S&P Global
Market Intelligence

Arch Capital Group Ltd.

NasdaqGS:ACGL

Earnings Call

Tuesday, October 31, 2023 3:00 PM GMT

Call Participants

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2023 Arch Capital Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

Before the company gets started with this update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the federal securities laws. These states 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 filled 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 certain non-GAAP measures of financial performance. The reconciliations to GAAP for each non-GAAP financial measure 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 and on the SEC's website.

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

Marc Grandisson
CEO & Director

Thank you, Gigi. Good morning, and thank you for joining our third quarter earnings call. I hope everybody is safe and well. Yesterday, we reported another excellent quarter, highlighted by strong performances from each of our 3 operating segments that resulted in an annualized operating return of 25% and a 4% increase in book value per share. Overall, our teams capitalized on good underwriting conditions and relatively light catastrophe losses to produce an outstanding $721 million of underwriting income in the quarter.

Our property casualty teams continued to lean into favorable market conditions to drive $3 billion of net premium, up 26% from 1 year ago. Mortgage insurance once again delivered impressive high-quality underwriting earnings that we redeployed into our P&C segments where opportunities abound. Broadly, we continue to achieve rate increases above loss trend in most sectors of the P&C market. Although rate increases are slowing in some lines, they are reaccelerating in others, which is a good reminder that there is not a single insurance cycle with many. As always, Arch is well positioned to navigate across these many cycles by reallocating capital to the segment with the best risk-adjusted returns.

One of our core differentiating principle is that our underwriters are aligned with our shareholders through our unique compensation structure. Our underwriting teams are always seeking to maximize opportunities as long as they need our shareholders' targets. As we near the end of 2023 and look ahead to 2024, I believe that although the dynamics may shift, this hard market will continue to support profitable growth.

Let's take a moment to recap the current state of the market and where we are likely headed. I see it as a play in 3 acts. The first act, the current hard market started in primary liability insurance in 2019 and then has a unique circumstance of a 2-year pause in claims activity due to a global pandemic. The second act introduced Hurricane Ian as a main character where property reinsurers had to adjust both their pricing and risk appetite. In addition, capital got more expensive and the industry has to respond to meet new expectations from investors. While property has been the most recent driver of this market as we move into Act 3. We are faced with increasing evidence at casualty rates widely underpriced and oversold during the last submarket need to increase. We expect this third act of the extended hard market already one of the longest in memory to persist until the industry's reserving issues are resolved and until capital rates generate positive results. Arch is well positioned to capitalize on this operating environment.

As new hard market underwriting opportunities arise, our incredibly nimble reinsurance group allows us to grow more quickly and significantly than in our insurance group and is therefore where we are most likely to deploy capital first. Today, market trends point to a reinsurance-driven GL hard market, and we stand ready to act. The third act has barely started, but things are very promising for Arch.

Now some color on our operating segments. Our reinsurance group has once again driven our growth with third quarter net premium written of $1.6 billion, up 45% from the same quarter in 2022 and 60% over the last 12 months. Underwriting performance in the reinsurance group was excellent with a combined ratio of 80% for the quarter. Our expectation is that we will continue to see hard property market conditions to next year's renewal cycle as uncertainty and loss activity remains elevated. As noted above, we expect increased opportunities in liability as well. Our insurance group also remains in growth mode in both our North American and international units, while net premium written in the Insurance segment, up 60% over the last -- over the past 12 months, are more modest than in reinsurance, they are more broad-based because of our focus on small- and medium-sized specialty accounts. Underwriting income continues to build with increased earned premium and a strong combined ratio of 90.9%.

Today, there are still plenty of opportunities to grow profitably in insurance. Property and short-dated lines pricing in terms and conditions remained very strong with rate increases in excess of 15%. The NF casualty pricing is increasing in response to overall casualty trends in the market and our programs unit continues to achieve rate increases above trend. Professional liability rates softened in the quarter, with net premiums written down 9% in the third quarter of '22. We share the marketplace sentiment about the D&O segment where both IPO and M&A activity decreased, at the same time as rig pressures from competition and security class action activity increased. However, returns in that segment are still strong. In the same vein, we maintained a positive outlook on cyber pricing on an absolute basis despite rate decreases in the 15% range.

Our outstanding mortgage group continues to deliver quality earnings for our shareholders at higher persistency of our in-force portfolio helped offset the slight decrease in [indiscernible] which has been affected by lower mortgage originations. Although we tend to focus our comments on the U.S. primary MI market, it is worth noting that nearly 40% of our mortgage segment underwriting profit this quarter came from non-U.S. operations compared to just over 10% in 2017.

