S&P Global
Market Intelligence

Arch Capital Group Ltd. NasdaqGS:ACGL

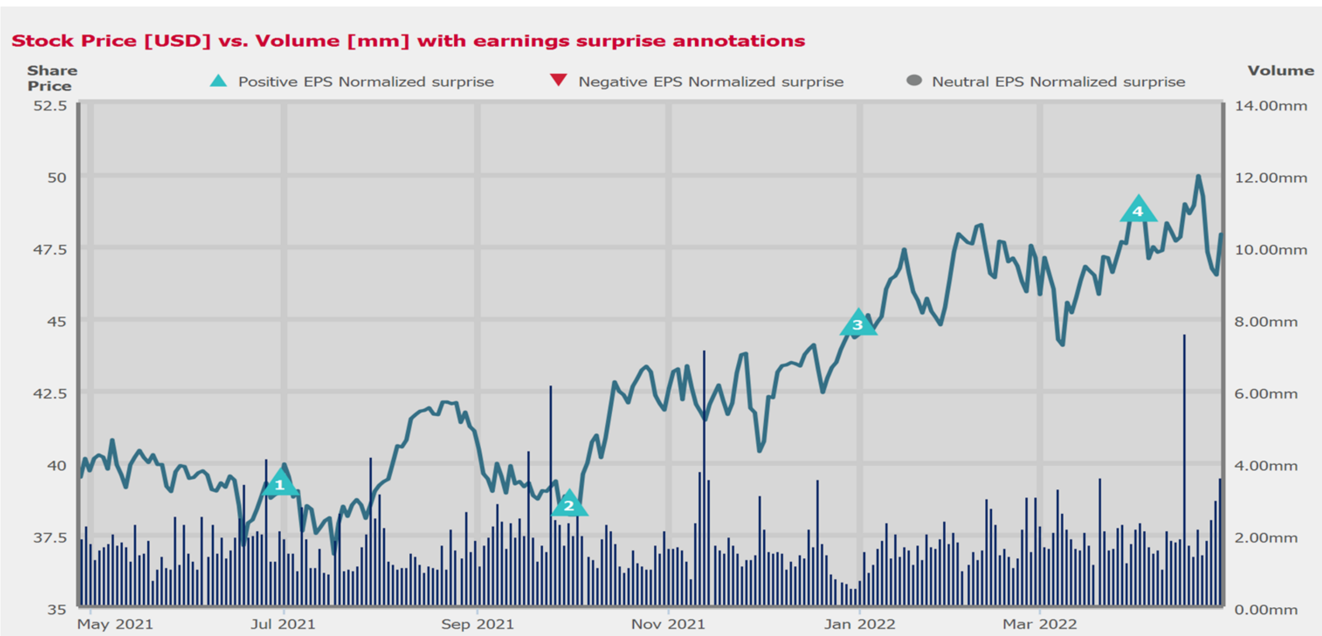
FQ1 2022 Earnings Call Transcripts

Thursday, April 28, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.07	1.10	▲2.80	1.12	4.36	NA
Revenue (mm)	2805.64	2634.14	▼(6.11 %)	2593.00	10013.67	NA

Currency: USD
Consensus as of Apr-28-2022 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	0.84	1.00	▲1 19.05 %
FQ3 2021	0.35	0.74	▲2 111.43 %
FQ4 2021	1.00	1.27	▲3 27.00 %
FQ1 2022	1.07	1.10	▲4 2.80 %

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Call Participants

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2022 Arch Capital Group Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

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

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

I would now like to introduce your host for today's conference, Mr. Marc Grandisson and Mr. Francois Morin. Sirs, you may begin.

Marc Grandisson
CEO & Director

Thank you very much. Good morning, and welcome to Arch's earnings call for the first quarter of 2022. Arch delivered a strong first quarter as our dynamic capital allocation and cycle management strategy, combined with strong underwriting skills, delivered a 13.6% annualized operating ROE.

This past quarter provided yet another reminder that we live in a world of uncertainty. The war in Ukraine has affected countless lives and initiated a humanitarian crisis that is still unfolding. And the pandemic continues now into year 3. In addition to the war in Ukraine, global inflation and supply chain issues pushed interest rates up, which, in turn, led to investment markdowns in the quarter.

In spite of these headwinds for our industry, we demonstrated the effectiveness of our diversified platform as, one, we grew a premium above market average again; two, repurchased 5.6 million shares; and three, generated a strong operating ROE. Our objective remains, as always, to deliver long-term value for our shareholders using all the levers available to us.

The underlying fundamentals of our businesses continue to improve as we benefit from better market conditions in the P&C industry and execute our cycle management strategy where we actively allocate capital to the most attractive sectors of our business.

Our P&C operations generated $2.3 billion of net written premium in the quarter, which represents an increase of 18% from the same quarter in 2021 and speaks to our confidence in the improving underwriting conditions in our P&C operations.

Mortgage insurance contributed substantial underwriting profit in the quarter and insurance in-force grew modestly again, highlighting that mortgage remains a positive differentiator of our business model.

Now inflation is top of mind for everyone in the P&C industry, which to its credit, has historically been adept at adequately respond to inflation trends. Inflation is not a new phenomenon. And in fact, it permeates discussions in evaluating claims all the time in an insurance company. As such, our focus is always on proactively incorporating new data into our reserving and pricing. We believe that this focus, in addition to increased future investment returns and reserving prudently, will help mitigate inflation's impact. As far as our mortgage business is concerned, inflation mainly has a positive effect as it increases homeowner equity, which again, mitigates potential losses.

