takeaway you should take -- you should have with that whole insurance accounting thing is, I think it shows the level of desire and commitment on behalf of the GSEs towards the insurance and reinsurance sector that they're willing to invest the time and effort to -- and been listening to the preferences of the industry to have insurance accounting. And I mean, they wouldn't go through all of this effort and time commitment if they didn't view us as a longer-term partner.

Ian Gutterman
Balyasny Asset Management L.P.

Well, that's kind of where I was going at, so that's good to hear. And then just my other question, switching gears, was there a release within reinsurance? Obviously, I think you expressed a lot of comfort with reserves. But just it was interesting to me: The last 2 years have been your highest years of reserve releases, at least dollar-wise, I think in the history of the reinsurance company. And I guess I found it a little surprising just because we think of the fat years being sort of the first 5 years of the company's formation and the last 5 years maybe being still very good, but not as good. So is there any more color you can give us as far as...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, the only thing I can tell you, Ian, is that we have not changed methodologies, and we feel as confident about our reserve -- our aggregate reserve position today as we felt a year ago, 2 years ago, 3 years ago. So we let the numbers speak for themselves. I got a lot of plans [ph] in this company. I think, pretty soon, I'll be worried that they're going to fire me because I'm the only guy who doesn't have an actuarial degree in the senior management. Grandisson, Papadopoulo, Mark Lyons -- oh yes, Dave and I were the 2 orphans without the actuarial degree, everybody else has one.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

But Dave doesn't have an aeronautical engineering degree.

Ian Gutterman
Balyasny Asset Management L.P.

I guess what I'm wondering is, has the partnerships, [ph] maybe just going back a few years ago, is mostly, save '02 to '08 years, has it shifted to where those have kind of ran out of juice, and now it's the '08 to '11? Or is there sort of classic-carved [ph] markets still releasing a lot and just the more in recent years of top of it are reaching new heights? Or I'm just trying to get a sense of sort of an...

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

I think -- it's a reinsurance question. I think we commented this on prior quarters, and you asked a full year question. The complexion of the releases on both the U.S.-based reinsurance operation and Bermuda-based reinsurance operation has been towards looking hard at the longer-tailed lines from the earlier years. Going back to 2010, 2011, 2012, they were dominant by short-tailed lines and medium-tailed lines. Is longer tails enough for an insurance carrier, let alone, a reinsurance carrier with the late reporting and excess of loss contracts and things of that nature. You got to wait longer. And now that we have waited longer, you're starting to see some of this come down because the evidence is much more clear cut.

Operator

Your next question comes from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

But Dinos, before I let you go for so lucky lunch, I have 3 questions. Number one is on capital management. So you said that there's less deals out there attractive, and also your PML at a very low level that your stock actually trading at upper end, 1.3x, where you typically would like to buy below that. So how do you sort of -- where do you saw process here in terms of return to shareholders?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, we'll look for deals if they make sense for us. We will look -- we still believe that share buybacks is an option. And we also have the ability to do an extraordinary dividend if we chose to release some of the excess capital. To tell you the truth, right now, based on the -- I wouldn't call it turmoil, but based on the heated activity, I'll wait to see what -- I can't predict what is -- what might or might not come our way that makes sense for us. And patience has been a virtue in this company and we continue to have patience. Believe me, we're cognizant that the money is not ours, it's shareholders', and we got to find ways to get it back to them if we have excess. But also, we got to be prudent, that's why we have a conservative balance sheet with plenty of financial flexibility. We have excess capital. If the right deal comes along that is helpful to creating value for our shareholders, we'll look at it. If not, we'll look at share repurchases. And if we think that's expensive, then we'll look at extraordinary dividends.

Kai Pan
Morgan Stanley, Research Division

That's great. Second question on the January renewals, some argue that if the larger reinsurer actually have favorable pricing and terms of conditions, do you see that in the transaction you see?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, I think the larger reinsurers, and it's not just larger, it's also the financial strength rating, we'll get a look at the business and maybe get better signed lines. Occasionally, there might be private transactions that they might get preferential terms, but then they're not preview to anybody. Like when we do a private transaction, we don't go out and tell everybody what terms we got. And likewise, when others do private transactions, they don't go advertising them. So -- but I do believe those occasionally happen in the business. If you come with significant capacity and willingness to move quickly and do large deals, you will do it. That was the case with us with F. Magee [ph]: One big transaction we did. It was just us, nobody else. And I felt we got pretty good terms. So Berkshire does that. Swiss and Munich do that, and they have their private deals. But I'm not privy to it, so I can't comment.

