S&P Capital IQ

CONTENTS

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 9

Arch Capital Group Ltd. NasdaqGS:ACGL

FQ4 2017 Earnings Call Transcripts

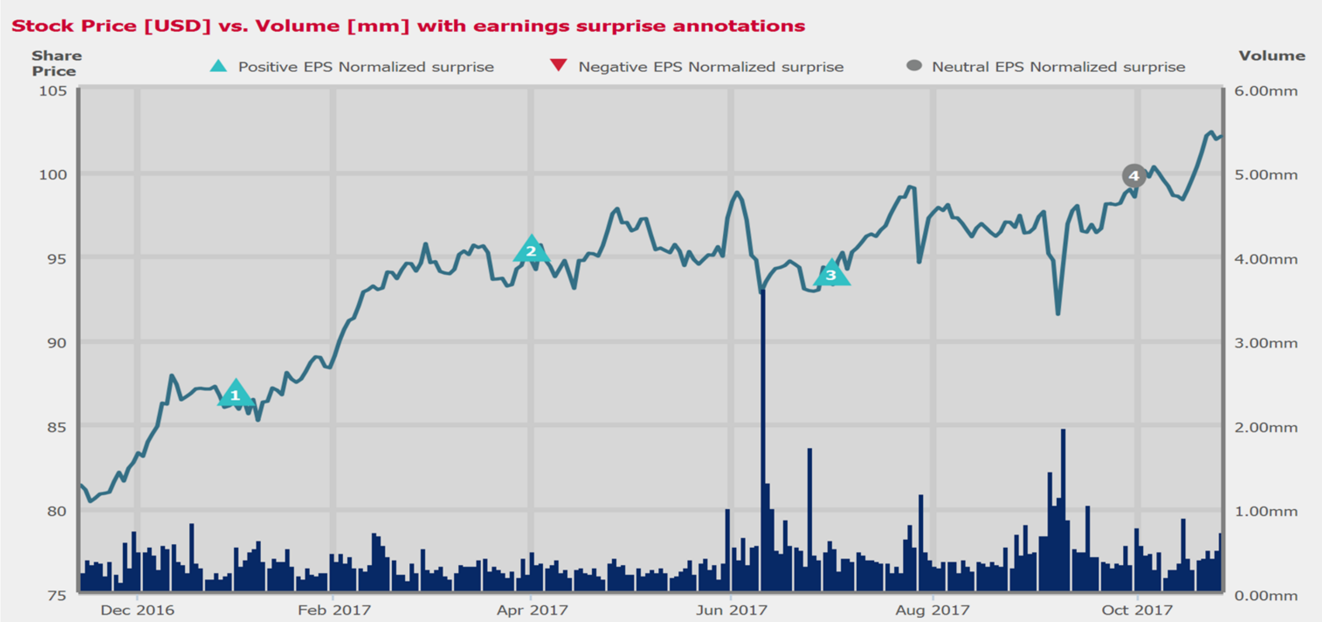
Tuesday, February 13, 2018 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.12	1.34	▲19.64	1.53	2.98	3.21	
Revenue (mm)	1092.08	1111.02	▲1.73	1299.44	4912.59	4961.37	

Currency: USD

Consensus as of Feb-13-2018 10:33 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.97	1.13	▲1 16.49 %
FQ1 2017	1.32	1.42	▲2 7.58 %
FQ2 2017	1.20	1.21	▲3 0.83 %
FQ3 2017	(0.64)	(0.79)	NM

Call Participants

EXECUTIVES

Constantine P. Iordanou
Chairman & CEO

Marc Grandisson
President and Chief Operating Officer

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

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2017 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 risk and other factors that may affect future performance, investors should review periodic reports that are filed by the company with the SEC from time to time.

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

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

Constantine P. Iordanou
Chairman & CEO

Thank you, Crystal. Good morning, everyone, and thank you for joining us today for our fourth quarter earnings call. As many of you know, this is my last earnings call as CEO of Arch Capital, and I could not be more proud of the team and organization that we have built over the past 16 years. We announced our CEO transition plan 2 years ago, and I'm very pleased with the work Marc and the entire executive team have done to position Arch for the challenges they will face in the future.

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

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

On my own, I cannot have accomplished these results, but with the help of many people, much has been accomplished. The challenge for all of us was to improve the intellectual capability of the company and its ability to manufacture, as I always say, profitable decisions.

Most companies do not pay enough attention to the most important asset they possess: their employees. Here at Arch, it's the foundation of our success. For Arch, the question has been, how do you create a culture in a cyclical business that not only empowers but also helps our employees to make the best decision that they can? You have to care for them, you have to share knowledge, you have to teach, you have to reward. You have to provide an opportunity for employees to constantly learn and transfer knowledge up and down the organization as well as across segments and channels. The more knowledge your employees possess, the better decision-makers they are and that is what produces outstanding results. You have to believe in the success of the team over the success of the individual, and you have to be willing to challenge and be challenged.