I'll now share a few highlights from our segments. Across most lines, our P&C units remain in a growth phase of the underwriting cycle, according to Paul Ingrey's Insurance Clock. In the quarter, our P&C net premium earned grew by 25% over the first quarter of 2021 as we continue to earn in the rate increases of the past 24 months. Our data indicates that we are still experiencing average rate increases in excess of expected loss cost.

In specialty insurance, underwriting conditions remain very good as pricing discipline, terms and conditions and limits management are stable across most markets. This stability, combined with the uncertainties I mentioned at the beginning of this call, should help keep the market discipline and sustain rate increases.

Our specialty business in Lloyd's and our U.K. regional business delivered strong growth in the quarter, as our European insurance operations now represent 30% of Arch Insurance's total net written premium, up from 20% pre-pandemic. We are pleased to see the positive results of the investments we made into this platform prior to 2020.

We also created meaningful growth across our U.S. operations in the quarter, primarily in professional liability, including cyber, as well as travel where we believe relative returns are attractive. On the reinsurance side of our business, the emphasis remains on quota share treaties over excess of loss reinsurance. This allows Arch to participate in the rate increases on primary insurance while improving the balance between the risk and the return. Overall, in our reinsurance group, growth opportunities remain strong.

Since it's been a talking point on prior calls, it's worth noting that although property cat rates have improved in response to elevated loss activity in the past few years, we have remained disciplined and have not allocated material additional capital to this line as we maintain our review that other lines of business have better risk-adjusted returns.

Turning now to the mortgage segment, which once again delivered excellent underwriting results as we continue to benefit from strong housing demand and excellent credit conditions. Delinquency rates on our MI portfolio continue to trend to historically low levels and cures on delinquent mortgages in our portfolio resulted in favorable prior development in the quarter.

The increase in mortgage interest rates currently at 5% for 30-year fixed rate mortgages, is a steeper rise than we have seen in decades. These higher rates have dramatically curtailed refinancing. However, our MI business is far more geared to the purchase market, which continues to benefit from strong demand and limited housing supply. Of note, the decline in refinancing activity improves persistency, which in turn should improve returns on our in-force portfolio.

While the rise in mortgage rates may ultimately cool demand and slow the rapid home price appreciation of the last year, so far, we have yet to see demand weaken. And we expect home prices to continue to rise, albeit at a slower pace. Again, as mentioned earlier, rising home prices increase equity for homeowners, which ultimately reduces the risk of claim in mortgage insurance.

So our perspective is that this expected future equity buildup and the strong credit profiles of borrowers should strengthen the resilience of our in-force mortgage portfolio. Moving forward, our diversified platform and cycle management philosophy will enable our MI team to continue to make measured responsible decisions with our capital. Our MI group has the flexibility to grow or moderate the business they choose to write based on their view of market conditions.

A few brief notes on investments, where net investment income was down from last quarter as we reduced risk positions, primarily equities, given increasing market volatility. Rising interest rates also caused mark-to-market losses in the quarter. However, the relatively short duration of our investment portfolio as well as our healthy cash flow will naturally allow us to reinvest at higher interest rates which should be reflected in future quarters.

In closing, even with current uncertainties, opportunities exist. In the quarter, Arch was able to deliver strong results with positive growth across its businesses. And we're well positioned to sustain our growth trajectory in this favorable P&C market. We've consistently demonstrated our ability to allocate capital effectively to the areas of our business with the most attractive returns. As you know, with Arch, we are constantly looking for and seizing the opportunities that offer the best returns for our shareholders. Francois?

Francois Morin
Executive VP, CFO & Treasurer

Thank you, Marc, and good morning to all. Thanks for joining us today. As Marc shared earlier, our P&C units remained on their path of underlying margin improvement while the mortgage group delivered another quarter of strong underlying performance, which was supplemented by solid cure activity in their insured loan portfolio. Overall, our results translated into an after-tax operating income of $1.10 per share for the quarter and an annualized operating return on average common equity of 13.6%.

In the insurance segment, net written premium grew 21.3% over the same quarter 1 year ago. Growth was particularly strong within our professional liability and travel business units, and was achieved both in North America and internationally. Underwriting performance was excellent with an accident quarter combined ratio excluding cats of 90.8%, a 250 basis point improvement over the same quarter 1 year ago.

Similar to last quarter, a change in our business mix as a result of more pronounced growth in lines of business with lower loss ratios helps explain some of the 470 basis point improvement we observed in our underlying loss ratio. This benefit was slightly offset by a higher acquisition expense ratio. Increased contingent commission accruals on profitable business and lower levels of ceded business for lines with higher ceding commission offsets also slightly increased the expense ratio.

As we have said before, our focus remains on improving our expected returns through a variety of levers, and we are encouraged to see that our efforts are paying off for our shareholders.

In the reinsurance segment, it's worth mentioning that reinsurance agreements that were put in place at the time of the closing of the Somers acquisition in the third quarter of last year made comparisons from the current to prior periods imperfect. For example, while our reported growth in net written premium remain solid at 14% on a quarter-over-quarter basis, it would have been 26.6% after adjusting for the Somers' session.

The growth came primarily in our casualty and other specialty lines where rate increases, new business opportunities and growth in existing accounts helped increase the top line. The segment produced an ex-cat accident year combined ratio of 82.7%, an excellent result as we continue to enjoy healthy underwriting conditions in most of the lines we write.

