S&P Capital IQ

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Arch Capital Group Ltd. NasdaqGS:ACGL

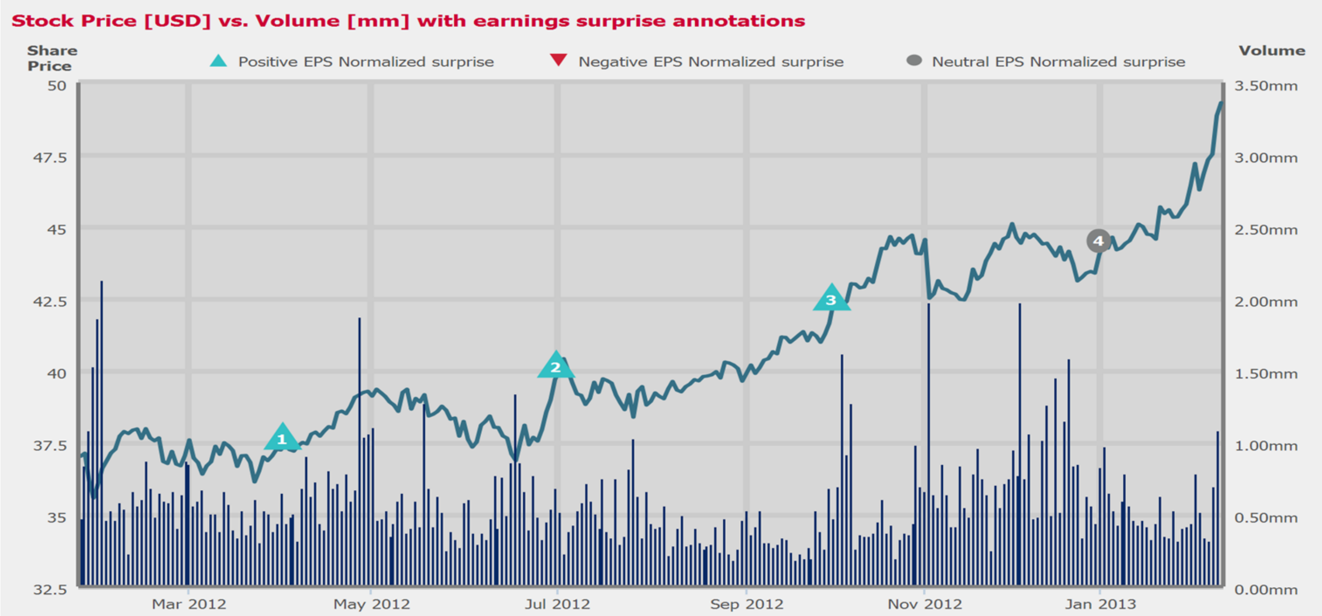
FQ1 2013 Earnings Call Transcripts

Tuesday, April 30, 2013 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.96	1.17	▲21.88	0.85	3.42	3.32
Revenue (mm)	907.38	952.78	▲5.00	878.03	3303.88	3482.07

Currency: USD
Consensus as of Apr-30-2013 1:29 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.72	0.82	▲1 13.89 %
FQ2 2012	0.80	1.02	▲2 27.50 %
FQ3 2012	0.76	0.87	▲3 14.47 %
FQ4 2012	(0.53)	(0.18)	NM

Call Participants

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Chairman and Chief Executive Officer

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

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2013 Arch Capital Group Earnings Conference Call. My name is Allison, and I will be you're operator for today. [Operator Instructions] As a reminder, this call is being recorded for replay purposes.

Before the company gets started with its update, management first wants to 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'd now like to turn the call over to Mr. Dinos Iordanou and Mr. Mark Lyons. Please proceed, gentleman.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Thank you, Allison. Good morning, everyone and thank you for joining us today. We began the year with an excellent first quarter from just about every perspective. Earnings was solid, cat activity was benign, as they say, thank you, God, and premium growth occurred in lines where we can produce attractive ROEs.

On an operating basis, we earned $1.17 per share, which produced an annualized 13.9% return on equity for the first quarter. On a net income basis, we earned $1.85 per share, which corresponds to a 20.4% annualized ROE. This trend of net ROE exceeding operating ROE has changed for Arch since '08, when we began allocating more of our investable assets to alternative investments that, in many cases, need to be accounted under the equity method. If we had made these investments directly and not through third-party fund managers, the yield from these fixed assets -- high-yield income assets would have been accounted as investment income. Over the past 4 years, our annual operating ROE has trailed our net ROE by an average of 5.2%. By comparison, for the '02 to '08 period, operating ROE, on average, exceeded net ROE by 1.9%.

Of course, I want remind you, net income remains more volatile than operating income, as foreign exchange, equity markets and interest rate movements affect market valuation -- market values. However, our shift to alternative investments over the past few years has enabled Arch to enhance total return and book value accretion.

Our reported results in the first quarter were excellent, aided by the lack of cat activity, favorable reserve developments and accident year improvements, as reflected by a combined ratio of 84.6%. Our investment performance was also good, as we achieved a total return of 50 basis points, including the effects of foreign exchange, despite a slight upward movement of interest rates during the quarter.