Collaboration is the secret sauce that enables crisp execution and achieving extraordinary results. For the past 16 years, I've had the honor and privilege to help lead Arch and to have a hand in its formation, and success is one of my greatest personal achievements. I'm now passing the baton over to Marc, and I'm confident that we will see not only a continuation of the culture that has made Arch successful, but that also I expect the future of Arch will be enhanced under his leadership.

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

Marc Grandisson
President and Chief Operating Officer

Thank you, Dinos. Wow. You'll see me on my Vespa in Bermuda. Stay with the Italian team.

But good morning to you, all. I've had the privilege of working with Dinos for more than 16 years, and I feel it's appropriate to pause on this earnings call, Dinos' 59th consecutive earnings call, and to express a big thank you from all of us at ACGL. Thank you for your leadership, for the values and culture that you've helped to establish here at Arch. Enjoy your family with the 2 newest additions, [Mariel] and [Evelyn], Mr. Grandpa.

Turning to the quarter and year-end review. 2017 brought catastrophe losses of about $135 billion to the industry and caused Arch shareholders about $386 million.

For the year ended December 31, 2017, Arch produced after-tax operating income of $447 million or $3.21 per share or 5.7% operating on return on equity.

On a net income basis, the results are slightly better as the company reported $566 million or $4.07 per share for the year ending December 31, 2017, producing a net return on equity of 7.2%.

Our investment returns were good this quarter. As you probably know, we manage our investment portfolio on a total return basis, which in U.S. dollar basis, was a positive 79 basis points for the quarter, 71 bps on a local currency basis.

Our book value per share in the quarter rose, as Dinos mentioned, to $60.91, an increase of 10.4% for the full year. And our risk management structure and diversified business platforms performed as designed in the face of challenging P&C market conditions and significant cat activities.

One year into our acquisition of UGC, we are pleased with the contribution that our mortgage segment makes to our returns and value creation. Our groupwide insurance in force, or IIF, grew to $352 billion at year-end '17 from nearly $360 billion the prior year. Helped by the UGC acquisition, gross written premium grew 142% to $335 million for the fourth quarter of '17 versus fourth quarter of '16 for the entire mortgage segment.

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

Earned premium worldwide grew 2% in the fourth quarter to $280 million as a result of growth in our insurance in force.

For our primary U.S. mortgage business, NIW of $14.4 billion in the fourth quarter of 2017 was down from $17.7 billion in the third quarter. Part of the decline is due to normal seasonality in the fourth quarter, but it also reflects our efforts to manage growth in the higher loan-to-value above 95 mortgages and our ongoing conservative approach to the pricing of singles.

We estimate that our market share of NIW in the U.S. for the fourth quarter of '17 was just below 21%, which is consistent with our expectations we discussed since completing the acquisition of UGC.

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

Next, turning to our property casualty operations and our reinsurance segment, specifically. As you have already heard on a number of calls this quarter, rate increases in the property cat lines were not nearly as robust as many of us hoped, given the significant cat in 2017. We saw a few opportunities to put capital to work at the January 1 renewals, but not enough rate movement to warrant a material increase in our writings.

Rates across our reinsurance portfolio were up 2.5%, including 5% to 7.5% for our cat book. As you can see, it's a positive, albeit tepid starting point for the year.

Returns for cat business are low by historical standards and in our view, do not fully capture risk volatility in this line of business.

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

Our reported combined ratio for the reinsurance segment was 94.5 in the fourth quarter on a core basis, excluding Watford.

Turning to our insurance segment. Gross premiums written of $768 million in the 2017 fourth quarter or 8.5% higher than in 2016 fourth quarter, while net premium in insurance were 10.1% higher at $513 million. The higher level of net premiums written reflected increases in national accounts, travel and growth in 2 of our newest programs, areas where we currently see opportunities in U.S. insurance.

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

Next, I would like to discuss our PMLs. As we mentioned last quarter, we're also reporting to you our exposure to mortgage risk from a systemic stress event, what we call a realistic disaster scenario, or RDS. It stood at 17% of tangible common equity at the end of the fourth quarter. We have begun using tangible rather than stated equity as a result of UGC acquisition as we believe that it is a more appropriate and prudent risk management yardstick. Our net property cat exposures are substantially the same as last quarter with our 1 in 250 year PML for the peak zone, the U.S. Northeast, at 6.5% tangible common equity.

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

Now here's Mark with a more detailed financial analysis of the quarter. Mark?

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

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

Okay. So now into some summary comments for the fourth quarter all on a core basis. And just as a refresher, the term core corresponds to Arch financial results excluding Watford Re; whereas the term consolidated includes Watford Re.

So core losses recorded in the fourth quarter from 2017 catastrophic events, net of reinsurance recoverable and reinstatement premiums, were $800,000 or nearly 1/10 of a loss ratio point compared to 4 loss ratio points in the fourth quarter of last year on the same basis.

The activity was primarily driven by the California wildfires, pretax estimate of $68.4 million, along with approximately $69.1 million of reductions associated with the third quarter hurricanes, Harvey, Irma and Maria.

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

As for the California wildfires, we see more exposure from the Northern California fires versus Southern California, roughly 3:1, and see this primarily as a reinsurance event for us.