Losses from first quarter catastrophic events net of reinsurance recoverables and reinstatement premiums, stood at $85.8 million or 4.0 combined ratio points compared to 10.5 combined ratio points in the first quarter of 2021. Approximately 2/3 of the estimated losses came from the Russia invasion of Ukraine, with the rest coming from other global natural catastrophe events, including the Australian floods.

Our mortgage segment had an excellent quarter with a combined ratio of 3.1% due in large part to favorable prior year development of $105.6 million. In line with last quarter's results, net premiums earned decreased on a sequential basis due to a combination of higher levels of ceded premiums, a lower level of earnings from single premium policy terminations and reduced U.S. primary mortgage insurance monthly premiums, primarily from recent originations, which remain of excellent credit quality.

Production levels were down slightly from last quarter, but certainly in line with seasonal trends and new purchases and diminishing refinancing opportunities for borrowers. As we have discussed on prior calls, one of the benefits of higher interest rates is an improving persistency rate, which now stands at 66.9% and should continue to increase throughout 2022. Ultimately, higher persistency benefits our insurance in-force and should result in a stable base of premium income to help drive underwriting income for the rest of the year and beyond.

With respect to claim activity, approximately 3/4 of the favorable claims development came from our first lien insured portfolio at USMI as we benefited from better-than-expected cure activity mostly related to the 2020 accident year. The remainder of the favorable development came from recoveries on second lien loans and better-than-expected claim development in our CRT portfolio and our international MI operations. We maintain a prudent approach in setting loss reserves in light of the uncertainty we are facing with borrowers exiting forbearance programs and moratoriums on foreclosures.

Income from operating affiliates stood at $24.5 million and was generated from good results across our various investments, including Coface, Somers Re and Premia. Total investment return for our investment portfolio was a negative 3.07% on a U.S. dollar basis for the quarter, which explains the decrease in our book value per share to $32.18 at March 31, down 4.1% in the quarter. The decrease was primarily due to the mark-to-market impact for our available-for-sale fixed maturities portfolio, resulting in a $1.55 hit to our book value per share.

This quarter, the meaningful increase in interest rates and negative returns in the equity markets contributed to the negative total return. As you know, we have maintained a relatively short duration in our investment portfolio for some time, and this strategy helped temper the mark-to-market hit to book value in the first quarter. While still relatively short, we have extended our duration slightly to 2.93 years at the end of the quarter in order to get closer to our duration target.

The change in net investment income this quarter on a sequential basis was mostly due to a lower level of dividends as we shifted out of some equity positions and higher investment expenses related to incentive compensation payments as is normal for us in the first quarter of the year. Going forward, we would expect net investment income to increase over the next few quarters as our portfolio gets reinvested at higher yields.

At the end of the quarter, new money yields were approximately 145 basis points higher than the embedded book yield in our fixed income portfolio. Alternative investments, representing approximately 15% of our total portfolio, returned 1.4% in the quarter. The performance of our alternative investments is generally reported on a 1 quarter lag.

I wanted to spend a brief moment on corporate expenses and what you should expect for the rest of the year. As you know, the first quarter is always elevated relative to the other quarters due to the timing of incentive compensation accruals. This year, you should also slightly -- you should also expect a slightly higher amount in the second quarter, again, due to our accounting policy for noncash compensation for retirement-eligible employees. As a result, we expect corporate expenses to be approximately $25 million in the second quarter before coming down to a level closer to the 2021 amounts for the third and fourth quarters.

Turning briefly to risk management. Our natural cat PML on a net basis stood at $768 million as of April 1 or 6.4% of tangible shareholders' equity, again, well below our internal limits at the single event 1-in-250-year return level. Our peak zone PML is currently the Florida tri-county region.

On the capital front, we repurchased approximately 5.6 million common shares at an aggregate cost of $255 million in the first quarter. Our remaining share repurchase authorization currently stands at 927.2 million.
With these introductory comments, we are now prepared to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So I had a question first just on the expense ratio. And I guess if you could discuss a little bit more. How much of it is just because of a mix shift in the business where some of the lines that entail a higher loss ratio or lower loss ratio but higher expense ratio are growing faster versus incentive comp or other expenses that might sustain through the rest of the year?

Francois Morin
Executive VP, CFO & Treasurer

Well, I think, to me it's -- the way to think about it is to -- I mean, if you want to focus on operating expenses is where all the incentive comp payments or expenses will come through. So that you can easily see our track record the last 12 months where you see in Q1, there is higher and then it levels off of the second through the fourth quarters. So that should give you a good idea of how to project that out. The rest, I would say, I'd like to think of it in combination. In loss and an acquisition to me or -- we can't think of them separately. They have -- they go together, there's offsets. We think about it when we write the business. So ultimately, the way we certainly think about the whole kind of underwriting performance is the combined ratio. And that's how I suggest you maybe think about it.

Marc Grandisson
CEO & Director

I think from a perspective of acquisition expense, I think that the mix has shifted over the last couple of years. So I think I would probably look at the last 1 quarter or 2 quarters as an indication for the future because our mix is shifting in that direction. So it's clearly -- and as a result of that, you see the loss ratio expectations actually coming down, which makes sense based on what Francois mentioned.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then on your cat losses, I think you mentioned that the majority of the cat losses that were booked this quarter were Russia-related. And I'm assuming most of those were IBNR. But if you could give some color on that. And then relatedly, you've in the past indicated what you had in terms of COVID reserves. And I think most of those were IBNR as well. But if you can talk about what you would need to see to be able to start releasing some of those reserves related to COVID.