International business represents a significant growth opportunity for the mortgage group at Arch and our strategic decision to diversify our mortgage operations is yielding positive results that further differentiate Arch from our competitors. We are currently in a positive cycle on the investment side of our business, where increasing cash flows from growth are being invested into today's higher yield environment. New money rates are well in excess of our book yield which should continue to boost our investment income over time and provide us with an additional ongoing tailwind.

It's late October, which for baseball fans, mean it's time for the world series, baseball is somewhat unique in that it's one of the few team sports that isn't limited to a specific length of time. You can score as many runs as possible until the other team gets 3 outs. To me, the current hard market feels like a baseball game. We know there's only 9 innings to be placed, but we have no idea how long those innings will take. We've got a great lineup, we're happy to keep hitting our singles, doubles and occasional home runs until the inning is over.

At Arch, we remain committed to being good stewards that are capital entrusted to us. We do that by following a tried and true data-driven approach that maximizes the capability of our diversified platform, diligently adheres to a cycle management philosophy and is centered around superior risk selection and prudent reserving. All the while, our underwriters are fully aligned with our shareholders. These principles are foundational to our playbook and underscore our long-term commitment to superior value creation.

As we close out 2023, we have significant momentum in all 3 of our businesses and a reliable and high-quality earnings engine in our mortgage group that are helping fuel our growing investment base. All the pieces are fitting together nicely, and we're well positioned for the future.

Now I'll call Francois up on an on-deck circle, and we'll return to answer your questions shortly. Francois?

Francois Morin
Executive VP, CFO & Treasurer

Thank you, Marc, and good morning to all. Thanks for joining us today. To add to the baseball team, I would also emphasize that while this long winning streak has certainly been fueled by a timely and dynamic offense. We're also very much aware that team defenses play an important role in our success. We've been working hard not to waste any offensive production with careless errors and by executing well actively and on the field. We produced exceptional third quarter results from high-quality earnings across all our landlords.

The highlights of this team effort are numerous and include after-tax operating income of $2.31 per share for an annualized operating return on average common equity of 24.8% and a book value per share of $38.62 as of September 30, up 4.3% in the quarter and 18.4% on a year-to-date basis. Similar to the last quarter's results, our reinsurance segment grew net written premium by 45% over the same quarter last year, led by the property other than catastrophe line which was 73% higher than the same quarter 1 year ago. As for our property catastrophe business, it's worth mentioning that the net written premium in the third quarter 1 year ago included approximately $34 million of reinstatement premiums, mostly as a result of Hurricane Ian. If we adjust for the impact of reinstatement premiums, our growth in net written premium for this line would have been approximately 64% year-over-year.

The quarterly bottom line for the segment was excellent with a combined ratio of 80%, 73.5% on an accident year ex cat basis, producing an underwriting profit of $310 million. The Insurance segment had another very strong quarter, with third quarter net premium written growth of 11% over the same quarter 1 year ago. Similar to last quarter's results, we experienced good growth in most lines of business with the main exception being professional lines where the market remains competitive, particularly in public directors and officers liability. If we exclude professional lines, net written premium would have been 20% higher this quarter compared to the same quarter 1 year ago.

Overall, market conditions for our insurance and reinsurance segment remained attractive and we expect the returns on the business underwritten this year to exceed our long-term targets by a solid margin for some business units. Profitable growth during periods of favorable market conditions is one of the hallmarks of our cycle management strategy and the current hard market is definitely giving us the opportunity to deploy meaningful capital in many areas.

Our Mortgage segment's batting average has consistently been a league leader, and this quarter was no different with a 4.7% combined ratio. Net premiums earned were in line with the past few quarters across each of our lines of business. Included in our results was approximately $98 million of favorable prior year reserve development in the quarter, net of acquisition expenses with over 75% of that amount coming from U.S. MI and the rest from other underwriting units. Our delinquency rate at U.S. MI remains low based on historical averages and close to 85% of our net reserves at U.S. MI are from post-COVID accident periods at the end of the quarter.

Across our 3 segments, our underwriting income reflected $152 million of favorable prior year development on a pretax basis or 4.7 points on the combined ratio and was observed across all 3 segments, driven by short-dated lines. Current accident year catastrophe losses across the group were $180 million, approximately half of which are related to U.S. severe conducted storms with the rest coming from the [indiscernible], Hurricane Idalia and our global events. Pretax net investment income was $0.71 per share, up 11% from last quarter as our pretax investment income yield was up by approximately 18 basis points since last quarter. Total return for our investment portfolio was a negative 40 bps on a U.S. dollar basis for the quarter as our fixed income portfolio was impacted by the increase in interest rates during the quarter and most other asset classes and negative returns in line with broader financial market indices, such as the S&P 500, which was approximately 3.7% in the quarter.

Net cash flow from operating activities has been very strong so far this year in excess of $4 billion, which has helped grow our invested asset base by approximately 20% in the last 12 months with new money rates in our fixed income portfolio comfortably above 5%, we should see continued meaningful tailwinds in our net investment income.

Turning to risk management. As of October 1, on a net basis, our peak zone natural cat PML for a single event 1- to 250-year return level remain basically unchanged on a dollar basis from July 1 and now stands at 10.1% of tangible shareholders' equity well below our internal earnings. Our capital base grew and got stronger during the quarter and now stands at $18 billion. Our leverage ratio represented as debt plus preferred shares to total capital is currently under 20%, which provides us with significant flexibility as we look to deploy capital as opportunities arise. With these introductory comments, we are now prepared to take your questions.

Question and Answer

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, was hoping to get some thoughts on the January 1 property cat renewals on the reinsurance side. So where do you think -- where do you think rates end up next year on a risk-adjusted basis?

Marc Grandisson
CEO & Director

Well, I think the -- it's still early. We have a lot of movement in the marketplace and capital and people are, as you can appreciate, positioning at all the conferences. But our general consensus in the team when we talk to underwriters is that we'll still have improvements in 1/1/24, not as big as 1/1/23, we're still going to get slight improvement on the reinsurance side of things. What is also -- I mentioned before, this is not really fully reflecting what we believe has been the reunderwriting and reallocating of capacity by our clients, and that remains to be seen how it's going to be reflected and it will depend on the clients frankly. But overall, we still expect a very healthy, very robust 1/1/24 renewal on property.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then on your casualty comments, Marc, right, you alluded to that being the third act and really leaning in there on the reinsurance side. I was hoping you could just give us a sense of timing on how that will play out. And if that's a '24 event, do you see the reinsurance book shifting more to casualty? Or do you think it's an environment where they both, property and casualty, offer good growth opportunities for the company?

Marc Grandisson
CEO & Director

It's a great question. I think the -- we have a big play in property, as you saw between the property cat on the region side that is and the property other than cat in the core shares and thing in between. So I think we're still very much keen on that line of the business. Liability is a bit harder to evaluate right now because I think the first order is going to have to be looking at our plan for 2024, looking at the reserve or development [indiscernible] just talking about our clients. So it's going to take a little bit more time for people to figure out what it is they have and what they want to do with it coming forward to '24.

So we'll have probably some of us think that we may have a renewal is a bit more not as stable as it once was. So I think we'll probably see the early innings to go back to my baseball analogy of that liability possibly at 1/1. The one beautiful thing about GL or the one bad thing depending on which side of the you're in, it's a longer-term development on a softening and on the hardening the GL can -- it will take a little bit longer to get to where it needs to get to because it takes time for you to get the losses, reflect them in the reserving, and we have a good sense of where the ultimate results are from the prior year to adjust and help inform the pricing you're going to have over there. So this is going to be a lot -- much more protracted third act than the second act was.

Operator

Our next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just staying on casualty, there's been a lot of concern about reserves. And obviously, casualty is a fairly broad market category, but what are your thoughts on overall industry reserves in casualty, your reserves? And then maybe any color on the lines within casualty where you think there might be inadequacies and sort of the drivers of that or what's driven the reserve issues?

Francois Morin
Executive VP, CFO & Treasurer

That's a great question, Jimmy. I think there's -- as you said, it's a broad market. Certainly, we've seen some pressure in our own results. I think we see -- so you see both on insurance and reinsurance. On the reinsurance side, we see some of our clients recognizing adverse and the latency of some planes being reported to us, I think is coming through. We like to think we've been proactive in addressing those issues, but you never quite know for sure until everything comes through.

But some of the subsets, definitely umbrella is an area that it's something that we're watching carefully. The good thing, I think, with our book is, again, we are big players in that space in the soft market years. So we're seeing some things but not to the same level we think that may be other as well. And -- but it's a hot topic, and we're going to keep looking at it.

Marc Grandisson
CEO & Director

The one thing I would add, Jimmy, to what Francois just mentioned, is that we are -- you're hearing from the call that it's going to be more acute, more of a pressure point on the larger accounts than the smaller accounts. I think that the limits deployed there and the uncertainty and the combination of all these years developing is a little bit more probably more a bit more of an urgency in that sector. So we expect the larger accounts, which we don't do a lot of on the insurance side to be the first one to really feel the pressure.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on mortgage insurance, I would have thought, and I think most investors thought that at some point, you would see sort of a step down in your results, still strong earnings, but maybe not as strong as they had been the years following COVID because of the release of COVID related reserves. Just wondering how we can sort of get an idea on how much of the COVID-related reserves are still on your books and could be released versus maybe an ongoing benefit from that in the next few quarters?

Francois Morin
Executive VP, CFO & Treasurer

Well, I made the comment close to 85% of our reserves as U.S. MI are from post-COVID years. So that would mean '20 and after. But let's remember that when we were coming out of COVID, we saw just a lot of changes in home prices, home price appreciation and potential over valuation, right? So when we were sending reserves in the last few years, '21, '22, even up until early '23, that was a concern of ours. So we were somewhat -- as you would expect us to do somewhat more prudent I'd say in setting our reserves. How that plays out when delinquencies cure, we don't know. Could there be further favorable development, maybe.

But I'd say, for the most part, what's really been happening in the last couple of years is just I'd say very much again a function of the housing market, which has been just exploded and then created a different set of kind of data points that we're trying to analyze, and that's how -- what we based our reserves on. So hopefully, that gives you a bit of color on the question.

Marc Grandisson
CEO & Director

I'll just add one thing, Jimmy, on the industry. The industry is extremely disciplined again, a very nice thing to see around us. So from an ongoing perspective, putting the reserve for one second, if I can talk to the -- our expectations. And we think that there's still risk on the horizon, but the credit quality of our portfolio, the housing supply imbalance that you hear from Francois and the fact that we have a lot of healthy equity into policies in force is it looks really, really good. And when we say that our mortgage growth is also doing very well, and that's what we mean. It's in a really good place.

Operator

Our next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

While you posted double-digit insurance premium growth this quarter, the pace has decelerated a bit over the last 2 years. It looks like peak insurance premium growth was in mid-'21, and that might be a tough benchmark given you've grown a ton in professional ability and you are shrinking there, as you pointed out. Could we expect insurance premium growth at double digits to be sustainable going forward? Or should we see it fall to high single digits because of the professional lines headwind? And I'm just wondering if it's fair to assume that you prefer deploying capital into reinsurance now, all else being equal?

Marc Grandisson
CEO & Director

In terms of return expectations, I think your instinct is right on. I think reinsurance is providing right now very, very healthy returns. We expect this to continue into '24 and '25, to be honest. But the insurance group, I think it's 1 quarter there couple of moving parts due to some accounting thing, timing and stuff here and there sometimes. But as Francois mentioned, the growth in the line that we like to see growth into I'm very pleased to see because this is where I would expect the team to grow it as the market conditions are great there. And I would expect even some of those nonprofessional lines to actually maybe carry the day a bit more going forward. I wouldn't be surprised that we could go back above 10% next quarter and into 2024. So I'm not -- I don't see 1 quarter as the trend, to be honest.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Right, very helpful. You slightly shortened the duration of your asset portfolio in September to 2.97 years from 3.03 years in June. It feels like you're taking durational asset mismatch because the MI liabilities are much longer durated. Given the shape of the yield curve is beginning to show signs of steepening, I mean it's a tad bit less inverted. Going forward, would you consider lengthening your asset duration? Or you feel comfortable with the sub-3-year duration level?

Francois Morin
Executive VP, CFO & Treasurer

Good point. I think the duration is probably the lowest it's been in a long, long time, and that's just our investment professionals here again make the decisions, and there's obviously a little bit of tactics that's involved and kind of where they want to play at a certain point in time. But for sure, absolutely. If interest rates, we think the longer the curve ends up being a bit more attractive. I mean, we certainly consider extending the duration a little bit. And we've got a bit of room there anyway just to match with the liabilities to make sure that we're not mismatched there. So that's certainly something that we'll look at in the coming months and quarters, yes.

Operator

Our next question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, it sounds like you are pretty constructive looking into 1/1/24. Can you maybe talk about your prioritization of capital? And maybe give us a way to think about maybe potential available capital you have to deploy into the insurance and reinsurance markets?

Francois Morin
Executive VP, CFO & Treasurer

Well, yes, we are constructive on 1/1. I think we -- Marc and I both said it, I think it's a really good market in totality. There's some pockets that are certainly better than others. We think that the internal capital generation, we've been able to generate in the last few quarters gives us the ability to really grow and take advantage of the opportunities that we think have a good chance of being there. Again, we don't make the market. We participate in the market. So if the market is as positive as we think it can be, then we'll be happy to step in and take a bigger share of it.

But I think the fact that we've got capital flexibility has always been one of the -- maybe one of the most important things and our strategy all along is we want to make sure that we have plenty of capital to deploy when the market is right. And so far, we've been able to do that.

Marc Grandisson
CEO & Director

So Yaron, if I look at the high level, the way we think about -- we think about it, it's different perhaps than even our underwriting units, meaning that they don't really, they don't really know how much capital is allocated to them at the beginning of the period. I want to remind everyone that people write the business or underwriting team writes the business. And then we -- after that, charge them with the capital they've been using. And based on the planning and all the expectations that we have, our message to the group has been there is no capital constraint or issue concerns that, that pertains to you guys. If you see the market being better and even get better than we saw, feel free to deploy more capital if you wish to do so.

So there's definitely there's all hands on deck go forward if we can invite the business. That's one thing that's really nice and we'll then attribute the capital after they have written the business. That's what we do every year. On the property cat side, which is probably a more interesting one for its worth to you, we're about 85% allocated to the reinsurance group in terms of our P&L that Francois mentioned. And I think it's because the returns are there are a little bit more favorable on the reinsurance side. And then we had the discussion at the group level. That's one exception. So when we have an acute or a specific area of the capital, we'll sit down with the Insurance Group and Reinsurance Group with Nicolas facilitating the whole discussion, and we'll sort of decide to roughly broadly where we want to allocate capital.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I appreciate that. And then certainly, I think the capital availability and the appetite to deploy is a very important part of the Arch story. And I guess from that perspective, is there anything you can offer us in terms of an attempt to quantify the available capacity? Or is that something that we'll just have to watch and see?

Francois Morin
Executive VP, CFO & Treasurer

Yes. I mean, we -- certainly, we have some capital -- we have plenty of capital available. We just don't know what the market will look like at 1/01. So that's why I'd say you're right, probably have to wait and see a little bit, see how 1/1 play out and then we'll have the ability to do something with the excess capital if any.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then my other question, just on public D&O and cyber, where we're clearly seeing a little bit of pressure and competitive pressure there. Do you still view rates as adequate there? And are they clearing the loss cost trends?

Marc Grandisson
CEO & Director

Yes, our return expectation on both these lines, cyber and D&O are still very, very healthy.

Operator

Our next question comes from the line of Joshua Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. With the high retentions, this quarter in terms of premium ceded. Can you go maybe line by line or dig in a little bit about which lines of business you're retaining more? And is that a signal that you've gotten to the point where you have enough information that you love the profitability more and want to keep it yourself? Or is you're looking at your capital thing, we have the capital deployed. So let's eat a bigger piece of the pie. How did that all come together?

Marc Grandisson
CEO & Director

I think you answered the question beautifully. I mean by asking a question you gave the answer, I think that all those things you said are true. I'll get to the lines in a second. But to your point is exactly right. We're going to this hard market and we make -- we still value reinsurance. You cannot go without a reinsurance. You still need it for various reasons, limits management, risk management and also information right? Reinsurers are providing us on the insurance side with valuable information about what the market is and the state of the market. So we don't want to be an outlier out there. So it's always good to have this as an additional value proposition from the reinsurance companies.

In terms of what we decided to do over 2-3 years, you're quite right, we have been building, as Francois mentioned, a significant amount of capital through our mortgage earnings. So that's certainly something that was helpful and available to deploy in other areas, and that also helps being able to maintain and retain more net. I think if you are at a high level, I think that the patterns of buying, we're buying a fair amount less on the liability lines, specifically those that went through the first act and really had a lot of good uplift. So we definitely saw that happening on the property, even though the property is very hard, as we all know, since last year, this is a much more volatile line of business, and we still maintain our excessive loss on the cat side until by a quarter share, a significant quarter share on that business as well.

So I think overall, it's meant to be the balancing act between providing relief or volatility protection to some extent and information. But you're quite right, having more capital definitely helped us take more net on our balance sheet.

Joshua David Shanker
BofA Securities, Research Division

And switching gears a little bit. When you have a 25% ROE quarter, you're making a lot of money and you have a large team that has contributed to that result. I assume they'd like to be paid for their good work. How should we think -- we've not seen a quarter like this in a long time in a year like this. How should we think about the pattern and the cost of discretionary comp where it hits the P&L and how it should compare with prior years?

Francois Morin
Executive VP, CFO & Treasurer

Great question, sorry. We -- just again, in terms of timing, right, our incentive compensation decisions are made in the first quarter, will be made in February of next year. But no question that throughout the year, we accrue expected bonuses based on what we think that performance might look like, and there's effectively a true-up that takes place in the first quarter when the final amounts are determined.

Something we're keeping an eye on. So I don't know if there'll be an early adjustment in the fourth quarter or not something we'll be looking at carefully, so that we don't go to distort too much the first quarter next year. Obviously, the board has final say in how much money will be available to pay our troops. So that's -- it's a little bit of -- we don't want to front run it. We want to be reasonable and not introduce too much volatility in the numbers on the OpEx side. But that's certainly something that we'll take a look at in the fourth quarter to make sure we're not missing anything here.

Operator

Our next question comes from the line of Alex Scott from Goldman Sachs.

Alex Scott

First one I had for you is on the attritional loss ratio in the reinsurance segment. I was just interested if you could give us a little more color around just what's driving this year, favorable performance year-over-year? And if there's anything new as we should be thinking about or if it's just the pricing environment being as strong as it is?

Francois Morin
Executive VP, CFO & Treasurer

Two quick things there. One is -- and we said it before, and it goes both ways. We think of reinsurance as a line of business or a segment that we think is better analyzed on a trailing 12 month basis. We think looking at a quarterly there'll be some good, there'll be some bad. And we've said in past quarters where we have elevated the attritional claim activity. We said don't panic, don't overthink it in the same way here, I think.

So we would certainly encourage everybody here to look at a trailing 12-month basis to have a better view of the long-term kind of prospects of the segment. The other thing I'd say is also, obviously, we've grown a bit more in property relative to the other lines. So by nature, right, our ex cat combined ratio should probably come down and it has as a result of, again, the growth -- the significant growth we've had both in property cat and property other than cat.

Alex Scott

Got it. Very helpful. I wanted to ask a follow-up on the comments you made on casualty reinsurance. And I'm just interested in what is changing that's causing more of this commentary to sort of bubble to the surface? I mean, we've heard it from some of the European reinsurers as well. Is it I mean, is it truly just that they're starting to see reserves develop in a poor way for some companies? Or is there something that's changed about the social inflation environment? I mean what do you think is the underlying driver or drivers?

Marc Grandisson
CEO & Director

Yes. I think the industry is -- there's a couple of things going on at the same time, and they unfortunately don't go in the right direction for both -- for all our industry if you have written casualty. First, we have a -- as I mentioned in my comments, we had a bit of a slowdown in activity including core activity, settlement activity. And we also have, as we all know, there's a lot of litigation funding, it's a bit more aggressive is coming from the [indiscernible] bar, and that's certainly something that you could describe to be social inflation, but that's not really something new.

But there was sort of a lull in this market. It was sort of a spike, if you will, between 2020, '21 to really middle of this year, early this year. So I think right now, we have sort of a refresh reupdating all the information about the losses of where we are and what could happen with the demand being updated and made more current. At the same time, we have priced that business as an industry in '15, '19 with inflation at 2%. Now inflation is north of 5%, 6%, 7%, depending on where you look at. So at the same time, of course, we open things are being adjudicated reanalyzed, you have to account for a higher inflation number. And that is a classic case of having a couple of things going against you, nothing that the industry did on its own. It's just the economy and the environment and the risk in it and the environment.

So I think that we're facing all collectively as an industry, that phenomenon. And what I like about the industry's capability is it's reacting. And that's what you hear. That's something that we should be very, very happy for collective as an industry. The other calls that you heard this quarter recognize it. And once you recognize an issue and a problem, people are very good and very adept at addressing it. And I think that's what's going on. There are couple of combinations coming in very, very short order because of the surrounding environment. I think this is what largely drives what's going on right now.

Operator

Our next question comes from the line of Michael Zaremski from BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

Switching gears to the investment portfolio. So the net realized losses were somewhat outsized again this quarter. I know they run below the line, but any color -- are those -- are you actually crystalizing to take advantage of the higher rates? Or is there noise in there from unrealized stuff or maybe the LPT transactions in the past?

Francois Morin
Executive VP, CFO & Treasurer

Yes. I mean it's mostly around kind of crystallizing some losses. I think it's a process we go through for each security on the fixed income side, where we make the determination. Is it appropriate to sell some of those and redeploy the proceeds and higher yields and our investment team does that. So yes, there are going to be some realized losses coming through the fixed income.

Obviously, the equity portfolio, which is not huge, but still there's FBO securities like fair value option securities, including equities that are effectively mark to market, and that comes through the realized gains of losses lined in the income statement. So those are the 2 big items. There's a little bit of other stuff going on that is a little bit of the wheat. So I wouldn't want to go there, but that's directionally hopefully that's just normal course of action.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And lastly, on -- it is my understanding for me to put out there a second comment letter, maybe it's different, they call it something else. But on the potential tax changes that will take place. Are -- any way you could offer us some color on what's -- how things are going to play out base case over the coming year or 2 or does the step-up -- if everything goes as planned, does the step-up in tax rate happen in '24? Or is it a '25 event or both?

Francois Morin
Executive VP, CFO & Treasurer

Yes. It's, again, very early. So too early, unfortunately, to give clear or kind of views on what we think could happen or because they're still developing the laws, and we expect more progress on that before the end of the year. But at a high level, it doesn't start -- when it starts, if it goes through until 2025. So there's no impact for 2024 and we will be evaluating the -- they kind of made publish some target tax rate that they will try to get to.

But again, more to come. I think we'll do our best to keep you apprised of how we think about it probably on the next call. But until we have any more clarity on where it's going to land, I think it's a bit premature to give you too much -- too many details here.

Operator

Our next question comes from the line of Meyer Shields from Keefe, Bruyette & Woods.

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

Sorry, First question on, I guess, casualty reinsurance. This year, like January 2023, we saw not only significant increases in property capital. We saw changes in program structures with higher attachment points. Is there anything analogous to that, that we should see on the casualty reside in 2024? Or is it just going to be a great story?

Marc Grandisson
CEO & Director

Probably more of a great story. The buying pattern on GL is mostly on a core share. There's a lot of core share being purchased in that segment. That's also certainly something we prefer to focus our capacity on, those of you who followed us for years, this is where we prefer to focus on capacity.

On the excess of loss, Meyer, people don't really buy [indiscernible]. People don't put out like $60 million, $80 million, $100 million limit. So we don't have a similar kind of risk -- the risk vertical is not as big. And in terms of events, like a cat portfolio, you could see where things are accumulating can generate hundreds and hundreds [indiscernible] exposure. In the liability side, it's not the same. You already have a necessarily 1 or 2 events that could really impact such a wide area of your GL. So I think we'll see a lot more filtering more on a core share basis and some of the excess of loss here and there. It's not very similar -- it's not at all similar to the property market.

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

Okay. That's very helpful. And second question, and hopefully, I can ask this in a way that makes sense. When we talk about reserve problems from older accident years, ultimately driving casualty rate increases to accelerate, is that so the industry can overearn in 2024 and backfill? Or is it because the recalculated older year's losses mean that current rates are actually not as adequate as we thought?

Marc Grandisson
CEO & Director

I think it's the latter. I mean it's a bit of the former, to be honest with you, people have to recognize those losses if they have them. I do believe -- as we talk about it, Meyer, you know that as well as we do, you're an actor yourself, the reserving process feeds the pricing process. And clearly, if we have a reserving that's a bit higher than you would have expected, it will help inform your loss ratio historically. You have to put a trend on them, do the on-level analysis that helps get you to the price increase that you're looking at. So the past as it's developing, will inevitably lead you to having to charge more. And the reason we don't a whole lot of large GL for that matter is precisely because of your second point, which has been historically a little bit wanting on the rate level and the rate level side.

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

Okay. That's worrisome about recent years for the industry, but that's very helpful.

Operator

One moment for our next question. Our next question comes from the line of Bob Huang from Morgan Stanley.

Bob Huang

Congratulations on the quarter. Just a quick question on your insurance segment's loss ratio, year-on-year loss ratio improved for about 30 bps. But just given just the strong E&S pricing environment, shouldn't we expect a little bit better improvement in loss ratio. Is there anything in the loss trends that probably differed from how you thought about your loss picks in the past, just see if there are any comments around that?

Francois Morin
Executive VP, CFO & Treasurer

Maybe -- I mean I think the answer is really around like us being prove and selling initial loss picks. We don't want to get into the game of being overly optimistic. There's still a lot of risk out there. There's still a lot of uncertainty when we price the business, whether, again, we just been talking about casualty loss trends in particular, that's an area that we're watching carefully. So we'd rather -- and it's been our model for many, many years is pick a realistic kind of a bit more conservative initial loss pick on -- when we book the business and then react to the data when it comes in.

So we're hopeful there could be good news down the road. But for the time being, we're very happy with our loss picks.

Bob Huang

Okay. My second question is a follow-up on the reinsurance core combined ratio. Obviously, it was very strong and I think you mentioned that a lot of it is due to business mix shift, right, shifting towards property and then because of that and then you naturally have an improving combined rate -- loss ratio there. Just curious if we were to think about going forward, the run rate combined ratio for your reinsurance segment, based on the comments so far, is it fair to sort of assume that it's going to be closer to what you presented over the last 2 quarters and probably better than the prior quarters. Is that a fair way to think about it just from a modeling perspective?

Francois Morin
Executive VP, CFO & Treasurer

Again, I mentioned like the thinking around trailing 12 months, which is where I would start -- to help you kind of with assumptions, I would -- if you're going to -- we think about it in totality around the combined ratio, but if you're breaking down the loss and the expense ratio, yes, maybe there's a -- given the growth, maybe there's potentially the latest quarter of OpEx is probably more sustainable given we've been able to generate that premium, that growth with the same level of resources. But on the loss ratio side, I think it's just -- I would be careful not to over -- I mean give too much weight to the latest quarter.

Bob Huang

Congrats again on the quarter.

Operator

One moment for our next question. Our next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First on the MI segment. I know there's clearly some market pressures, but NIW definitely down year-over-year. And it looks like just looking at some of the stats you all have been losing some market share in the MI segment. Is that intentional? Are you any concerns about the outlook here on the MI as far as delinquencies? Or is it more related to perhaps just better use of capital elsewhere?

Marc Grandisson
CEO & Director

It's more the latter than the former. I would actually say tell you, right, that the market is better this year than it was in last year. So I would argue that we might change the way we enter the market over the next 12 to 24 months. But certainly, at heart, we have been saying that to you historically it hasn't changed last quarter, which in terms of relative returns based on the 3 segments on the underwriting segments. MI is a third one, but a very strong one, I would say, at this point in time. But again, it's more of a reflection of the relative opportunity between the units than anything else. In the market, Brian, I'll tell you the market is very, very disciplined. We're very impressed by the industry or the MI industry.

Brian Robert Meredith
UBS Investment Bank, Research Division

Good to hear. And then I guess my second question, Marc, as I think about if this next leg is coming through the third act on the casualty reinsurance side. I guess that probably comes through a lot on the ceding commission side, if you get you get better ceding commissions, should we continue to see kind of the acquisition kind of expense ratios on the reinsurance side kind of moving down here as we head through 2024, given what's going on with the casualty reinsurance mark, particularly since you play quota share?

Marc Grandisson
CEO & Director

Well, yes, I think the ceding commissions are about [indiscernible] right now, we'll see what that ends up. There might be a slight change or we'll see how -- it's also going to be dependent on how the underlying market is improving as a reinsurance player. But I think what's our acquisition costs right now reinsurance, it's mid-low, low 20s. So I think if you have more of a portfolio even if let's argued, it's a 30% ceding commission. So you might see actually, the acquisition going up a little bit. But again, I all the time talk about when we have these questions about the expense ratio and loss ratio but now it has started to return and whether the combined ratio lends ourselves to return when it comes from losses of expenses we are already losing sleep here. So I think this is [indiscernible].

Brian Robert Meredith
UBS Investment Bank, Research Division

And I was going to say that I guess maybe the right way to think about it is that if you're leaning more into the GL, the underlying combined ratios may actually move up some here as you look forward because we have a different return profile.

Operator

One moment for our next question. Our next question comes from the line of Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just on the MI. Wondering if you could expand on the growth opportunity internationally, you referenced in your commentary. I know Australia is a big market for you, but where else are you focused outside of the U.S.? Or is it mostly just Australia that you're referring to?

Marc Grandisson
CEO & Director

Great question. I think the non-U.S. base is also the CRT, which is granted exposed to the U.S. MI, the excess of loss program that the GSEs have developed over -- we have developed over the last 11, 12 years. Internationally so that's a piece of it, you see it in our financial supplement. Internationally, we have Australia. As you know, we have a good size, great relationship and a great presence there. We're very pleased with it. We're also getting a little bit more market share there even though the mortgage origination is a slowdown there as well.

The other piece that's really -- that's really in development is the international with European specifically, SRT, which are 90% mortgage-backed credit risk transfer, they look a lot like the CRT business that we have in the U.S. Most of it is done because banks need to release capital that Basel III led the transactions. And we've been doing it for a little while, and we've partnered up, actually with another European company who's very steep in that area. So that's a growing area right now because I think the -- there's a lot more need for capital. As you know, Scott, not only in the U.S. [indiscernible] has a similar consideration. So it helps us be there for them to provide more capital relief and it's certainly something that we're focusing more efforts on.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. And then the -- just the risk profile and the credit quality and the default ratios on those. I would assume those are very favorable. But how does that all compare to outside of the U.S. and internationally versus the U.S. book?

Marc Grandisson
CEO & Director

I don't want to say too much because you're going to get more competition in this segment. High level of comparable and sometimes better than the CRT we see, but we feel there's a little bit more work to be done there, for those who are trying to get in the business, I think you should talk to us first, we'll help you get in the business.

Operator

At this time, I would now like to turn the conference over to Mr. Marc Grandisson for closing remarks.

Marc Grandisson
CEO & Director

Thank you so much, everyone, for listening to our commentary this quarter. Looking forward to the end of the year. Happy Halloween. See you next time.

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