Our operating cash flow for the quarter was $205 million, an increase of $61 million over a year ago. Our book value per common share increased 4.1% to $37.66 at March 31, and increased by 13% relative to the first quarter of the year ago. The insurance market continues to recover, with noticeable improvements in rates from last quarter.

In our Insurance operations, which gives us a good indication because we have more granular data, we experienced rate increases in the quarter over 300 basis points in excess of loss trend, exceeding last quarter's written margin improvement by 100 bps. These improvements, on a line-by-line basis, ranged from a minus 100 basis points, as some lines still get rate reductions, to as high as a positive 1,600 basis points. The movement of business from the admitted market back to the E&S market is ongoing. This provides us with additional opportunities. And in March of this year, we expanded our underwriting platform in the excess and surplus lines market by starting a binding authority insurance facility that caters to small accounts, written through the wholesale distribution channel. This platform expansion has been in our plans for some time now, but the right combination of available talent and a favorable market environment led us to act now. In our view, on an absolute basis, most long tail casualty business, based on current interest rate environment, still requires more rate improvement to meet our return requirements.

Regarding new versus renewal pricing, our monitoring systems indicate the tales of 2 cities. In certain lines, new business pricing is stronger than renewal pricing. For our book of business, this is true for approximately 1/3 of our product lines. Unfortunately, 2/3 of them, which is the remaining of the book, is still showing weaker new business pricing relative to renewal pricing. As a general premise, as a general rule, the long tail product lines have new business pricing that is weaker than renewal pricing.

On a consolidated basis, gross premiums were up 9.1% and net written premium were up 10.3% for the first quarter this year. Looking at growth by segment, the Insurance Group global premium was flat on a gross basis and rose 3% on a net basis, as we reduced our participation in our U.K. professional facility due to the lack of positive rate movement in the European markets. The Reinsurance Group's premium volume was up 25% on a gross basis and 20% on net. These increases primarily resulted from several opportunities, generally emanating from the same sectors we mentioned in our call last quarter. Group-wide, on an expected basis, we believe the ROE on the business we wrote this year, we will produce an underwriting year ROE in the range of 11% to 13%. The underwriting margin improvements that I mentioned earlier will affect expected ROE positively, as they will more than offset the reduction in expected investment yield reductions.

During the first quarter, we repurchased 931,000 shares at a cost of $41 million. We remain in excess capital position and our position has been, and it continues to be, to return excess capital to shareholders, unless we can deploy it effectively in our business. As we have discussed before, we always take several factors into consideration, including where our stock is trading relative to our expectations of forward ROE.

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

Now let me update you on our cat PML aggregates. As of April 1, 2013, our largest 250-year PMLs for a single event were basically unchanged, with $886 million in the Northeast or 18% of common shareholder's equity, with $798 million in the Gulf, where our Florida Tri-County PML now stands at $582 million. Early indications, and we're still doing a lot of work in this area of RMS version 13, suggest that the model will reduce wind PMLs, ranging from 0 to down 10% in peak zones compared to our proprietary view. Northeast and Tri-County PMLs would decline by approximately 5%, where the Gulf of Mexico exposures will be roughly flat. Other areas will be reduced by approximately 10%. With that, let me turn it over to Mark to comment further on our financial results. Mark?

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

Great. Thank you, Dinos, and good morning, everyone. The consolidated combined ratio for this quarter, as Dinos has mentioned, is 84.6%, with 1.5 points of current accident year cat related events that are net of reinsurance and reinstatement premiums, compared to the 2012 first quarter combined ratio of 90.1%, which reflected 3.4 points of cat related events.

Net losses from 2003 (sic)[2013] first quarter catastrophic events totaled $11.2 million, primarily emanating from Australian tropical storm Oswald. As for 2012 Super Storm Sandy, our current estimate remains consistent with our view last quarter. The 2013 first quarter consolidated combined ratio also reflected 7.1 points of prior year net favorable development, net of reinsurance and related acquisition expenses, compared to an identical 7.1 points of prior period development on the same basis in the 2012 first quarter. This results in a 90.2% current accident year combined ratio excluding cats for the first quarter of 2013, compared to 93.8% accident year combined ratio in the first quarter of 2012. Approximately 90% of the net favorable development in the 2013 first quarter was from the Reinsurance segment, with approximately 70% of that due to net favorable development on short-tailed lines concentrated in the more recent underwriting years, despite further upward development in 2012 crop losses, which amounted to 3.3 points on the Reinsurance segment's first quarter loss ratio.

Furthermore, roughly 12% of the Reinsurance segment's net favorable development was attributable to medium-tailed lines spaced throughout many underwriting years, at about 18%, due to net favorable development on longer-tailed lines, primarily from the 2002 to 2005 underwriting years. The remaining net favorable development in the 2013 first quarter was attributable to the Insurance segment and was mainly driven by shorter-tailed lines.