Francois Morin
Executive VP, CFO & Treasurer

Yes. I'll start with Ukraine. I think Ukraine, again, very early to me, it's somewhat similar to COVID 2 years ago when -- it's still ongoing, right? So we took a fairly, we think, a prudent approach at this point based on what we know. We think we're going to have some losses, but it's all IBNR, right? To the question really, we don't have any claims yet that are certain or we have to set up case reserves for it. It's highly preliminary at this point, and it's based on kind of some assessment of what we think the overall exposure might be. So we think we're in a good place right now, but we're going to have to monitor it and see how it goes in future quarters.

Marc Grandisson
CEO & Director

And I believe our COVID losses, we're about 70% IBNR at this point in time. So it's still not finalized by any means.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And what's the magnitude?

Francois Morin
Executive VP, CFO & Treasurer

Well, our numbers haven't changed. So total reserves, right? So total reserves for COVID is about $160 million and 70% of that is COVID. Sorry, not COVID, IBNR.

Marc Grandisson
CEO & Director

IBNR.

Operator

Our next question comes from Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I recognize that the 10-year anniversary for mortgage insurers setting up their contingency reserves is approaching where these reserves will be released on a first-in first-out basis into unassigned statutory funds. And I believe Arch has about $3.1 billion of such contingency MI reserves. I'm just wondering if this anniversary is of any significance for Arch, like does this orderly reserve relief improve your ordinary statutory dividend capacity or improve your view of capital allocation in any way?

Francois Morin
Executive VP, CFO & Treasurer

First of all, I mean, the fact -- the contingency reserves, no question are a statutory requirement. They're part of our overall way of operating, but I would say they haven't really been a constraint in the sense of how we deploy capital, where we deploy it, their ability to come in and out of market. So I think it's certainly something we watch and are aware of. But I wanted to make sure that everybody understood that it's not -- it hasn't been really caused a major issue for us at this point.

You're correct. The 10 years, though, we're going to start getting closer to our ability to release contiguity reserves. And yes, no question that, that effectively shifts the money from contingent reserves to available surplus to -- and it gives us more ability to declare dividends upstream from the MI companies. That said, we are always looking -- and we've been able to do a little bit of that with the regulators in the last few years to -- on an exception basis and have kind of submitted some plans to them to make it so that we can actually access some of those funds maybe a bit earlier than would have been, I guess, officially the case with the contingency reserves, but we're still -- something that we're constantly working on.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Got it. I'd also like to touch on the negative marks in your investment portfolio. So I noticed in your proxy, your key KPIs like growth in book value per share or ROE, these are metrics that Arch doesn't adjust for unrealized gains or losses while some of your peers do. So my question basically is do these negative marks change your view of deployable capital in any way?

Marc Grandisson
CEO & Director

No, not really. I think that the operating income -- when we look at the operating ROE, it's more of like a run rate as to how our business is performing. Fully recognizing that a lot of the mark-to-market will eventually recover. So it's really the way we've chosen way back in our history to get a better reflection for and how we're performing from a core business perspective, letting the bigger areas of the market volatility find their way over time. That's really our way to be a bit more forward thinking and looking at how we present our returns and our performance.

Operator

Our next question comes from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

If I go back in time about 9 months ago, when I asked you about opportunities you have to deploy capital, we look at it as mortgage insurance, reinsurance, share buybacks, acquisitions. The mortgage issuing pace was hot, and reinsurance is attractive. It still is, but ceding commissions are up now and maybe with where rates are going, mortgage issuance is going to be declining. Does that make insurance and buybacks more attractive on the relative slate of things you can do right now? And what's changed about the ROI in mortgage and reinsurance over the last 6 months?

Marc Grandisson
CEO & Director

Yes. I think over the last year, Josh, a good question. In terms of the rank ordering our opportunities right now, I think you -- that the growth in premium speaks for itself. It's really an indication as where we think the value proposition is for our shareholders. I think that clearly, reinsurance and insurance are close to one another. Our reinsurance team would argue that they have a better return perspective.

We'd like to have these discussions internally. But certainly, the P&C has moved up in the rank in terms of top return. I think MI is a close second. And as you saw on our share repurchase, I mean, it's clearly another way for us to deploy capital that's very attractive for our shareholders. So we have a lot of levers that we can deploy at a point in time. But having said this, our focus right now is really to grow the business because we have so many good opportunities ahead of us.

Joshua David Shanker
BofA Securities, Research Division

And the Ukraine crisis has caused a skepticism about the value of trade credit, which has hurt the valuation of Coface. In terms of your view of the attractiveness of that asset post Ukraine and whether the diminished price is an opportunity, do you have any thoughts there?

Marc Grandisson
CEO & Director

Well, I think, first, the Ukraine and Russia area is not a big portion of what companies such as Coface, would be playing into. So that certainly is a smaller footprint. And a lot of the losses that could have emerged or are emerging, they'll be short tail by and large, right? It's definitely a shorter term, even though we're not out of the woods yet in terms of developing losses broadly, I think on trade credit, I'm confident that our Coface team has a good handle as to what their exposure is.