With respect to net pure loss prior period favorable development, approximately 54 million or 4.9 loss ratio points was recognized in the quarter compared to 6.5 loss ratio points in the fourth quarter of last year. This net favorable development was led by the reinsurance segment with approximately $32 million favorable, while the mortgage segment provided approximately $20 million of favorable development. The calendar quarter combined ratio on a core basis was 82.5% compared to the fourth quarter of 2016's 88.3%. The core accident quarter combined ratio, excluding cats, was 87% even compared to 90.7% for last year's fourth quarter.

The reinsurance segment accident quarter combined ratio, excluding tax of 103.2%, includes 2 unusual items and the comparison to the fourth quarter of 2016 needs 1 unusual item comment. The 2 items impacting the 2017 accident quarter are: one, the nonrecurrent 1% federal excise tax, or FET, associated with the fourth quarter intercompany loss portfolio transfers previously announced, which resulted in a 5.3 point increase to the reinsurance segment's expense ratio through the acquisition line; and second, the reinsurance group incurred approximately 2 combined ratio points of negative impact associated with the former Gulf Re operation over the prior year's comparable quarter. The item affecting the fourth quarter of last year was a large retrocessional recoverable of approximately $11.5 million that had no counterpart in the fourth quarter of 2017 and represents a 4.6 combined ratio point impact. Taking all of these items into account results in a 95.9% fourth quarter accident quarter combined ratio, which, therefore, represents only a 20 basis point increase over the adjusted fourth quarter from last year.

Moving on to the insurance segment. The accident quarter combined ratio excluding cats was 99.7%, which included 2.2 loss ratio points of large attritional losses relative and higher than the fourth quarter of 2016, along with a flat expense ratio. This is approximately 130 basis points higher than the comparable accident quarter in 2016. This is a loss ratio increase and primarily represents higher loss picks due to our view of competitive marketplace conditions on an earned basis. The competitive conditions experienced in the insurance and reinsurance segments were more than offset by the continued strong profitability of the mortgage segment, amplified by their net earned premiums being a larger proportion of the total.

The mortgage segment accident quarter combined ratio improved to 47.1% from 54.8% quarter-over-quarter. And their net earned premium represented nearly 26% of the total core net earned premium compared to only 9.6% in the fourth quarter of 2016.

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

I'd also like to point out that subsequent to the UGC acquisition, which closed at the end of last year, the 2017 accident quarter loss ratios for the mortgage segment has sequentially been as follows from first to fourth quarter: 21.5%, 19.5%, 20.6% and this quarter's 21.3% on an adjusted basis. The expense ratio improved from 37.9% in the fourth of last year to 22.1% this quarter. On a sequential basis to the third quarter of 2017, however, the expense ratio increased by 150 basis points from 20.6%. This was primarily driven by an increase in the amortization of deferred acquisition expenses. Remember at the closing of the UGC transaction at last year-end, all deferred acquisition expense were written off to 0. They are now rebuilding and being amortized as the income.

Moving on to other unusual financial statements in the busy quarter. Let me begin by discussing 3 items that have been included as -- reflected within operating income. First, as I noted earlier, we executed a onetime intercompany loss portfolio transfer this quarter that incurred $13.6 million of federal excise taxes or approximately $0.10 per share. Second, we established a $10 million valuation allowance against our U.K. insurance syndicate deferred tax asset this quarter or $0.07 per share. Third, as discussed earlier, the mortgage segment recognized approximately $10 million plus of pre-tax charges and $6.8 million of after-tax charges, representing $0.05 a share.

All in, these one-off items, with an operating income as described, totaled $0.22 per share.

Shifting to an update on integration cost associated with the UGC transaction. The original combined workforce has been reduced by approximately 30% as of year-end 2017 along with 120 contractors. There was $1 million of severance-related cost in the quarter, totaling $14 million for the full year. And the run rate of quarterly pure salary savings is $9.5 million or $38 million on the annual basis.

The vast majority of employee-related savings has now been realized with any additional future benefits likely being system integration-oriented. As for the beneficial accretion stemming from the acquisition of UGC, on an EPS basis, we examined the full year performance of the overall company, the mortgage segment and UGC incremental addition. And adjusting for normal level of cat losses shows the earnings accretion projected to reach 35% within 3-year period has been nearly 75% achieved just 1 year later.

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

Returns on equities, alternatives and noninvestment rate fixed income primarily drove the return. The full 2017 year total return was 5.87% on a U.S. dollar basis. Investment duration was 2.83 years at the end of this year, down sequentially from 3.14 years in anticipation of inflationary pressures.

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

As for taxes, we incurred a $21.5 million charge this quarter that results from the change in the U.S. corporate tax rate from 35% to 21% on our deferred tax asset. This has been excluded from operating income since this is not reflective of operational performance.

The effective tax rate in the quarter on pretax operating income was 15.4%, excluding the impact of the changing U.S. tax rate I just commented about and 17.6% for the full 2017 year on the same basis.

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

During the quarter, we also issued $100 million of Series F preferred at 5.45% and redeemed all of the remaining $92.6 million of Series C 6.75% preferred, but with a clearing date of January 2, 2018. As a result, there was a 2-day overlap of having both Series C and Series F outstanding. So just for that overlap results in a GAAP, debt plus preferred ratio of 25.8% at year-end 2017 versus 28.7 at year-end '16, which is a 290 basis point improvement in that leverage.