Similar to prior periods, approximately 68% of our $7 billion of total net reserves for losses and loss adjustment expenses are IBNR or additional case reserves, which is a fairly consistent ratio across both the Reinsurance and Insurance segments. On a consolidated basis, the first quarter of 2013 expense ratio was 50 points lower relative to the prior year's comparable quarter, wholly due to a lower net acquisition expense ratio. This net reduction of 50 points was due to an amalgam of forces such as the overall Insurance/Reinsurance mixture; the excess of loss versus pro rata blend in the Reinsurance segment; the wholesale versus retail versus managing general agent mix in the Insurance segment, along with the Insurance segment's changing net-to-gross ratio; premium tax shifts between admitted and not admitted; and the ongoing, commented upon every quarter, strategic shift towards smaller account business, which carries a higher commission ratio. The other operating expense ratio was flat relative to the first quarter of 2012, but improved 80 basis points relative to the fourth quarter of 2012 on a sequential basis. This improvement occurred despite the incremental additions to expense due to select platform expansions in both our Reinsurance and Insurance businesses. The ratio of net premium to gross premium in the quarter on a consolidated basis was 81.9% versus 81% even, a year ago. In the Reinsurance segment, the net-to-gross was 94.1% in the 2013 first quarter compared to 98.1% a year ago, reflecting more retro purchases, protecting their property book.

The Insurance segment had a 73.2% ratio compared to 71.3% a year earlier as a result of their ongoing strategy to grow the less volatile, smaller account businesses and reduced exposure in higher severity businesses. Overall, on a consolidated basis, the first quarter of 2013, as Dinos has mentioned, saw a 9.1% gross written premium growth and 10% growth on the net written basis. The Reinsurance segment grew by 20%, whereas the Insurance segment grew by approximately 3%.

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

In the Insurance segment, the 2013 accident quarter combined ratio, excluding cat, was 97.9% compared to an accident quarter combined ratio of 99.7% a year ago. This improvement is primarily due to core margin expansion on an earned basis and mix of business changes. Margin expansion in our core U.S. Insurance operations continued this quarter, with a weighted average 330-basis-point improvement over the first quarter of 2012. As Dinos has mentioned, this average ranged from having margin contraction in some units such as healthcare, up to 1000 to 1600 basis point core margin improvements in construction, excess comp and some specialty casualty lines. Even lines of business experiencing margin contractions still achieved positive effective rate increases this quarter. These figures represent the excess of written effective rate increases over estimated loss trends and provide continuing evidence of improving market conditions. As always, we make mix of business decisions based on our view of the absolute returns and not relative improvements alone.

The Insurance segment had net written premium growth predominately emanating from the U.S. operations, which represents approximately 70% of the worldwide volume. The U.S. operations grew net written premium by 11.4%, with partially offsetting reductions elsewhere around the world, as Dinos has noted. The U.S. growth came predominately from programs, construction, national accounts and A&H businesses, with a continued reduction in U.S. casualty lines and declines in tech risk across all geographies. The program unit saw growth primarily from underlying "same store" ratable exposure increases, reflecting improvements in economic conditions, compounded by an improving level of rate increase. Additionally, some newer and regained programs have experienced ramp up traction compared to a year ago.

Construction and national account businesses had exceptional renewal retentions, strong new business, ratable exposure growth and favorable audit premiums. The total return on our investment portfolio was 50 bps in the 2013 first quarter, reflecting strong return on equities and alternatives, and flat to negative returns on fixed income investments. Excluding foreign exchange, total returns was 101 bps in the 2013 first quarter. Our embedded pretax book yield before expenses was 2.45% as of March 31, compared to 2.6% at December 31, 2012, while the duration of the portfolio shortened slightly to 2.94 years, reflecting our conservative view and position on duration and the current yield environment, our exposure to Eurozone countries, as listed in the supplement, with continued minimal exposure to countries undergoing severe economic hardships. Reported net investment income in the 2013 first quarter was $66 million or $0.48 per share, versus approximately $74 million or $0.53 per share in both the 2012 fourth quarter and the first quarter of 2012. The $8 million decline in net investment income relative -- in this quarter, relative to 2012 fourth quarter has resulted from several factors. First, a $2.2 million increase in investment expenses that includes $1.3 million of costs on a certain alternative investment fund, where some expenses were recognized disproportionately to actual funding contributions, and should not be considered an ongoing run rate effect. Secondly, a $1.9 million reduction occurred relative to the fourth quarter of 2012, associated with inflation adjustments on U.S. Treasury Inflation-Protected Securities or TIPS. These adjustments are lumpy due to fluctuations in the unseasonally adjusted monthly consumer price index, as evidenced by last quarter's $1 million contribution to income and this quarter's $900,000 reduction to income. Thirdly, there was a reduction in gross income related to TALF assets, which contributed $1 million to income in the 2012 fourth quarter, partially offset by $200,000 of interest expense, and were sold prior to year end. And lastly, the balance is due to the effects of the reduction in the embedded yield on the fixed income portfolio, a smaller investable base for income producing assets due to the increased allocation to alternatives and equity asset classes, and the impact of a share repurchase that's totaling $213 million over the last 2 quarters.