And I think if I take COVID as an example for how resilient they are, even absence on the government scheme, I think that we like the resilience and the diversification even within Coface themselves, what they provided to the shareholders. So let's just say we're not overly concerned. I mean I think the numbers are going to come today or very recently. I think they'll have way more insight into this. But at this point in time, our expectation is that it's -- it will have an impact on their result, but not the extent that, as always, it seems that the market expects way more downside than actually meets the eye. Because it's a line of business that I believe is largely misunderstood. And the way that Xavier and his team has developed and deployed risk management is underappreciated. I think Coface, they do a very, very good job in risk managing their portfolio.

Joshua David Shanker
BofA Securities, Research Division

And if I can sneak one more in. You said that 75% of COVID reserves are still an IBNR. Is COVID a long tail or a short tail risk? And what would you be waiting for to get better comfort on the use or lack thereof of the IBNR reserves?

Marc Grandisson
CEO & Director

I think on a short and long tail, I would say, yes. So it's both, right? I mean there's a lot of things going on. And I think we certainly saw some of the BI losses, right, Josh, last year or even early, in middle of 2020. I think some of them are being resolved as we speak. I think we're of the mind that this is a big event, things have happened. People are still trying to figure out as they recover into this new market, this new environment. And it's still being thrown into it some inflation and more -- it seems more dislocation.

So I think that we may have things coming through potentially on the liability side of things, eventually. It's hard to know what it's going to look like. But it's clearly, clearly, a lot that we've never faced before. So that's why we will tend to be more prudent at Arch, as you know us. There's a lot more uncertainty than the average loss that we've seen so far in our history.

Francois Morin
Executive VP, CFO & Treasurer

And even the short tail that you would think as short tail coverages are going to be litigated, and that will take time to resolve itself. So I mean, we're keeping an eye on it, but we think it's going to be with us for quite a bit longer.

Operator

Our next question comes from Ryan Tunis with Autonomous.

Marc Grandisson
CEO & Director

Ryan? Are you still there, Ryan? We can't hear you.

Operator

Ryan, you may be on mute.

Ryan James Tunis
Autonomous Research LLP

Do you hear me?

Marc Grandisson
CEO & Director

Ryan?

Ryan James Tunis
Autonomous Research LLP

Yes. You guys got me?

Francois Morin
Executive VP, CFO & Treasurer

Yes, we got you now.

Ryan James Tunis
Autonomous Research LLP

Sorry about that. So yes, I had an MI reserve question. It's not as deep MI as the last one, I don't think. But -- what I was curious about is just like trying to get a feel for how 2020, that year has developed. Obviously, you guys released a lot of reserves from that year this quarter, and maybe it's something I can calculate myself. But yes, what have been the total number of reserve releases on the 20 years since you initially booked it?

Marc Grandisson
CEO & Director

I don't have that number handy with me. It's most of it -- on the ones we just did, there will be most of it. Because most of the delinquencies and there was the largest cohort in April and May of 2020 second quarter. And those are the ones that are obviously coming out for delinquencies and being settled. So most of it is from the 2020 year.

Ryan James Tunis
Autonomous Research LLP

But do you have a sense, I guess, Marc, for like -- I mean if we were to compare what that ultimate is now relative to kind of the years headed into 2020, are we getting to a point where on a fully developed basis that year looks like some of the years? I'm just trying to understand like how much more reserve potential there could be?

Marc Grandisson
CEO & Director

Yes. Well, I have to be careful the way I answer it. I think I would say to you that 2020, '21 may turn out to be more like an average year. There's a good possibility for that to happen. It's still uncertain because we're still going through the forbearance and we are exiting as we speak. It's accelerating really as we speak literally. So I think 2020, '21 will turn out to be much more of average years than we had maybe feared when we talked about it in the second quarter of 2020.

Ryan James Tunis
Autonomous Research LLP

Got it. And then on the P&C side, I guess I might be wrong on this. I don't remember there being quite this much volatility with the acquisition cost. It just seems like something that is kind of ramping, like as you said in the past 2, 3 quarters. Could you just give us like maybe a little bit of a better understanding of why are we seeing more of that now? Is it because of the amount of loss ratio improvement that's going through the business? Is it the way you've structured reinsurance? I'm just kind of trying to kind of quantitatively understand what might have changed.

Marc Grandisson
CEO & Director

It's a good question, and I would just welcome you to Arch's way of cycle management, which is moving and pivoting to where the opportunities are. So it will be probably surprising to you as Francois and I don't really know what kind of acquisition expense we'll have in a one quarter because our team just make the best evaluation possible as to what's ahead of them.

And I think on the reinsurance side, right, we mentioned in our commentary, is that quota share focus, definitely over time will increase the acquisition expense ratio. And on the insurance side, the travel, for instance, right, was really -- it really went down in premium written as you remember, Ryan, in 2020. It's coming back up and that has historically a high expense ratio. We also have some programs, new programs that we've entertained on the insurance side. And those will naturally come up with higher acquisitions.

So I think that it's a really dynamic market. I don't think we've seen that kind of market where we can shuffle around and really pivot and make capital allocation or decision to write more of one or the other. I think you had more of a -- to your point about having more volatility this quarter than ever before is because we had a very stable to, frankly, dove market for about 5 or 6 years, we were defensive. There was really no need for us to shift and we were sort of across the board shifting down our involvement on the P&C side.