The ongoing preferred dividend amount is $10.4 million a quarter, which will result in $4.4 million of lower dividend amounts in 2018 than in 2017. We did not repurchase any shares during the quarter, and our board authorization remains at $446-plus million.

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

So thanks very much for your leadership, Dinos. You'll clearly be missed.

Constantine P. Iordanou
Chairman & CEO

You're welcome, Mark.

Mark D. Lyons
Chief Financial Officer, Executive Vice President and Treasurer
Now with that, we're happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First off, congratulations, Dinos, on your retirement. It's obviously been a great job for all of us working with you through the years. To the quarter, my first question, in either of your 2 segments, was there any kind of current accident in your catch up in terms of the margin specifically, the loss ratios? And how do we think about, just given the market commentary that you've provided still being pretty defensive, I would say, in both insurance and reinsurance, how do you think about the margin profile in both of those businesses as we look out to 2018?

Marc Grandisson
President and Chief Operating Officer

Okay. Elyse, a good question. I think we're prepared for that one, obviously. I think there was somewhat of a small margin expansion in the fourth quarter of this year. It's clear that we've seen it. We think it's about 30 bps on our portfolio, maybe it's 50 bps. It's a positive -- it's small, but it's a positive and it's also on the heels of 2.5 years of margin compression. So you have to keep that in mind that a 1 quarter change does not repair 2.5 years of margin depression. That's what we are cautiously optimistic. It's holding in January. Our initial discussion with our team is that the market is holding up the rate level, the same as it was in the last quarter. Essentially, if you talk to our team, they'll tell you that at 2017, the last quarter of rate changes pretty much meant that 2017 was awash. So we sort of have a stable year versus '16. And this is what's behind our commentary about the market. So it's holding, slightly improving. And clearly, there has been the recent improvement at that level. There's also an improvement in ROEs and in return on margins. And a lot of it has -- does not have a whole lot to do with the rate level themselves. A lot of it has to do with the tax rate changes, specifically in the U.S. and as well as their interest rate environment that we see all around us, right? So those 2 together account for about 200 basis points of pickup in return. So historically, we've told you we have about a 7% to 9% ROE. This was middle of '17. So I think we're probably moving towards the higher end of that range. But the one thing that I mentioned that I really want to impress upon you, these are all quantifiable changes, risk changes in trend and losses. There's a lot of stuff out there that's called terms and conditions, and a lot of it has been given away over the last 2.5 to 3 years. And we don't necessarily factor that very well into our calculations. And the trend has been going up. The trend was 1.5%. It's closing in on 2% for this year. So that's why we're cautious because, yes, we're seeing some compression and margin expansion. The last quarter, it seems to be holding up at the January level -- the January 1 renewal, but there's a lot of uncertainty as to where are we starting from and what will it mean for the next -- for the remainder of 2018.

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

And I would just add, Elyse, that we talked about that as a management team. When you look backwards, the actual risk pick never works in a soft market. It's always worse than you think, and it's terms and conditions, as Marc highlighted. So that's where our gray hair comes from. We've been through enough of these things that you have to be thinking more conservatively.

Constantine P. Iordanou
Chairman & CEO

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

Marc Grandisson
President and Chief Operating Officer

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Marc Grandisson
President and Chief Operating Officer

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

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

Yes. I would just add, Elyse, that if this was 6 months ago, the idea of returning, if we could, and deploy it would have been tougher. Now it's -- we're returning about 142% of book. I think as of this morning, over 3 years, that's 12-plus percent. It's getting closer, not at, but closer to where we are. So it's not impossible, but we're looking to deploy our businesses, first and foremost.

Marc Grandisson
President and Chief Operating Officer

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

Operator

Our next question comes from Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

I would congratulate Dinos on the retirement, and I think the long-term shareholders owe you a deep debt of gratitude. And you leave the company in good hands, and we'll miss your commentary on the souvlaki, gyros as we approach the lunch time.

Constantine P. Iordanou
Chairman & CEO

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

Kai Pan
Morgan Stanley, Research Division

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

Marc Grandisson
President and Chief Operating Officer

Yes. We talked about last quarter, I think, the number I put in the ground for it to make it valuable in terms of -- to get back to historical returns we would want from a property cat perspective, precisely because of the volatility around it, we would have won about 30% increase. And now where we are, we probably gained anywhere between 5% to -- 5% to 10%. So we would need not an insignificant amount of rate increases. Though one thing I'll tell you about the middle of the year, this is property cat-exposed business insurance or reinsurance. They are very, very similarly in terms of rate needs. It's too early to tell. I think there's a lot of adjusting for position in the marketplace. One thing that surprised us, I'll tell you for January 1, and it might be another reason why we're a bit conservative in our comments, is that capital did not seem to go away at all. If anything, I think capital has been increased at the 1/1 renewal and it's -- the capital is committed for 1 year. So maybe we would expect a very similar round of rate change by midyear. We think it should be much bigger than this, much higher than this, but we may not be able to get this because of the microeconomic forces of supplying demand of capital, essentially.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. And then switch to MI. Just -- I have a couple of question there. One is the delinquency going up for the quarter sequentially because -- do you think the impact from hurricanes will be one time rather than long-term trends in term of delinquency trends? And then the second, what's your run rate, do you think, on your, like, expense ratio as well as the acquisition ratio? Is the, like, 2017 will be a good run rate going forward?