Kai Pan
Morgan Stanley, Research Division

Great. My last question, actually, circling back to the merger and acquisition topic. You said strategically, you probably have the size to compete in the marketplace. But given where your stock is trading at versus some of your peers, would you be willing to consider, for financial reasons, to be accretive to shareholder, basically, more on a financial basis?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, we don't like to do just purely financial transactions because in the long run, that doesn't create a lot of value. What creates a lot of value is, what are your purchasing? The talent you're going to purchase, the ability to deploy that talent, to write more business over the next 5 to 10 years. In my view, it's not just what investment banks -- they come with their little books and they say, oh, this is accretive and all that. To me, that's financial engineering and gobbledygook. At the end of the day, what am I buying? Am I buying something that is going to create value over the long run? Or I'm just going to get bogged down for 2 years in trying to get synergies, and I've tried to do this and that, and then my business is -- and the profitability of that business has gone south. It's a lot of characteristics you got to look at. That's why whom you buy, how you buy, beyond the financials, how the 2 organizations can mesh together, and believe me, I'm not a fool. I know any transaction, even if we do it with somebody else, you got to be prepared to say 1 plus 1 is not going to be 2. It's going to be something less than that, but potentially can be 2.5 and 3, 5 years from today. And if I can see that, that's a transaction I'm going to do, because at the end of the day, that's transformative and it allows us to grow the business and create value for shareholders, and you can't look at it just from the financial engineering point of view. Maybe I'm naïve, but that's the way my brain works and I'm -- at 65, I'm not going to change it, right?

Operator

Your next question comes from the line of Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Dinos, both in 2005 and 2011, arguably, you earned your cost equity capital on those years, whereas most companies in your peer group lost money. Given that you're in a year like 2014, you're running an 11% ROE, what do you think Arch's results look like in a heavy, heavy catastrophe year? And what do you think happens to the peer group? Are your competitors taking risk right now that will make opportunities for Arch in the future?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, it's hard to talk about the competitors because I don't know what they're doing with their portfolios. I mean, I can talk about mine. I can tell you on a heavy cat year, our losses, they're going to be much more manageable because our PMLs have come down. I'm not so sure all of my competitors -- they haven't done similar things we have. I think some of them who've been in the business for a long time, and the good underwriters, they have utilized what's available in the marketplace because there is a new -- a lot of new capital that came in that particular sector, the property cat sector. And there, it's purely an opinion. If you think that you'll be positively arbitraging and you're going to improve your book, you're going to buy protection because you think that the economics are favorable to you. But you got to be cognizant. I mean in years you buy production, sometimes you look like a fool too because if there is no cats, any price is a good price for those who sell it. On the other hand, as Warren Buffett says, "You don't really know who is naked until the tide goes out." And in our business, the tide goes out when you have a super cat. And let's face it, Florida has been quiet now since Wilma. Wilma was 2005. I would never have predicted that we would have 10 years of no cat activity in Florida.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, the one thing we could say, and it's not forward-looking, but it's looking backwards and making your judgments from there. Your '05, '08 and 2011 years, because of the way cat is underwritten here and managed here, they were partial earning events for us. There was never any capital impairment issues. That's the first thing. Second thing, as you heard Dinos' report, that in the current environment, we have our all-time lowest PML relative to equity. So we're shrinking it. We show -- we've demonstratively shown that in tough cat years, which is out of your question, if something really happens, we performed, I think, better than most peer groups because of that. But that's looking backwards, not forward. But I think it's instructive. Hey, Josh, are you still there?

Joshua David Shanker

Deutsche Bank AG, Research Division

Yes, I'm here.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Yes. Just one thing, because I want you to know that we have a new exhibit in our financial supplements that we are calling the Shanker exhibit, that deals with our effective tax rate, because you are one of the guys that drummed that up last quarter, given Watford. So if you go back and look at Page 31 of the supplement, it uses all information on the segment of Page 11 of the supplement, where it starts with something you know, which is Arch's core operations and rather than starting with consolidated with Watford in it. It starts with Arch's core operations and layers on top of that the Watford contribution, so you can see how the effective tax rate is calculated.

Constantine P. Iordanou
Chairman and Chief Executive Officer

So Josh, we couldn't name a street after you, so we did the next best thing. We gave a page after you.

Operator

Your next question comes from the line of Charles Sebaski from BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I have a question about the -- one on the insurance business and the E&S line. Curious how much of the growth is due to the contract binding business, and what effect that business has on ROE versus combined ratio within the insurance segment?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Okay, good question. First off, within the E&S casualty section, all of it is attributable to the contract binding operation. And when you compare 4Q to 4Q, that premium virtually doubled, just a little shy of doubling. So I think that gives you the magnitude and the contribution in that line. This is stable book of business. It's got a high renewal rate or persistency attached to it. It's lesser volatility. Some of the growth, though, was due to some broadening. The limits may go up to $5 million where it may have been a lot of 1s and 3s. It's got some broadness, it has some non-cat property in it, non-cat property. So it's a more rich, fuller offering. And it's also reducing, at the same time, some of the contract exposure that they originally started with. So I think it helps the volatility. It accounts for virtually all of the growth in the E&S line. And I think it will act -- operate as a baluster, a dampening on the volatility of the other lines that the insurance group writes.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Does that run, though, at a higher steady-state combined ratio because of that lack of volatility? I guess what I'm trying to understand is, as that grows, the effect on the accident year combined ratio is going forward, should increase that at the same kind of ROE contribution?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, what normally happens in a business of that type, it usually gets a little more expensive to acquire it, so the act [ph] is higher and the loss ratio is lower on average than similar businesses. Because it's new to us, we're -- I think we're a little more conservative, so we're booking it at a level that time will tell what it is. So I think over time, it will perform better than where it's booked at this time. But as a general rule, it's a lower loss ratio at a higher acquisition ratio.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And then on the reinsurance side, the growth in Asia Pacific in the quarter gives us -- curious about what's the business line writing there? And is there any kind of change? Most of the PMLs on the U.S. basis, if there's any kind of PML pickup with Asia, Japan.

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's just a little bit of cat business, but we don't have big operations in Asia Pacific. It's miniscule of what we do.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. I thought in the quarter, on a premium-written basis, that it's picked up here somewhat to $70 million relative to $25 million last year. Just -- relative to what the quarter is, that seemed like a big piece of it.

Constantine P. Iordanou
Chairman and Chief Executive Officer

That was the adjustment of us buying Gulf Re 100%. So it's a one-time event, and we bought the 50% we didn't own. And -- but you're going to the purchase accounting, and that's what it's all about. It's no change in anything that we do. And because Gulf Re is in the Middle East, all that is in the Asia Pacific region.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

And in rough terms, think of that as roughly $52 million of impact in the quarter on a net-written basis. That was that influx that Dinos had talked about.

Operator

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

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

Two really quick questions. One, in general, is the pricing level at Gulf Re comparable with legacy Arch?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, I think our issue with Gulf Re, it was -- and that's the reason we bought 100% of it, is that it requires high limits to operate. They write a lot of pegged risk accounts. And for a small company who has $50 million, $60 million in revenue, the purchase of reinsurance, it was totally disadvantageous to us. In essence, we paid a lot of money to reinsurance with 0 recoveries over the years. And finally, we convinced to restructure to our other partners, which we respect a lot, because then now, we can use our purchasing within Arch from a much bigger block of business so the reinsurance cost is going to be down significantly. Gulf Re, when you look at our net results, they're not -- not anything to write home about, but the gross results, they weren't bad. So -- and I'm not there to be producing for the reinsurance market. So as a standalone, it didn't make sense. It didn't grow to a size that they can leverage the kind of capacity they need to have and buy cheaply. There were buying excessive of loss, and believe me, we had tiny recoveries, and over the years, we paid a lot of premium for that, and we have the ability to restructure. Also, I think they we're trying to do more quota share contracts where sometimes, it makes sense to me, excess of loss. But in a company that you're trying to build volume, you're looking for quota share, and then even though the excess of loss might be a better structure and you can make more money, it doesn't show a significant premium. So for that reason, we have made the changes. We sent -- before we did the purchasing of 100% of the unit, we sent out teams and we looked at every single account they underwrote, et cetera, and now they're coming under our underwriting authority and guidance with the same auditing teams that we have. So they've become kind of a branch of ours in the Middle East. But the business we like, we got to structure the reinsurance in a much better form than we used to.