Now I think it's way more dynamic, and that's why you have this shift around. So -- but to your question about the loss ratio, the loss ratio itself will find its way naturally, whether we write quota share or excess of loss. So the higher the expense ratio, frankly, the lower you should expect the loss ratio to be. Because it's really a combined ratio game, as we said before. So I understand that it's not easy to pin down, we understand. But it's really due to the cycle management and where we are in this marketplace.

Operator

Our next question comes from Meyer Shields with KBW.

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

I want to start with one underwriting question, and maybe it pertains to what you were just talking about, Marc. We've seen year-over-year written premiums and programs actually go down after some very solid growth in the first 3 quarters of 2021. I was hoping you could talk us through what's going on there?

Francois Morin
Executive VP, CFO & Treasurer

Yes. Matt, there's a bit of noise. I think it's really related to the timing of a renewal of a program and when we onboarded one. So I wouldn't kind of read too much into that, Meyer. I think it's very -- it's a one-off.

Marc Grandisson
CEO & Director

I think the earned premium is a better indicator of the trajectory of where we're going here.

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

Okay. Perfect. That's very helpful. The second question, I'm sorry?

Marc Grandisson
CEO & Director

Go ahead, Meyer.

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

Okay, so you talked a lot and very helpful in terms of the guidance for corporate expenses. Is there the same sort of accrual trend in the individual segments? Because -- I'm asking because of the year-over-year growth in other operating expenses.

Francois Morin
Executive VP, CFO & Treasurer

Well, I mean it's the same general -- I mean the timing is the same. It's just that, obviously, at the corporate -- in the corporate segment or what you see in corporate expenses, it's -- I mean, it's a very -- I mean it's, a, there is, yes, more noncash comp that comes into play, right? And that is , again, more tilted to the first quarter. And it's just -- that's basically all it is. I mean, for the most part, it's just comp and benefits versus the OpEx in the segments has a lot more to it, right? There's systems, there's IT, there's a lot more things that -- so you'll never have that much impact or more -- as much volatility in the segment. But the rules are the same though. I mean, when we have people that become retirement age eligible, it triggers that different kind of accounting or immediate expensing of the noncash comp, and that's part of it.

Related, I think, just the growth in the OpEx dollars, no question that went up. We stay -- I mean, and we look at that. We certainly -- I want to make sure that premium is growing faster. So I think the ratio, as you saw in all the segments, certainly, insurance arrangements went down. And I think that the important message here is that we've been performing well, and we need to pay our people. And our people is basically all we have. We need to retain that talent and that came through in Q1 as we kind of made incentive comp decisions.

Marc Grandisson
CEO & Director

And Meyer, what I would add to this is you can look at that line item either as an expense or as an investment item. So I think from our perspective, we also are investing in our people, as you heard from Francois. And investing in other things, right, that will improve the results over time. And that's -- this is a good time to invest. We have -- it's a growing platform, money is coming in. So it's a good time to invest. So we're really also spending some money to make it more sustainable as a platform.

Operator

Our next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Just a couple of questions. We've already covered a lot of ground. On the Russia-Ukraine losses, what lines of business or products were impacted there? Was it your own trade credit or war or marine whatever?

Marc Grandisson

CEO & Director

Yes. It's the traditional lines you would expect. I think that most of our losses come from our exposure at Lloyd's, either through from the insurance platform or the reinsurance platform. And that's what you would expect, right, because this is where the specialty lines have been underwritten. So either through the Lloyd's of the London [really] operations. So this is where we're expecting it from. [indiscernible] the trade credit is part of the considerations. Again, like I said, so it's also part of that as well. So we look across our lines of business. But I would think London, Lloyd's, aviation, marine war, the classic Lloyd's exposure.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then building on that, you -- I'm just trying to make sure I understand it correctly. To the extent that Coface incurs losses, you're picking those up effectively on a 1-quarter lag basis. So whatever they have, you'll get your proportional share of how those run through in the second quarter and so on going forward, correct?

Francois Morin
Executive VP, CFO & Treasurer

100% correct. Yes.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then the last question, I just wanted to clarify, you made a number of comments related to the investment portfolio. Am I understanding correctly, so you're both extending the duration and getting a higher new money yield on both the reinvestment as well as, I guess, any new money that you're generating?

Francois Morin
Executive VP, CFO & Treasurer

Yes. New money on yield, no question. I mean I mentioned the 145 basis points. That is comparing your embedded book yield on the portfolio at the end of the quarter to what we're currently seeing in the market. And the extent and the duration is really a bit more of a strategic thing. I mean we were short -- I mean, relative to our benchmark, we got a bit closer to the benchmark, just being a bit more of a defensive move, we want to make sure we weren't too far off from the target.

Mark Alan Dwelle
RBC Capital Markets, Research Division

In terms of thinking forward, which will have the greater impact on rising investment income? It will be the -- I would assume it would probably be the higher new money rate more so than the duration extension.

Francois Morin
Executive VP, CFO & Treasurer

Totally. Yes, we -- listen, we don't know how quickly the portfolio will turn over. But certainly, as Marc mentioned, the free cash flow coming in and also how quickly that portfolio will churn or either mature and/or will trade in and out of certain securities, we'll be able to reinvest that. So it will take certainly a few quarters. But as I mentioned, I think we'll start seeing some benefits starting next quarter and by the end of the year, it should be hopefully somewhat measurable and meaningful.

Operator

Our next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

My first question, and maybe it's more of just me rephrasing and making sure I'm thinking about it correctly. Am I to understand that really your focus or your myopic focus is on getting the loss ratio better, and you're kind of agnostic as to whether the expense ratio goes up or down as long as the combined ratio comes down because the loss ratio improves more?