Marc Grandisson
President and Chief Operating Officer

Yes. Delinquencies are getting better, and we have our delinquency -- the case of delinquency that we have on our portfolio. If you exclude to your point the recent storms, it is still decreasing. And sequentially, as is with everybody else in the sector, we have seen a blip, about 3,200 new claims. We think -- because it's kind of hard to see through all the claims specifically, but we estimate about 3,200 claims from the storms. You're quite right. It's a blip. It went up from one quarter. We expect the cure rate for those claims, as you heard from other people, to be very, very high. A typical delinquency now that we see that's non hurricane-related probably cures to the tune of 87% to 92%. The ones on the storms are going to be way -- we expect north of 95%. So you're right, it's a blip. We have to recognize it. There were some reserves put aside for this as a result of that event. But we are expecting this to be a blip and go away. As of recent, I think, Mark, we have already a decrease in claims. We had 3,200 at the end of the year. At the end of January, I believe we already had 400 cured. So we expect it to be fully curing. Also, you should know, you probably heard about it from other call, that Fannie and Freddie had put programs to stay any delinquency, to give people credit and give some leniency on their payment of the storm, to recognize the duress under which they are at for the storms. So anything that we hear and see indicates that history will repeat itself and it will -- it'll be a blip that goes away in large part.

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

And Kai, if Marc didn't mention, I apologize if you did, but when you adjust for those hurricane-related without the delinquency rate, 1.97%, virtually flat with the prior quarter end. So that really accounts for it. As far as your second question on expenses. For the quarter, the segment was 20 -- a little over 22. What you have to keep in mind is yes, we're growing on our premium and you got the AIG quota share session starting to wane marginally a bit. But as I commented on in the prepared comments, the deferred acquisition cost were written to 0 on UGC transaction. So they are building back up and being amortized. So I would -- not to give crazy guidance, but I would say, at best, it would marginally improve from the 22.1%. So best I can do for you.

Operator

Our next question comes from Meyer Shields from KBW.

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

One quick question, just in terms of modeling. Can we get a sense as to how much the acquisition expense ratios have been impacted, not accounting the fourth quarter LPT for excise taxes?

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

Well, the only real impact you're really seeing of significance is in mortgage, as we talked about. I mean, there is some growth in NWP, as Marc delineated on a written basis, but the PC side is really not -- to date, has not really impacted. It's really the mortgage side.

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

Okay. And can you -- I'm not even sure how to ask this, but can you talk about...

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

And I'm sorry, Meyer. Yes. You did have a second point, as [indiscernible] just pointed out to me. The FET on the $13.6 million was reflected in the reinsurance group's acquisition ratio, and it was all expensed.

Marc Grandisson
President and Chief Operating Officer

5.2.

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

So it's 5 points plus.

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

Right. Okay. No. I got that. I was wondering if you could talk about the analog-to trend in the mortgage insurance business, whether that's changing. You talked a little bit about pricing getting more competitive.

Marc Grandisson
President and Chief Operating Officer

Yes. The trend -- well, the trend in loss trend really the equivalent for the MI, is the trend in credit riskiness of the underlying policy holder or mortgage insurance policy. And for this one, we're not seeing a significant amount of changes in the regular, to the average lender -- borrower. But having said this, if you look at the overall MI portfolio, there is an increase, for instance, in 95 and above LTV. So you do have an underlying riskiness of the portfolio that has changed over the last 2 years. So the singles were already there. They're not necessarily more risky, they're just a different -- they're an economic discussion, and which we have lowered, as you know. But the 2 elements are not getting riskier in the marketplace are the 95-plus LTV, which I mentioned, which are supported by the GSEs. And the second one is the DTI above 43, which is another one that is encouraged by the duty to serve aspects of the overall mortgage risk providers. So these 2 elements are not actually not insignificant, right? I think the DTI over 43 is about

20% of the NIW for the MI industry, and the 95% plus LTV has grown to 12.5%. So the overall riskiness of the portfolio is increasing as a result of that specific phenomenon. But if you look at the -- but it's actually buffered it to some extent by house prices appreciation going up and affordability still being at a very healthy level. The DTI for the average borrower is still below 30%, which is lower than historical values. So I think at the margin, the volatility around the expected, I guess, is increasing a little bit. You don't have necessarily an average risk are going up significantly. Does that make sense?

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

It does. That was very helpful.

Constantine P. Iordanou
Chairman & CEO

Let me just -- a little color. What Marc said is absolutely correct, but I want you to understand that a risk price methodology adjusts for the riskiness. And for that reason, a reduction in exposure has been mostly in the 95 LTV and above and of course, singles that we have been mentioning for the last 3 quarters. Just a little more color.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Question first is on the MI business. I'm just curious your thoughts on the competition that you kind of highlighted. Do you anticipate the tax reform will have any kind of incremental pressures with respect to pricing in the MI business?

Marc Grandisson
President and Chief Operating Officer

I think from a -- at a high level, Brian, I think once -- investors look at returns after tax. Most of the U.S. MI provider of capital of U.S. MI business are U.S.-based, therefore, U.S. taxpayers. So I would expect, in general, so -- that should mean everything else being equal, which it never is, that the returns would increase for the U.S. MI provider. Therefore, the question is, is that -- will they be okay with this? Will the investor expect a higher return? Or did the risk change in any significant way? So I think all else being equal, I would expect the market has been such -- it's not only an MI-specific, it's also a P&C in any market for that matter, phenomenon that if there is more money left after you pay the tax man, that there's an adjustment for returns. So we would expect to have some kind of effect. I don't think we're seeing it quite yet because as we all know, collectively, there's PMIERs 2.0 on the horizon. And that might taper somewhat what happens over the next 6 or 7 quarters. The problem we have is we don't have a crystal ball, as you know. But all else being equal, when tax rate go down, when there's more money available for shareholders, everything else being equal, then we'd expect price to go down slightly. Yes, we would.

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Marc Grandisson
President and Chief Operating Officer

Mark, you mean, just pretty [indiscernible]. It hasn't changed.

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

Yes. It's -- we would expect an incremental benefit now, Brian, of course. The 35% to 21% that we have, it's all U.S. We have a U.S. tax group that goes beyond mortgage, of course. It's all very -- but that's -- everybody talks about the other U.S. stock companies benefiting enormously. If you have other U.S.-based income, you're benefiting too, just as we are.

Marc Grandisson
President and Chief Operating Officer

And Brian, we said we're meeting the 15% return, which means, by implication, it's above that.

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Marc Grandisson
President and Chief Operating Officer

Well, before we were paying 35%, but there was a quota share to ARL for capital management purposes. So I would blend it to 17.5 absent the FET on the other side. Now it's at 21% for what's in the U.S. and then there's a quota share although we have to weigh that with the BEAT tax that comes into play as well. So we're somewhat similar -- in a similar position after tax than we were before, if not improved slightly, as Mark mentioned.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. Perfect. And then another one, just curious here, Watford. Just looking through the results, continue to have fairly high combined ratios here. What is the kind of outlook right now for Watford as we think about it?

Marc Grandisson
President and Chief Operating Officer

I think its purpose is still very much alive. I mean, we have other guys coming up with total return reinsurance still as of yesterday, I believe, it was announced in the marketplace. So I think that one thing that happened to Watford is that they were essentially participating on a property cat portfolio and it just sort of happened to run into the 2017 cat as well. So the question is, was this appropriate? Then we can look back and be money, money quarter back. But at the core of what Watford is doing, we're -- there's not much change for its purpose and it's still very much alive in what it's doing. The reinsurance play, as you guys remember, was, initially, what we're trying to do, get Watford into, there's been a shift over the last 6 quarters. As I mentioned, the reinsurance market, in terms of conditions, got progressively worse since we've established Watford Re. There's a push for Watford to become more of an insurance provider in the U.S., and that will certainly help those kinds of combined ratio and volatility, specifically around the result.

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

I think another -- Brian, a good characteristic to keep in mind is they are north of 50. I think they were 55% in the quarter direct on their own paper rather than being [indiscernible]

Brian Robert Meredith
UBS Investment Bank, Research Division

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

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

In the premium sense?

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, the premium. Just like -- because most of the gross to net, obviously, rate is the AIG.

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

It's not a big a follow-up as you think, Brian. And overall, annually, it's only in the tens of millions.

Operator

Our next question comes from Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

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

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

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

Amit Kumar
The Buckingham Research Group Incorporated

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

Marc Grandisson
President and Chief Operating Officer

Overall, I think it was favorable.

Amit Kumar
The Buckingham Research Group Incorporated

In insurance.

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

Insurance was basically flat.

Marc Grandisson
President and Chief Operating Officer

Yes. It was basically flat. Some plus and some minuses, but yes, overall, it's flat.

Amit Kumar
The Buckingham Research Group Incorporated

Not material. Okay. I guess the only other question I have is maybe a broader question. And this is for Marc. Based on the transition, I was curious. This obviously has been in the pipeline for some time in terms of your role. Have there been times when you thought differently than Dinos? And strategically, how do you think about Arch from here going on forward?

Marc Grandisson
President and Chief Operating Officer

I think the best question -- the best way to answer that -- I'll ask Dinos to chime in to confirm what I'm going to say, but I think that Mark Lyons, myself and Dinos worked together for over 16 years. We've had our differences and our agreements and disagreements, but by and large, I think over time, we find ourselves a lot more agreeing on things than not. I think we're both -- and the 3 of us come from the very rational -- a very economically rational way to analyze businesses and make decisions. And I think that's something that is sometimes missed or that you should appreciate that. And I think Dinos would echo this, the strategic visions or strategic play that we've had and we did over the last 16 years were -- were not -- Dinos was certainly the proponent and the one publicly advocating and talking about them, but all these things were really done and came to -- as we talk together, and John Vollaro was very instrumental on this as well. So I think that we all grew together in that environment and had more successes than failures. I mean, we don't do everything right but I think the overall -- I think we grew to agree more together not because I came to his view or we came -- he came to my view. It's because if you look for the truth and look for the right rational thing to do, we sort of come up to the same, a very often and very similar conclusion. That's what I've noticed over the last 16 years.

Constantine P. Iordanou
Chairman & CEO

Let me give you my two cents on it. What Marc says is absolutely correct. First and foremost, we have a very collaborative management team. And beyond that, we're collaborative with our Board of Directors. So the alignment as to where we're going to go, yes, we do the groundwork, the management team does the ground work. And Marc mentioned himself and Mark Lyons and me. But there were others. It's Nicolas and there is Maamoun, and I can go on and on and on. And there's Pres and on and on and on. So there is collaboration in examining what opportunities and where we're going to go. And the good thing about it is that when we arrive at a decision, then beyond is about execution. It's not about -- if I step back, and I look at the past 16 years, I would put a 95% plus agreement between the senior management team. And the board ratification of where he wanted to go. The other 5%, I don't -- I will never call it as a major disagreement. But directionally, maybe a little more to the right and a little more to the left. And then at the end, we agree as to how we're going to do it. And I expect the future to be pretty much in the same direction. Having said that, let me also address the other aspect of what we are as a company. We're opportunistic. So I don't know what opportunities will be detected in 2 years from now, 3 years from now, 4 years from now. But I can say me, my duties as a Director and being on the board and the management team operationally, which occasionally bring ideas up to the board as to what we're going to do. That collaboration is going to continue, but I can't tell you what the future is going to say if there is a change in strategy. If there is a change, it's because based on our opportunistic approach to the business, we see an opportunity in the future that wasn't present today or in the past as we've done with the mortgage. None of us thought we're going to be in the mortgage insurance business when we started in '02 all the way until the financial crisis. And then after that, we saw the opportunity. We worked on it first as a reinsurer and then later on, we said, "Oh, there is more value to be a primary insurer," and we took the steps and the acquisition to get us there. So I don't -- I mean, it's a very important question. But I think we've done a great job in not only transitioning leadership and building from within, which, basically, is another one of our foundations. And a lot of senior managers, they grow within the Arch culture, and we like to promote from within. And we don't rely significantly on growing and bringing outside talent, but it makes it easier later on to execute the strategy because everybody's in alignment. And I believe because we do have that collaborative culture -- listen, John Vollaro officially retired in '09, right? I don't think anybody here thinks he ever retired, right? Like I said, yes, you do retire, you're not operational. John was never operational.

I will never be operational. The management team's responsibility is to be operational and make all those decisions, but they are for consultation. People are going to call, we're going to discuss things. We're going to discuss them at the board. And at the end, I don't anticipate major changes unless the market dictate this because there is an opportunity that none of us is seeing today, but we might see it in the future. Marc?

Marc Grandisson
President and Chief Operating Officer

Agree. Agree with you.

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

Yes. Well said.

Operator

Our next question comes from Geoffrey Dunn from Dowling & Partners.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

Marc Grandisson
President and Chief Operating Officer

Actually, we -- the recent ones are getting below 10%, but we were about 12.5% over the last 2, 3 quarters. So we've crossed it, but it's a one quarter, Geoff. So who knows if it holds up there.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

Marc Grandisson
President and Chief Operating Officer

No.

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

It's just for the cats.

Marc Grandisson
President and Chief Operating Officer

Yes. For the cat -- oh, the cat, yes. I mean, the point of the cat for the -- lower than 5%. That's what we expect right now. Still early to tell.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Yes. I'm talking on the core number.

Marc Grandisson
President and Chief Operating Officer

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

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

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

Well, the hurricane's pretax load was really not that large, so you can kind deduce that it's not a big deal. It was south of $5 million.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

South of a $5 million capital drag?

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

No. South of $5 million cat reserve provision.

Marc Grandisson
President and Chief Operating Officer

Or the capital drag [indiscernible]

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

Marc Grandisson
President and Chief Operating Officer

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

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

Marc Grandisson
President and Chief Operating Officer

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

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

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

Marc Grandisson
President and Chief Operating Officer

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

Operator

Our next question comes from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

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

Operator

Our next question comes from Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I'll just follow up what Jay said there, which is, as I recall, around that same time, Dinos, you and John will remember these meetings well, everyone giving you a hard time about Zurich and questioning your ability to be successful at Arch. And I think a lot of people regret that they didn't get on-board sooner. So...

Constantine P. Iordanou
Chairman & CEO

Listen, I take pleasure on proving people wrong.

Ian Gutterman
Balyasny Asset Management L.P.

That's -- it's a great motivator, isn't it?

Constantine P. Iordanou
Chairman & CEO

Yes. Absolutely.

Ian Gutterman
Balyasny Asset Management L.P.

My first tongue-in-cheek question is -- Kai kind of stole my thunder here a little bit, Marc, but my first question is will the menu change next quarter?

Constantine P. Iordanou
Chairman & CEO

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

Ian Gutterman
Balyasny Asset Management L.P.

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

Constantine P. Iordanou
Chairman & CEO

Tzatziki's too -- this is my mother's secret sausage -- I mean, secret sauce, which is a lot better than tzatziki. Tzatziki, every Greek restaurant has it. So...

Ian Gutterman
Balyasny Asset Management L.P.

Okay. That's good. So serious questions. Last quarter, we had a discussion about the cats, as I'm sure you recall about the so-called missing losses and the modeling agencies never being right the first time and always being too low and how will this play out. And it seems that the way it's played out is, actually, the modeling estimates were too high for one, and everyone's releasing reserves just 3 months out. So I'm curious, now that you've had some more time to assess, what do you think -- what are the implications for that? I mean, is there a reason to believe there was a flaw in the models and we might see them be high in the future again like this? And we need to reassess how we think about hurricane risk? Or it's just -- this was an anomaly and every once in a while, they're going to be way too high?

Marc Grandisson
President and Chief Operating Officer

Yes. So if you look at that loss, Ian, we thought about it and most of the uncertainty and change in our ultimates were in the reinsurance segment. So if you look at that loss, the difficulty in analyzing this loss was how widespread it was among many primary companies. And then -- so clearly, it was not as concentrated as we thought it was. So this became clear to us after repeated discussion with our clients on the reinsurance side, I'm talking. Insurance side, we haven't changed much of our view. It's still the losses are the losses. We have them and it's not going away in a sense that there were -- there's less in that estimate. But on the reinsurance side, I must say that, collectively, as an industry, that might explain some of the exuberance that we've seen on other calls or in the January 1 renewal. That loss is largely an insurance loss. So it has made it a lot harder where reinsurance -- most of our capacity on the cat is allocated to the reinsurance. So it was very hard at the end of last quarter to reevaluate where the loss was coming from. So I've asked our team in Bermuda to see what kind of return period are we looking at for those kinds of losses. And we're in a 1 to 20, 1 to 30 years. So it's not as unusual as you might think it is. So I guess, I would just ascribe it to the fact that the losses spread out. And the losses in California, which could have been more concentrated, I should note it's a significant loss, but it's not significant enough that it will have that much of an impact on -- and certainly on the reinsurance segment and on the broader marketplace. So I think it's still possibly also too early. There might be some losses that develop afterwards. There might be some creep of the policy language that may change things. These are things that we'll have to see how they develop. But so far, you're right. I think that the missing losses are not missing. They were probably not there to begin with, specifically on the reinsurance side.

Constantine P. Iordanou
Chairman & CEO

Yes. I will pick up on what Marc said. I mean, yes, the losses in the aggregate, I mean, it's 3 losses and then you have the California fires and all that. It's still over $100 billion. It's still over $100 billion. So this is not what I would call a small event. But as Marc said, the -- most of the absorption of these losses came by the primary writers. And for that reason, the reinsurance market and especially some of the -- what you will call alternative capital did not get hurt as much as potentially could have been hurt. And for that reason, that capacity remain in the marketplace and it got easily reloaded, et cetera. And that has an effect as to how you're going forward with the rate. I don't know if Marc and his comments was more specific. In the primary property arena, we've seen gradual improvement on the pricing that is not diminishing. It happened in December and it's continuing in January. And at the end of the day, I anticipate it's going to continue because that's where the herd is. Most of the losses are getting paid by the primary companies. Now it didn't affect the reinsurance as much. And for that reason, I think there is

-- capacity is plentiful and rates have not escalated based on what we were anticipating. Mark mentioned 5% to 10%, which is not what we want. If it was 30%, which -- it would have met our threshold, you would have seen us writing a lot more cat business than...

Marc Grandisson
President and Chief Operating Officer

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

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

And let me just throw it once again. I know you asked an industry question, but as it relates to Arch, especially with Dinos' and Marc's comments about the primary side, in the prepared remarks, I made the comment that there were reinsurance releases, treaty and facultative. And facultative is a sister process for [resmort] portfolio, similar to insurance. But attachment point saves you there. And the primary guys are ground up, whereas the facultative unit is very skilled at where to attach.

Ian Gutterman
Balyasny Asset Management L.P.

For sure. I guess, I was trying to ask something a little bit different, I guess, more than sort of the pricing impact or the return periods, but more about -- it seems like damageability across the events, across all 3 events was a lot less than we all would have thought. And to be honest, Mark, it's not just the reinsurance as a primary. It's been Harper release, Allstate release, Travelers release in big dollars, right? So everyone's really -- it seems like just damageability per claim has been a lot less than the models expected. I'm wondering if there's some -- is that an anomaly? Or do we think there's something meaningful in there that might make us reassess how we think about cat risk?

Constantine P. Iordanou
Chairman & CEO

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

Operator

And I am showing no further questions from our phone lines. I would now like to turn the conference back over to Mr. Dinos Iordanou for any closing remarks.

Constantine P. Iordanou
Chairman & CEO

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

Marc Grandisson
President and Chief Operating Officer

Thanks, Dinos.

Operator

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