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

Okay. That's very helpful. And then very quickly, Mark, you mentioned that there were some investment in platforms in insurance and reinsurance. Is that spend going to continue in the near term?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

The ones that have been done on the A&H platform and some expansion and other distribution in A&H and the contract binding and so forth, if we find the opportunities analogous to what we did with contract binding, yes, that will happen. Whether it's in the U.S. or in other parts of the world. So it's hard to say, but we're always looking. And if we can find a pocket or some individuals with great market following, we're going to pursue those.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes. And you can see from the numbers. I think our life re, accident and health reinsurance team now is, I think, it tripled in size in number of people. And these, to me, they're long-term investments in personnel and capabilities and the premium comes later. So I'm not -- when we find the talent, we're going to hire it, and then we'll look for them to grow the book over time.

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

Okay. I mistook it as a technology expense. That's very helpful.

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, no, no. There was some technology expense, but it was -- no, this is -- maybe when we spoke, we can clean our language. I mean, it's mostly people.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, just to be quick here. So first, Mark, new money yields versus book yields in the investment portfolio, [indiscernible] see some pressure here with where interest rates are?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

I think we're close to rock bottom at this point.

Brian Robert Meredith
UBS Investment Bank, Research Division

All right, so that's near rock bottom. And then the last question, just curious, when you're setting your reserves, your loss picks right now, what kind of loss trend are you kind of assuming? And has that changed much over the last, call it, year and then 3 years?

Constantine P. Iordanou

Chairman and Chief Executive Officer

Yes, it has changed a little bit, I think. We still take the long-term view on trend. We don't just look at the last 3 or 5 years. We do a 10-year study or so forth. And let's face it, trends have been benign now for quite a long time. So that starts coming line by line into our thinking, but it's not something significant. It might be -- I don't know, I'm guessing this because I haven't sat with the actuaries to do a re-up comparison whether our long-term trend was by line of business, 5 years ago versus now. But I think it should be down at least a point, maybe even a little more than that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, great. And then I guess just on that, so near-term trend is obviously lower than kind of what you're putting up with respect to your kind of long-term trend assumptions when you're setting loss picks?

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

Well, yes. I mean, when you look forward, you're making some level of assumption line by line on what loss cost trend, what rate -- effective rate changes you have achieved and what you think you might reasonably achieve.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. All right...

Constantine P. Iordanou
Chairman and Chief Executive Officer

And then the conservatism, Brian, that comes in the way we price business, et cetera, it comes from 2 places. It comes -- we'll view assumptions on trends, are you truthful to it and not jump and say, trend is 0 and negative, some people think in some lines or -- and the other thing is where you -- new money invested, are you using the risk-free rate and you're willing to price your business with 1%, 1.5%, 2% return on new money invested and then see what the projections tell you. So that's where that conservatism comes. Other than that, like everybody else, we knock doors, we're friendly to brokers, we kiss them on both cheeks. We love to see more business and we try to write as much as we can.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer

And Brian, to Dinos' point about a line of business, I mean, just as an example, some products you don't care where it is. Like product liability, it's -- we don't know where the claims are going to be brought versus where they were manufactured, let alone as the durable goods, they could be anywhere. So a national view on that may make more sense. Workers' compensation as the obvious local one: Got to take local indemnity trends into account, local hospital costs, physician trends and things of that nature. Plus, we're only talking about severity, there's frequency and there's really the peer premium that matters on the total loss cost trend. And comp, historically, has been showing decreases in frequency. There was a blip in California, I think, for a year or 2, but it has returned. And generally, our actuaries within the loss rating models and pricing models assume the negatives to be flat. And so as Dinos has pointed, kind of longer-term view of it: It takes in slowly.

Operator

Thank you. And I'd like to turn the call over to Dinos Iordanou for closing remarks.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, thank you, all, for bearing with us. We went a little over time, but it's all right. We -- get overtime pay here. And looking forward to see you next quarter. Have a wonderful day.

Operator

Thank you. Thank you for joining today's conference. This concludes the presentation, and you may now disconnect. Good day.