Marc Grandisson
CEO & Director

Yes, I think you're right. I think the combined ratio, which leads to return on equity is what we're focusing on. Yes.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And I should probably be careful with how I phrase this, we talk industry here. At some stage, you expect -- in the cycle, you expect to see some adverse reserve development and then probably followed by some favorable development. I guess where do you see the industry at today? And maybe at what point do you start seeing the reported combined ratio improve and coming more from favorable development as opposed to the accident year loss ratio improving?

Marc Grandisson
CEO & Director

Yes. I can't speak really to the level of reserve in the industry. I mean everybody -- it's like beauty is in the eye of the beholder, right? It's kind of difficult for me to opine on this. I think in terms of earnings versus pricing cycles, I think it's true that the pricing cycle peaks and then the earnings cycle peaks probably a couple, 2 to 3 years after. So I think that historically has been the case. So I would expect earnings to -- if pricing is -- I don't -- I'm not saying it's peaking, but once it's peaked, we should probably have earnings still getting better for a couple of years after that. So we're still very much in the margin improvement still in the market. So it's a tough question to ask as opposed to where right, Yaron, where it's going to come from, prior development or current accident year. So that's a different -- it's probably different also for every company.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Fair. I'd be happy for you to opine on Arch specifically, if you want.

Marc Grandisson
CEO & Director

We're doing pretty good.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. If I could sneak one last one in. So 2/3 of cat losses are related to Russia. Is that true for both the insurance and reinsurance segments?

Francois Morin
Executive VP, CFO & Treasurer

It's a good question. It's -- I mean, directionally, it's about that. Yes. I mean we might have had a bit more -- the non-Ukraine cat losses were mostly reinsurance. So Australian floods is where we can -- we picked that up a bit more from the reinsurance side. But it's -- directionally, it's about -- yes, it's not a big difference.

Operator

Next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of ones here for you. First, Marc, can you talk a little bit about what you think about the opportunities maybe in Florida with the renewal season. It's a lot of turmoil and stuff going on down there.

Marc Grandisson
CEO & Director

Yes. I can only tell you right now what we hear from our team. And what we hear from our teams, and including our colleagues and brokers and friendly brokers out there is this going to be a tough renewal. There's a lot of question marks, a lot of decision that needs to be made. It's too early, Brian, to call what it's going to look like. But people are expecting. I think you may have heard this on other call, a difficult renewal.

There's a lot of things that need to be fixed between the recognition of the litigation that hasn't really stopped as much as we would have wanted. Some of the companies are struggling to even survive, do you get paid your reinstatement. And I understand that the state is also trying to find solution. We probably have an impending discussion from the Department of Insurance as to what they want to do or the direction, what they want to do in Florida. So we're like you, Brian, we're in a wait and see kind of mode. We have -- the one thing I would tell you, which all our shareholders should hear is if there's an opportunity, we have capital to deploy there. We're very bullish.

Brian Robert Meredith
UBS Investment Bank, Research Division

That's what I wanted to know. See if you've got the [indiscernible]. And then, Marc, another one. So a couple of stories out last night and this morning about companies looking to potentially sell themselves. I'm just curious what your thoughts are on M&A, kind of Arch's view with respect to the M&A environment? Is the organic growth opportunity just too good right now to distract yourself from potential M&A opportunities?

Marc Grandisson
CEO & Director

Listen, we're a broadly equal opportunity kind of company, right? We'll look at what can be done and what should be done and what makes sense for the shareholders. We're not looking for transactions necessarily. But our history show that when a transaction come that's accretive to our shareholders, we'll entertain and look at it. We certainly have a look at what's out there, what has been discussed, as you would expect, Brian.

So I think we have probably the best position possible, which is we don't have to do anything. We have plenty of opportunity. And we are in the seat where we can just like wait for the pitch to come to us. So I feel very, very fortunate to be where we are at Arch Capital Group. So we'll look at it. We'll look at the pitch, if we like it we'll swing, if not we'll just let it go by.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, if I look at your insurance segment, it's been 6 quarters in a row where you guys have grown by more than 20%. It seems from your comments you guys are still pretty bullish about opportunities there, even with perhaps a little bit less the price. So Marc, does this feel like an environment where you can continue to see pretty robust levels of growth within your insurance segment for this year and beyond?

Marc Grandisson
CEO & Director

The answer is yes, Elyse. I wonder where you were for the call. The answer is yes. Broadly, it was probably more of a broad market opportunity probably 2 years ago. Now it's refining itself in more certain lines of business. As we mentioned before, some of the programs, we're seeing a better pickup in pricing and property. As we speak right now, it's getting hard again on the heels of failing to get the value right as an industry.

So listen, I think that it's a bit more of an opportunistic. I think we still have though the ability and the willingness to lean in hard if we see opportunities, and we are seeing opportunities, so yes. It's just not as broadly based perhaps as it would have been 2 years ago.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then as we think about some stuff that's come up throughout the call, right, we're dealing with higher inflation. Also higher interest rates that you guys mentioned can be a tailwind on the investment income side. So where would you put the ROE within the P&C business? Where do you think that's running at today when you think about how 2022 could come in? I know you've talked about, right, kind of targeting the double digits in the past. Where do you think things are now?