Our effective tax rate on pretax operating income for the first quarter of 2013 was an expense of 1.7%, compared to the a benefit of 1% even in the first quarter of 2012. This estimate -- this rate is an estimate of the full year effective tax rate that is based on 1 quarter of actual results and 3 quarters of forecasted results. Fluctuations in the effective tax rate can result from variability in the relative mix of income or loss, reported by jurisdiction, along with forecast variances for the last 9 months of the 2013 year. Current quarter preferred dividend expense of $5.5 million was identical to the third and fourth quarters of 2012, but approximately $1 million less than the preferred dividend expense occurring in the 2012 first quarter. As discussed on last quarter's call, this reduction, relative to the 2012 first quarter, is due to the refinancing of our preferred shares by retiring our series A and B classes and replacing them with the more effective series C class. The $5.5 million is the true quarterly run rate.

Our total capital was $5.74 billion at the end of the 2013 first quarter, up 3% relative to year-end 2012 and up 9.5% relative to the first quarter of 2012. During this quarter, we repurchased $41 million of our common stock at an average 1.19x multiple to book value, which had a 4% impact on book value per share. Our debt-to-capital ratio remains low at 7%, and debt plus hybrids represents only 12.6% of our total capital, giving us significant financial flexibility. We continue to estimate having capital in excess of our targeted capital position. Book value per share was $37.66, as Dinos also noted, which represents a 4.1% increase versus year-end 2012 and 13% gain relative to March 31 of last year. This growth in book value per share primarily reflects the company's strong operating results. So with these introductory comments, we're now pleased to take your questions.

Constantine P. Iordanou
Chairman and Chief Executive Officer
Allison, we're ready for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

For many, I think we introduced a system, which I described in detail about 5 years ago. We went through this elaborate exercise, not only on class-rated classes that the Insurance Service Office would give us exposure times rate type of statistics so we can compare things, but everything that is in specialty lines, we created a system that monitors, on an exposure basis, the rate we get for like exposures, independent if it's new business or renewal. And we monitor that across the enterprise. We have our pricing actuaries, independent of the underwriters, do that, and we do it electronically. This way, there is no playing with the numbers. You know the old story, figures never lie, but liars figure. So we have assistance with that in that approach. So what I reported is what's happening in the marketplace. Now, for 1/3 of our business, that means that there is this -- there is more distress, or at least perception of distress in those classes by -- and predominantly is by the admitted markets. And they're throwing that business into the E&S market, because this phenomenon is happening mostly in the E&S market. So in certain sectors, even though there is ample capacity in general, there is not enough capacity. I'll give you the most acute example. If you have contractors in New York, because of the tough labor laws, et cetera, it's almost impossible to place today. So clearly, the renewal books, which most carriers have and they have better relationships with customers, get a certain price, and new business that is trying to find a place, for whatever reason, because they've been expelled for nonrenewal by others, they're paying a much higher price. And I'm just reporting what we're monitoring. I wish 100% of the business, it would've been behaving like that, then we really have a hard market, but we don't. 2/3, as I said in my prepared remarks, still indicate highly competitive market conditions, with new business pricing lower on a comparison to same exposures to renewal business. So that's the facts. Do I have a complete explanation as to why it's happening? No. But it's good to measure and it's good to have a view into the marketplace because you can direct your underwriters as to where to step on the brake versus step on the accelerator.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Very thoughtful. I guess, to dovetail on that with your E&S, the moving from admitted to E&S markets. I'm trying to square that with the fact that we're still seeing admitted carriers talking about, on the spectrum, the highest rate gains versus much more mixed in specialty and E&S line. So how does all that kind fit into the way you're perceiving the market right now?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, the admitted market, it's predominantly a market of class-rated business to a great extent. There is a file rate and it's exposure times rate and it's measurable, et cetera. The E&S market is more aligned to freedom, not only on terms and conditions, but rate. Sometimes it's not just premium going up, it's the effective change, because of very -- or more restrictive terms that have to be interpolated into pricing increases. So the 2 separate markets, let me give you an example to make the point. When you look in the property lines, our E&S is showing new business being priced at or better renewal, where on Global

Accounts, which is more on an admitted basis, we show exactly the opposite, and both lines are property lines. So not always a great explanation why it's happening, but if a standard carrier is not willing to write a property line because it used to be maybe an old package policy that they have section 1 and section 2 and they don't like the property anymore and they throw it into the E&S, that will be all new pricing. It had nothing to do with file rates, et cetera. Mark, you want to elaborate on it?

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

Just one piece of color to add to contrast a property piece of business being thrown over back to the surplus lines market versus casualty. I think you'd find the property units are recognizing that exposure difference more so than where it came from, and more pricing adjustments in terms of condition adjustments are happening. On the casualty side, it's a little more irrational. There's a little more -- it's a longer duration business, there's, I think, more of a not quite feeding frenzy, but I think there's a lot more competitors going after that and maybe ameliorating some of the increases that you're seeing on the casualty side.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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

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

I think mostly, you'd see the turnover in treasuries, where we're really -- we look to take advantage of some -- well, of generally most of the auctions that occur, but also to take advantage of the different points on the curve, when you may have a 7-year bond and then you hold it for a while then you can resell it as a 2-year -- a 5-year bond, and there's differentials that you can take on those. But you're not going to see -- there hasn't been a lot of churn on the municipal side for example.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So you have one segment of the portfolio stringing over maybe, several times?

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

Yes, I think that's right.

Operator

And your next question comes from the line of Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

That -- I don't know what numbers you're referring to, but that's not accurate. Let me give you the specifics on the margin improvement. When we look on a written basis comparison to our entire portfolio, we had an improvement over the loss trend of 3.3%. When you look at it on an earned basis, it was approximately 1.9%. So this is on an entire portfolio. So if you take 1 or 2 losses, it won't tell you very much. What you got to look is you have to look at the book of business and where is the pricing, and how that compares to the prior underwriting year. And we do all of our calculations on an underwriting-year basis, what we're writing this year versus what we wrote a year ago. So -- but if you want more granular information, I'll turn it over to Mark, which is usually a lot more up-to-date to the granularity of that exercise. So Mark?

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

Well Dinos is right. I mean, the earned effect is really a consequence of the individual decisions you make on a written basis. And so to Dinos' point, the earned will lag the improvement associated with the written change. So if things stay constant for the next 3 quarters and we maintain a 330 basis point spread, then that's what you should see on an earned basis, assuming annual policies, as it bleeds through. Mix is always a big issue here on both sides, Insurance and the Reinsurance side. So I think by controlling for line of business, a business-type mix and things like that, is the real difference that we look at, that doesn't jump out at you from the summarized results.

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

Michael Zaremski
Crédit Suisse AG, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, I'll turn it over to Mark.

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

Yes, certainly. I mean, Dinos commented on some, and let me explain it in 2 pieces. We're seeing still, some fairly significant margin expansions and lines of business that are improving, but still not making the cut. So some of the longer-tailed lines, Dinos referenced in his comments. So they're improving, we're glad to see that. They're not quite there to turn it to a green light status. However, some other profit centers, such as our loss-sensitive profit centers in construction and national accounts, where the pricing has not fallen anywhere near as much as some other lines of business, we're seeing some very good recovery there, to the point that they are into the green category, where they may have been in yellow in the past. I could do others, but I think they're probably the 2 best pockets of example.

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

Michael Zaremski
Crédit Suisse AG, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

I mean, you got to ask them about their strategy. I mean, Berkshire Hathaway has been in the E&S market in many different ways, either through reinsurance transactions or directly writing it. So I don't know what their plans are, I think they hired 4 excellent executives, it's -- talent always is hard to find and they found 4 talented executives to join them, so I think it's a positive for them. But beyond that, I mean, Berkshire was always in the E&S market and they will continue to be.

Operator

And your next question comes from Amit Kumar of Macquarie Capital.

Amit Kumar
Macquarie Research

Two quick questions. First of all, can you share your thoughts on the upcoming fix [ph] on renewals, how do you expect that to play out for the market place?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's a bit early as of yet because there is a tug-of-war between brokers request versus underwriters offerings. And so, not a lot of firm orders have been placed. Our expectation though is should be around 5% to 10% reduction, that's what we're expecting. But there is changes to it and in different parts of the country, and if it's a nationwide program versus a Florida-only program or the Northeast. Let me give you an example. In the Northeast, we got anywhere from plus, I would say, 2% to 3% to as high as plus 10% on layers that they had an effect from Sandy. On layers, the high access layer that Sandy didn't effect, the reduction was anywhere from minus 2% to minus 10%, depending on programs. Likewise, we have renew nationwide programs at -- and significant ones that we have firm orders already at only minus 5%. Some people expected much worse than that but -- and firm orders for most of the Florida business. It's happening as we speak, so I don't have a lot of flavor. Mark, do you have any more color to that? We will know in a few weeks but our expectations is somewhere between 5% and 10% rate reduction.

Amit Kumar
Macquarie Research

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

I mean, the -- we usually look at 3 different factors. What is -- where can we deploy capital in our operations; what were we trading on and the multiple that the market is giving us; and then what is our projected ROE. Our ROE, we're getting more optimistic that it's going up. So I don't know if we do a lot more of share repurchases at the time being, unless share price movements propel us to do that because we can get our shares cheaper than we can get them today. On the basis that we still have this transaction that we need to close on and we have to reestimate as to how much capital we can deploy in that, plus there's a few other things we're looking at. In any market, you see opportunity. Nothing that is imminent, but you never know. So we'll take all that into consideration and then we make decisions. Our principle of returning excess capital to shareholders hasn't changed. We'll find a way to do it. If we think a special dividend is appropriate, we might even do that.

Mark D. Lyons

Chief Financial Officer, Executive Vice President and Treasurer

Just as a follow up to Dinos. If you think back to our thinking. I think, Amit, you heard us say before that we were guided by that matrix that we have on the website, but we're not bound by it. But if you go back and look at what we've traded at over the quarter, it's pretty close to an ever-increasing sequence from about 1.22x of book to up to of about 1.48x of fourth quarter book value. And it was really about mid February that we crossed, I'll say, the 1.33x line, which you can kind of in a rough yeoman's way say, 10% return times 3 is really that ballast point, and so we weren't in any hurry really, to go in excess of that at that point. Now, with the increase to book value, we're trading, as of yesterday, probably a little south of 1.4x so -- but to echo Dinos' comments, we have to look at things relative to where it's traded, not just on an absolute basis.

Operator

And your next question comes from the line of Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

With the shifts in reinsurance pricing through April and June, what's your sense of modeled return on equity for that business, for property cat?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's still very, very good. It's high double-digit ROEs. And you need to write it at that level, otherwise, you shouldn't -- you're talking about purely cat x OL [ph], right?

Jay H. Gelb
Barclays PLC, Research Division

Yes.

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

Jay H. Gelb
Barclays PLC, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, yes.

Jay H. Gelb
Barclays PLC, Research Division

And on the Reinsurance business, I know that the way the premium comes in, it can be lumpy, it's been running at well over 20% for at least 5 quarters. I would just like to get a sense for modeling purposes, when that may lap each other and when that rate of growth may slow or would that continue for all of 2013 just based on the contracts you currently have in place?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, contracts are annual and they either get renewed or not. What guides us in making decisions is the profitability of the book of business that we would like to reinsure. As we said in prior calls, a lot of that growth came from U.K. motor, it came from a couple of contracts we wrote on the mortgage space, et cetera. And if those get renewed, you will have the growth. If they don't, you won't. So it's a lumpy business, reinsurance. We take contract by contract, we look at the opportunity, we got plenty of capital to support those contracts. If we're given the opportunity by the clients to continue to provide the capacity for them, we'll do it. If not, we won't. But it's based on is it a profitable opportunity for us or not, and that's when we make the decisions to continue or not to.

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

Jay, I would just add. One of the other takeaways would be, especially in the U.K. motor, you shouldn't look at that as a book of business, you should look at it as a few large contracts. And hence, Dinos' point about rebinding them or renewing them or not, is what's driving it because it's not a big book of business.

Operator

And your next question comes from Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on growth in the primary Insurance. So within the U.S. it seems to have picked up. Could you help me understand if you are getting more positive on that business, because you also mentioned that you're starting a new roster [ph] of E&S business too?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I'll let Mark give you the break down. I think you're looking at the overall group. Actually, in the U.S., we have grown and we have shrunk in Europe, including Australia. And that was a proactive action on our part, because on a certain segment of business, we weren't getting enough rate improvement to overcome the trend. You can't stay on the same rates and be happy, continuing to renew what's expiring, when trend is going to continue to move up. And at some point in time, you say is this going to be an acceptable ROE business or not, and that's what happened. Mark, you want to give Vinay the detail there?

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

Sure. I think what you'll see, some of it was -- you can deduce from our prepared comments. But in the U.S., the growth in the loss sensitive areas, which is construction and national accounts; we had growth in programs, as we also have commented on; we had some growth in surety, which is really a new team coming in and putting their view on things and expanding that into commercial surety, not just contract surety; our A&H businesses is really ramping up and so it's a large percentage increase compared to prior.

Constantine P. Iordanou
Chairman and Chief Executive Officer

On a small base.

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

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

So what did you [indiscernible] we grow in the U.S.?

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

The U.S. grew 11%.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Offset by the reduction in Europe.

Vinay Gerard Misquith
Evercore ISI, Research Division

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

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

We expect, for the balance of this year, to probably see, relative to second quarter 2012, third quarter 2012, probably some additional reductions like we saw in this quarter.

Constantine P. Iordanou
Chairman and Chief Executive Officer

The same level reductions in comparison. This is -- we reduced a program, our participation. So in essence, that, until it laps over to one year, you're going to have the comparables and we got 2 more quarters to go.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. Okay that's helpful. Secondly, on the net investment income, that fell pretty meaningfully this quarter. I just want to get the run rate normally for that. So to the existing number, if I add back the $1.3 million of higher expense, should we also add back the $1.9 million of the TIPS or is that not such a high [indiscernible] number?

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

If you do that, you're basically saying that we should see 0 on TIPS on a go forward basis, dating that back.

Constantine P. Iordanou
Chairman and Chief Executive Officer

It can resource [ph] entirely and it can be the sign might switch, et cetera. I would say for -- this is a rough guess on my part, that probably half the reduction is nonrecurring and the other half is probably the effect of lower interest. So to me, if this quarter was normal, we probably would have seen investment income going from approximately $74 million, $73 million, because don't forget, $1 million of the $74 million, it was artificially high last quarter, to come down to about $70 million. But like I said, we don't pay tremendous -- I know you got to do your models and all that, and that's why I went through this whole explanation between net income ROE versus operating ROE. We're not changing our definition but also, we're not going to change our strategy, that we're going to try to maximize total return on our investable assets, independent on if we're going to take some investment income here. It's for total return because of accounting and structure issues.

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

And one other comment to perhaps, help you. I think that was a good view that Dinos just provided you. But you got to think of it, we're kind of in a point of inflection with regard to net investment income. A lot of the alternative investments, as Dinos had mentioned, wind up showing their returns below the line instead of above the line. But there are a handful that will show some above the line benefit, but those are just ramping up. So for the balance of 2013, that kind of averaged, as Dinos talked about, is probably reasonable but those -- there's positive forces that could push that higher than that level in either the very end of 2013 or into 2014.

Constantine P. Iordanou
Chairman and Chief Executive Officer

What Mark is telling you Vinay, is we tried to, even with outside managers, to structure transactions, especially on the high yield, fixed income kind of strategies that we have, that we can recognize the investment income as such and not account it under the equity method as realized gains. But accounting is not that simple anymore. They got 42,000 rules that I have to take 3 Advils every time I sit with the accountants to discuss it. And sometimes they're nonsensical to begin with.

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

But to Dinos key point about, we're driven by the economics, not the accounting. The analogy on the business side is workers' compensation. I mean, if the industry was bound by how that's booked on excess workers' compensation, there'd be no market.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

So first of all, given the growth in programs, I assume that there's 1 or 2 programs over the last few quarters that have been contributing that. Do we expect that to slow down starting in 3Q?

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

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

So that means the economy is improving, so the exposure base on some of our clients is going up, so they generate more premium. And also, there's been rate increases and significant, because don't forget, that's the area we compete a lot with the standard markets, even though these are specialty programs. But we still issue a lot of it on admitted paper and we have file rates, et cetera for -- and you compete with the likes of Travelers and Chubb and C&A, et cetera. And these carriers, you're listening to their calls, et cetera, and we see it in the market. They're pushing for rate and they're getting it and in essence, our agents that they produced business for our MGUs, they're getting rate increases. So I think that will continue.

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

I think you're going to see too, there'll be more programs that are going to make the cut for us because of rate improvements and they're looking for a better home. Don't forget, we're a good home for programs. We're an A plus company, we have great systems, our service is very good and we have that kind reputation. As a matter of fact, the MGUs that we have, a dozen or so of these that we have, we had them for 10 years, and they've all been with us for a long period of time. So we're welcoming new programs, as long as they can make the profitability goals that we have. But a lot of our growth is coming from our existing programs, because they're gaining on both. Additional exposure units, as the economy is starting to improve on same customers that they have, and also new customers that are coming into the programs on existing business.

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

Listen, I have a hard time trying to get mine as accurate as I can, because that's the only statements I sign. So I'm not going to worry about the rest of the market. But I can tell you, we feel comfortable where we're booking things. We do a lot of analysis, and like I said many times before, for the first 2, 3 years, 4 years or so, the accident year is a self grading exam. The real exam comes when the books mature. And so I -- without knowing exactly what others write and what process they go in estimating what their current accident year should or shouldn't be, I can't comment on that. But I can comment on ours and I feel very comfortable where we are.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, the only problem is when you're grading your own exam, maybe you're hungrier to take the test.

Operator

And your next question comes from Arash Salamani [ph] of KBW.

Unknown Analyst

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

Operator

And your next question comes from Ryan Byrnes of Langen McAlenney.

Ryan J. Byrnes
Langen McAlenney

I'll just keep it to 1 question. But Dinos, I'd like to get your opinion I guess, on I guess, the upcoming TRIA renewal. I realize it's a little over a year away, but just wanted to get your thoughts on the opportunities and challenges that it presents to the industry and I guess, Arch in general?

Constantine P. Iordanou
Chairman and Chief Executive Officer

You're not coming through. You can speak closer to the...

Ryan J. Byrnes
Langen McAlenney

Dinos, I just wanted to get your opinions on the upcoming TRIA renewal. And what opportunities and challenges it presents for the market and Arch?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I mean, listen, I don't have to mention the Boston event again, but I think the insurance business is willing and able and capable to take a lot of risk, but it's not able to take infinite or unlimited risk. So at some point in time, there's got to be some backstop at a pretty high level. And if you look at TRIA, we're talking about the backstop is provided. So companies, they don't face ruin on a horrific event. So I'm expecting that we will make the point to our regulators and to our legislators in Washington. And there was still a light [ph] that there is a role that -- for a government can play, especially when they mandate coverage and they require us to provide or offer terrorism coverage to customers, which we like to do. But on the other hand, we don't want to risk -- the risk of ruin to be within our books of business. And there are, on certain coverages like workers' compensation, with it's exclusive remedy. You can exclude the -- whatever incident happens, if you're injured at work, you need to get paid and that's the exclusive remedy of comp. We need some sort of catastrophic protection and the only person who has the unlimited ability to do it is the taxing authorities.

Operator

And the next question comes from the line of Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

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

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

I think it begins with the recognition of behavior. What's the new behavior going to be with these. It's a set of customers written by 1 entity versus another entity. And it's whether they're more aggressive or less aggressive, and time will tell that. We don't know what that's going to be at this point. As far as -- I don't think it's appropriate for us to comment on relative adequacy of AIG business versus another carrier's business. We don't right just excess. We have a lot of primary business that we write also on an E&S basis. So we won't necessarily just be looking at business on a lead excess basis or something like that over AIG.

Constantine P. Iordanou
Chairman and Chief Executive Officer

And Ian, it depends on their business plan, which they haven't disclosed to anybody yet. To write a lot of E&S business, you can't do it just with 4 people, you got to build infrastructure, you have to build underwriting teams and you got to distribute them around the country, especially if you're going to write small, medium-size accounts. If they're going to shoot elephants, then they can do it with half a dozen people sitting in 1 location. But there is so much of that business and the usual suspects compete with them, meaning people that they have significant capacity to do it. So it might -- not knowing what's going to happen, it might be a battle between 2 behemoths, the Berkshire and AIG, fighting for the large, or it might be more of a systematic creation of an E&S unit that it will take some time to build, because they have to build infrastructure and hire the underwriters, et cetera. Not I think, is questions you need to ask, Ajit [ph]. He will know more as to what he wants to do with his team. They're all capable executives. I'll give him a lot of credit for that, I think he hired some very good guys.

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

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

Ian Gutterman
Adage Capital Management, L.P.

Understood. It makes sense. And I just had a few follow-ups in just trends in lines of business. I guess first, mortgage insurance, on the Reinsurance side, it looked like there's about $20 million of growth versus what you've been running the second half. I assume that was maybe a new contract but is that sort of the rate we should expect to have that contract going forward or was that all booked upfront for the year?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Don't look at it. We have the original contract and then we had a renewal and you might be seeing that.

Ian Gutterman
Adage Capital Management, L.P.

Right, but is that renewal just sort of booked, is that [indiscernible]

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, [indiscernible], they year-end I think, is the '13 year.

So you got '12 and you got '13 and maybe a little overlap of that.

And don't forget, on mortgage insurance, your stream, it's not annual. It comes over 4, 5 years, maybe even 6 years before you...

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

Right. So certainly, over the next few quarters, you'll continue to have a good stream of business associated with those in-force contracts?

Ian Gutterman
Adage Capital Management, L.P.

Right. That's what I was trying to get out, okay. And can you give us just a rough sense of what kind of combined ratio that's booked at? I guess, I'm assuming that helps the mix on a combined ratio, but I wanted to get some kind of sense of that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I mean, we got to get the reports from our cedents and usually we don't disagree significantly with them. Whatever they report to us, we book and if we have a disagreement, we might put a number that may be slightly different than that. But so far, it's been very, very good business. So I think you'll get a better indication by monitoring the numbers of the mono lines like Radian and others, as to what they think that business is all about.

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one -- a couple of quick follow-ups real quick. Can you talk about, Mark, at all, the impact of the retro activity you saw in the Reinsurance side. You kind of mentioned it in the press release, but maybe just quantify a bit more what happened and what impact that had on the net premiums line?

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

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

Joshua David Shanker
Deutsche Bank AG, Research Division

No, I was just curious if that should -- you would expect it to continue through the rest of the year.

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, you're asking for a dynamic kind of an approach to it. There is -- it depends on how that business flows in. The more business we write, we're going to support with additional capital. If the business doesn't flow, then it won't require as much capital. So as we mentioned before, I think the GSCs are looking to a 20:1 coverage ratio, capital to -- right now, I think a lot -- some of the competitors, and I haven't done the latest statistics, they're operating at 25:1 or some maybe even at 30:1. So -- but eventually, I think it's going to gravitate further down into the 20:1. So without knowing how much flow you're going to get, you don't know how much capital you need to provide.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And you're talking about risk in-force to capital?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, that's correct.

Operator

We now have Mr. Gutterman back on line of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I was just going to ask about the construction growth and especially the improvement in the expected margin. I guess I always thought of construction as being a very competitive class. Sort of why aren't we seeing that, or is this the special class of construction like the New York or something like that, that's been troubled or...

Constantine P. Iordanou
Chairman and Chief Executive Officer

New York has been a troubled market for a long, long period of time. California, has nothing to write home about either. A lot of what we do in construction is more like national accounts. It's 3 lines, restropectively rated. This is for medium and large contractors that predominantly, they're buying a lot of services and some buffer cover from us, because they will take the first $250,000 or $0.5 million of risk on their own and then they expect us to provide good services on the claim side. And there are not many competitors in that space. Travelers is a very good company who does that, Zurich does it, we do it. ACE is a company of course, AIG is there so -- and it depends on how good your underwriting units are. So in that area, we are seeing a positive move, and it's just not the workers' comp you're getting rate increases. I think all 3 lines on the nonstructured [ph] area, we call, which is the risk area, we're seeing good rate increases. And also that we see improvements in the collateral.

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

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

Ian Gutterman
Adage Capital Management, L.P.

I guess, I was just wondering, was there a bad actor in that class before, who was underpricing the business, who has now gotten rational, is that why we're seeing such big movement or...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, first off, remember what we said, and then Dinos, I think, nailed it. This is, on a loss-sensitive perspective, these are large self-ratable contractors. This isn't the one-off guy out of the E&S market, that has no audited financials.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, there were some, Ian, that they were written on a guaranteed cost basis. Then they're thrown back. Now as the guarantee cost carriers say, "No, if you want that same program, I got to charge you x more." They say ,"No, let me move it into the loss-sensitive area and I'm willing to eat my own cooking, pay -- the law says there through a big deductible but -- and buy the buffer before I get into the excess market." So there is both. Like I said, I'm not sitting with the underwriters every single day, I just monitor what they do. But these are real numbers because we have -- one thing we're very confident is in our monitoring systems. They're true because there is an independence. I don't let the underwriters write their own report cards. They're all going to get As, I hate that.

Operator

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

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, thank you, Allison. Well, enjoy your lunch, everybody, and we'll see you next quarter. Have a good afternoon. Bye.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and good day.