Marc Grandisson
CEO & Director

I think we can speak for our book of business. I think we expect our ROE on a past year basis, but we write currently to be close to the mid-teens. I mean we're really getting there, inching every -- possibly every quarter since the end of 2019. So yes, this is sort of where we are, Elyse. Yes. pretty much. Was there another part of your question? I want to make sure -- I think you had something else. No?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

No. That was it. And then another one just on buybacks. And I think this came up a little bit earlier when you guys were talking about ROEs in general. I know in the past, we've used some rule of thumbs with book value, right? But you guys, it seems like bought back your stock, right, within range of 1/4 of book in the Q1. I know the shares are a little bit higher today, right. Partially, that's a function of the mark-to-market in the quarter. So obviously, would -- buybacks would depend upon the growth opportunities. But it seems like you guys would still be willing to buy back your stock given the valuation today?

Francois Morin
Executive VP, CFO & Treasurer

I think that's fair. I think -- listen, I mean, again, the multiple is not something we focus, we look at it. But again, I think on the heels of Marc's answer to your earlier question, I think we like our prospects. I mean we think the forward-looking ROEs that we have in front of us are very attractive. We think the stock is priced relatively attractively for us. And depending on what opportunities come our way and how we can deploy the capital, share buybacks are always part of the solution or part of the -- how we deploy our capital.

Operator

Our next question comes from Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I noticed that you increased your reinsurance prop cat writings by 10% this quarter, and I recognize you're underweight on PMLs relative to peers. But still, can you break down how meaningful -- is this growth driven by exposure increases versus rate increases? And if you could just comment about your overall risk appetite or prop cat risk, balancing pricing, inflation and your exposure management.

Francois Morin
Executive VP, CFO & Treasurer

Yes. In terms of -- I mean, appetite, we've been relatively neutral for the recent last few quarters. I mean we haven't grown. I mean this -- again, this is a bit of a slight one-off in terms of the -- you saw the growth in the premium, just the timing of a renewal. We have like a 14-month premium that program that fell in different quarters. So again, I wouldn't read too much into the dollars of growth in the quarter. But we still -- we're still players in the space. We still say and believe that we need to get a bit more to really put the pedal to the metal. And we'll see where it goes.

Marc Grandisson
CEO & Director

Yes. On the cat exposure, Tracy, I think that we look at how we deploy it, right? We could deploy it through cat XL or you could do it through [indiscernible], quota shares or some [marine]. It's coming from many lines of business. And I think that for the last 18 months or 24 months, because of the significant increases in T&C changes, improvements on the property -- in large property, property segment in general, that our deployment of capital from the cat perspective has been more towards quota share reinsurance. And I think that cat XL has been lagging, frankly, in terms of pricing. And we've said that more than once. So I think that -- and again, that's another one that -- the similar answer to the program that I answered to Meyer earlier, which is the earned premium is probably a better indicator of our relative growth or nongrowth, in this case, in the property cat space.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Great. And just one real quick follow-up on actually Elyse's question. I felt like last quarter, you kind of alluded that you could buybacks stock above the 1.3x, just given your view of intrinsic value of your MI business. I don't know if those comments were fully appreciated. I don't know if it's possible, you could flesh out your view of what you think the intrinsic value of your MI book is and how that plays in.

Francois Morin
Executive VP, CFO & Treasurer

Well, it's part of the -- I mean, forward-looking ROE. So no question that we -- there is significant embedded value that's built into the MI book, and we have good visibility on that. We're very bullish on it, and that gives us even more comfort that there's significant value in the stock. So as we think about buybacks, I mean, no question that from our side, it's fully factored in.

Operator

Our next question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Just one follow-up for me, it's back to MI for a second. Trying to marry your earlier comments on the rank order of capital allocation, and you put MI second behind P&C, which obviously makes sense given the fundamentals in the P&C book right now. But if we take that and then look at earlier comments, your opening comments, which were pretty positive on the MI space. I'm trying to figure out how to think about -- any help you can give us on thinking about, I guess, growth for the MI business, given what we saw this quarter, growth over the next year.

Marc Grandisson
CEO & Director

Well, I think we -- it's hard to see from the way we report, but I think the growth, we have a fair amount of growth through the CRT. We also have a very healthy CRT, which is the credit risk transfer program from the GSEs. We also have, as you know, taken on the mortgage company that was owned by Westpac in Australia, so that's also seeing some growth.

In the U.S., I mean, we expect -- I mean we have to remember the production was record for 2020 and 2021. So it's kind of hard to grow from there significantly. So the market itself probably will -- might be decreasing a little bit, so we'll see where it shakes up. Definitely, the refinancing is very, very much -- pretty much behind us because of the mortgage rate increases for last 6 months. So I wouldn't say that new production is because -- by virtue of the size of the market, on the U.S. MI sort of shrinking somewhat from the refinancing perspective.

But what is happening, because of this mortgage rate is increasing, the premium written will be much more stable and actually could increase because of the lack of refinancing precisely, which means the insurance in force will increase, which will give some lift into our ongoing written premium. So even though we may not have a similar production from an NIW perspective, I think that the existing portfolio, I would expect the written premium to go up on a gross basis, definitely at some point, starting probably in the second half of the year, Francois, possibly, yes.

Operator

I'm not showing any further questions. I'd now like to turn the conference back over to Mr. Marc Grandisson for closing remarks.

Marc Grandisson
CEO & Director

Yes. Thanks, everyone, for being here today. Great questions, and we look forward to see and talk to you again in July. Thank you.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect.