S&P Capital IQ

CONTENTS

Arch Capital Group Ltd. NasdaqGS:ACGL

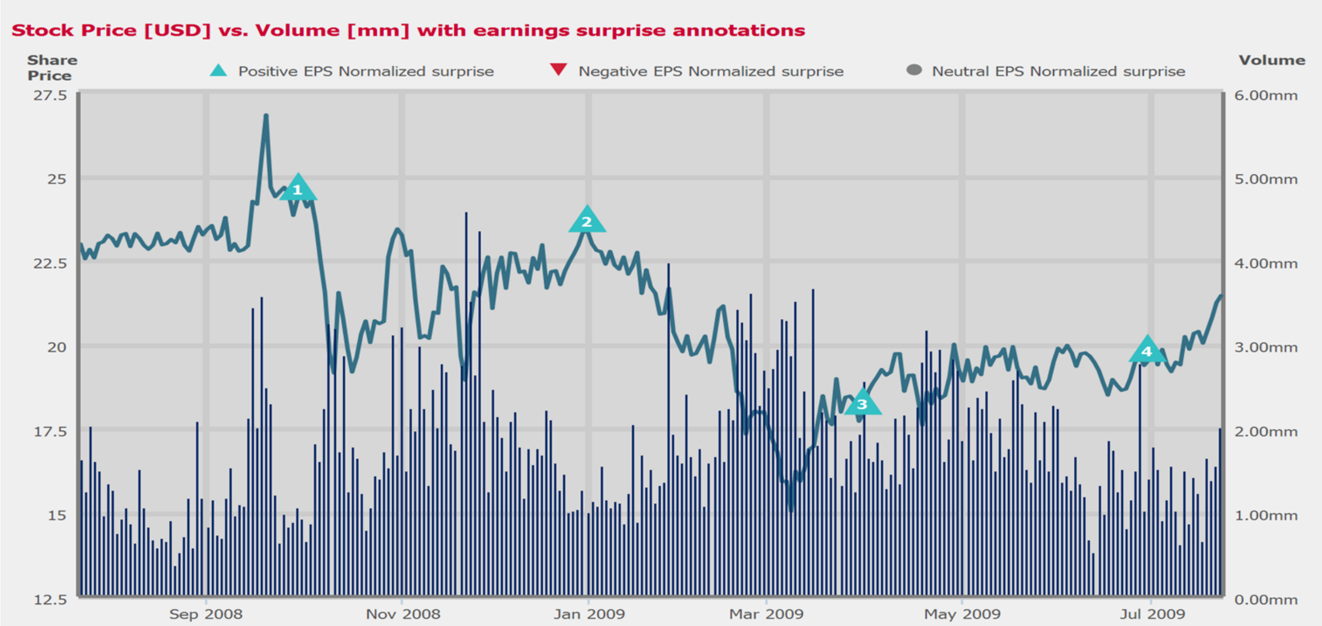
FQ3 2009 Earnings Call Transcripts

Tuesday, October 27, 2009 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2009-			-FQ4 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	0.85	▲7.59	0.79	3.36	3.13
Revenue (mm)	703.42	727.31	▲3.40	664.61	2895.64	2955.12

Currency: USD
Consensus as of Oct-27-2009 2:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	0.20	0.34	▲1 70.00 %
FQ4 2008	0.36	0.48	▲2 33.33 %
FQ1 2009	0.86	0.90	▲3 4.65 %
FQ2 2009	0.82	0.87	▲4 6.10 %

Call Participants

EXECUTIVES

Constantine P. Iordanou
Chairman and Chief Executive Officer

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Dean Evans
Keefe, Bruyette, & Woods, Inc., Research Division

Ian Gutterman
Adage Capital

Jay H. Gelb
Barclays PLC, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2009 Arch Capital Group Earnings Conference Call. My name is Katelyn, and I'll be your operator for today. [Operator Instructions]

[Audio Gap]

Before the company gets started with this update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the federal securities laws. These statements are based upon management's current assessments and assumptions, and are subject to a number of risks and uncertainties. Consequently, actual results may differ materially from those expressed or implied. For more information on the risks and other factors that may affect future performance, investors should review periodic reports that are filed by the company with the SEC from time to time. Additionally, certain statements contained in the call that are not based on historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The company intends the forward-looking statements in the call to be subject to the Safe Harbor created thereby. Management will also 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 with the SEC yesterday, which contains in the company's earnings press release and is available on the company's website.

I would now like to turn the conference over to your host for today, Mr. Dinos Iordanou and Mr. John Hele. Please proceed.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Thank you, Kate. And good morning, everyone, and thank you for joining us today. On an operating basis, we had a very good third quarter from both an underwriting and investment perspective. Our reported underwriting results, as reflected by the combined ratio of 90%, were satisfactory in the current environment and were aided by light cat [catastrophe] activity and favorable reserve development.

From an investment point of view, we had an excellent quarter, achieving a total return of 4.75% for the quarter. We continue to remain cautious in our investment strategy in maintaining a relatively short duration and high credit quality for the portfolio.

With respect to capital management, we invested approximately $100 million in the repurchase of our shares during the third quarter. Consistent with our prior practice, we were cautious on the size of the share repurchase during the hurricane season. John will give you more details on our investment portfolio and financial performance in a few minutes.

The most important measure for our performance is growth in book value per share, and we were very pleased with this quarter's and the year-to-date results. Our annualized return on common equity was 16.4% and our book value per share grew by $8.72 to $69.48, a 14.4% increase from June 30, 2009, and a 35% increase from the end of 2008. Our cash flow from operations remain strong at $316 million for the quarter.

Now let me share some thoughts on our operating units. Our gross and net written premium for the quarter grew by 3.7% and 5% to $937 million and $727 million, respectively. On a year-over-year basis, our Insurance Group was down approximately 1% on gross written premium, and up 1.5% on net written premium. The slight difference in the net-to-gross relationship was due to the restructuring of certain of our reinsurance purchases, as we purchased more excess of loss protection and less quota share.

Our Reinsurance Group's gross written premium for the quarter were up 16%, while their net volume increased by 12%. The difference in gross and net is due to the additional retro purchases for portfolio management reasons. Most of the Reinsurance Group growth is coming from the property, property cat and property fac [facultative] operations, as more clients increased their lines with us during the quarter. A small portion of the increase is attributed to premium adjustments from casualty business written in prior years, as actual border rolls [ph] (00:29:05) came a bit higher than our original estimates. We continue to see reinsurance opportunities from buyers diversifying their reinsurance panels and gravitating to more financially secure reissuers.

With respect to the operating environment, the degree of rate improvement that we saw in the first and second quarter has moderated. And the pricing environment is basically unchanged from the first two quarters of this year. We continue to see the best opportunities for adequate risk-adjusted returns in the property and property cat lines, and we continue to be very cautious in our underrunning approach to the casualty business. As always, our strategy is to allocate our capital to opportunities that we believe will generate the best returns.

As a result of the current operating environment, our 12 months trailing mix of business is 48% short-tail lines and 52% medium- and long-tail lines. Of course, the shift is more dramatic in our Reinsurance business, where 70% of what we currently do is property-related and only 30% is casualty and professional liability-related.

In the insurance group was still 70% medium- and long-tail lines of business, and only 30% short tail. This is a result of our capital allocation process, as we continue to allocate 80% of our available PML [probable maximum loss] to the Reinsurance Group as we see the better opportunities in that sector of the business.

With regard to loss activity, we have observed relatively benign activity over the last few calendar quarters. This favorable loss emergence appears to be driven by modest frequency, as well as severity trends. Independent of this trend, we continue to price and reserve our business based on the long-term loss trends we see, which are higher than our most recent experience.

Overall, we achieved a 3.4% rate increase during the quarter on our entire book of business, ranging from single-digit reductions to low double-digit increases depending on line of business. This overall rate increase is consistent with the current loss trends we have experienced by these lower-than-the-long-term-trend projections.

Before I turn it over to John for more commentary on our financials, let me update you on the PML aggregates. As of September 30, 2009, our one-in-250 PML from a single event, expressed a percentage of common equity, was 20% below the June 30 level of 22% and now a 25% of common equity self-imposed risk-management limitation. The reductions was directly attributable to the increase in shareholders' equity, not a reduction in PML or our willingness to entertain additional cat writings.

With that, let me turn you over to John for some more commentary on our financials. John?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

Thank you, Dinos. Let me give some more details regarding what was an exceptional quarter for both sides of the balance sheet. The combined ratio of 90% this quarter with light cat activity of only $5 million in the reinsurance area, compares to 105% a year ago when we had significant cat activity of $143 million. Favorable reserve development improved the combined ratio by 7.7 points this quarter, compared to a favorable 7.6 points a year ago.

The loss ratio of 60.6% in the third quarter reflected 7.6 points or $56 million of favorable development in prior-year reserves, compared to 9.3 points or $68 million recorded a year ago. Approximately 60% of the total favorable development came from short-tail lines while approximately 70% of the total development was in the Reinsurance segment. The Insurance segment loss ratio of 68.4% reflects a favorable development of 3.8 points, 2/3 from property and other short-tail lines, and the remainder from medium and long-tail lines. The Reinsurance segment loss ratio of 48.7% reflects favorable development of 13.4 points, approximately half from property and property cat and other short-tail lines, and the other half from medium and longer-tail lines.

The total acquisition expense ratio of 16.6% decreased by 1.5 points from the prior year as there was less impact from profit commissions from prior year favorable reserve development in the third quarter of 2009 compared to 2008, as well as the change in the overall mix of business. The total other operating expense ratio of 12.8% reflects an increase of 0.5 points from the prior year, mainly due to property, facultative operation in the Reinsurance segment. Last year, there was a one-time catch-up deferral of acquisition costs and this year, the facultative operation, which operates primarily on a direct basis is a larger percentage of earned premiums.

In looking at the year-over-year expenses in the insurance operations, which are basically flat. There are non-recurring expense accruals in the third quarter of 2008 of $5.7 million. While in the third quarter of 2009, there are additional expenses related to the expansion of the Executive Insurance and Professional Liability lines of business of $3 million, and as well as $1.8 million from the addition of personnel in Canada and other areas.

On a per share basis, the net investment income was $1.60 in the third quarter of 2009, compared to $1.86 in 2008. The pretax net investment income during the quarter of 3.76% reflects a book yield before expenses of 3.93% at September 30, down from the 4.06% at June 30 and 4.74% one year ago. While the duration of portfolio remain approximately constant at $3.09 from the last quarter, lower available yields and high-quality assets have continued to impact the portfolio. The total investment portfolio grew from $10.7 billion at June 30 to $11.5 billion at September 30, driven by a general recovery in asset prices, a 20% return in our total bank loan fund portfolio of $458 million, new investments with the TALF [Term Asset-Backed Securities Loan Facility] program and good cash flow from operations.

During the quarter, we added to our 2009 issuance, non-agency RMBS portfolio that now totals 127 million with newly restructured deals called re-REMICs that offered very high credit protection. We also participated in the U.S. government TALF program purchasing securities with 251 million during the quarter. TALF was developed to encourage investments in certain highly-rated asset-backed securities. Arch invested $31 million into AAA structures and also received non-recourse notes from the U.S. government for $220 million. This structure gives an expected return on the portfolio in excess of 10% after taking into account the interest and principal on the loan over the next five years.

Due to the unique aspects of the program, we are breaking out the TALF investments and loans on the balance sheet this quarter and the future. We are also separating out the non-recourse TALF loans from our capital structure as these loans are for TALF investments only.

Credit-related impairments were $4.6 million, primarily due to some reductions in expected recovery rates on certain residential mortgage-backed securities. Arch's CMBS [commercial mortgage-backed securities] portfolio, comprised mainly of older vintage CMBSs, performed well in the quarter with a market-to-book value of 102%. And we recorded no impairments.

Our total accumulated other comprehensive income turned to a positive $222 million, the first time positive since March 2008. Our shareholder's equity increased to $4.46 billion at the end of September. The common shareholder's equity was $4.14 billion representing $69.48 per share. We took the opportunity to buy back 1.5 million shares for $98 million at an average price per share of $64.04 in the quarter under our share repurchase plan, which added $0.14 to the book value in the quarter. Total shares repurchased to date have added $0.37 to the operating EPS in the quarter, increasing the operating ROE by 2.8% to 16.4%.

We will continue to consider share buybacks under our existing remaining authorization of $350 million. And we expect to discuss our longer-term plans at our next board meeting. We currently estimate our current excess capital is approximately $700 million to $800 million, compared to what we target for the various rating agencies.

Portfolio liquidity remains strong, and we experienced solid positive cash flow from operations of $316 million in the third quarter. In the 2009 third quarter, our cash flows were negatively impacted by a $46 million payment due to the commutation of a non-standard auto treaty announced in the second quarter. That concludes my remarks, and we are pleased to take questions.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from Jay Gelb of Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

On the excess capital position, how much of that do you intend to deploy into buybacks, and over what time frame?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, Jay, this is a discussion we're going to have at our next board meeting. Right now, I only have $350 million authorization remaining from the existing authorization. As I said in my prepared remarks, usually, we're not aggressive in share buybacks during the third quarter. Because even to the last few weeks, you still expect storms that might or might not happen. We'll probably be a little more aggressive in the fourth quarter. But that's a discussion, as John said, that we're going to have with the Board. And once we make decisions, we'll probably announce them for everybody to know what that decision is.

Jay H. Gelb
Barclays PLC, Research Division

And when is the board meeting, Dinos?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's next week.

Jay H. Gelb
Barclays PLC, Research Division

And then separately, can you talk about -- you mentioned the rating, the low single-digit rate increases across the portfolio. Given what's happened in terms of the recovery of balance sheets and still some slack demand in the economy, what's your sense in the outlook on the persistency of those price increases?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, there is two school of thoughts. Let me give you some of my thoughts. I was more bullish in the first quarter and second quarter than I am today, in the third quarter because of the recovery of the assets side of the balance sheets for the most of our competitors and the benign cat activity. It makes people to be more competitive in my view. On the other hand, they're recognizing that when you strip out a reserve releases, favorable development, and you factor in normalized cats instead of light cat activity, the current accident years, they're not anything to run home about. They still produce returns, but they're closer to the 10% range. And that's not what we try to achieve. Our long-term strategy is to achieve 15% ROEs over a long period of time. Having said that, I believe we're going to be in a competitive marketplace for probably another year or two until you see some pain on the balance sheets. I don't see, as of yet, for most companies in the next four to five quarters. But in a very low-interest rate environment, people are getting cautious and that's why you're seeing the leveling off of price reductions. So I think we're going to be in the next year or two in a kind of a leveling-off market in my view. I might be wrong. I don't know. I mean, only the future would tell us what happens. But if you're asking of my opinion, I think that's where I think the market is going.

Operator

Your next question comes from Matthew Heimermann of JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I was hoping you could just speak to the accident year loss ratios in the quarter, I guess particularly in the Reinsurance segment, but also Insurance. They both seem to be running a little bit hotter than they were in the first half of the year. And I didn't know if that was claims-specific in the quarter, or there were other factors?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, I don't think there is anything that is claims-specific. It's our view. We're very systematic in the way we reserve the company. We make sure we understand the rate increases or decreases that we've been achieving over the years. And we try to be realistic with our accident year peaks by factoring in what we've seen over the last two, three years, even though rate decreases have leveled off. And in some cases, as you saw from my prepared remarks, we achieved a 3.4% rate increase on average on a blended basis. Not everything is equal in every line of business. Some lines of business, we still giving up rates. Some lines of business, we gaining rate. What we do maybe a little bit different than most other companies, the loss trends, frequency and severity. If you have a short window and you only look at it for the last few quarters, you can get optimistic. We don't use that as a guidance to how we price the business or how we reserve the business. We use longer-term trend averages. And maybe that's what's causing our accident years to be booked a bit high. But that's our view what we believe the business is, from an accident-year point of view and we book it at such. And if we're wrong, at the end of the day, the money is going to be there. Nobody's going to rob the bank. They're up there, we don't need it. We can always take it down in later quarters.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

That makes a lot of sense with respect to the Insurance segment. I guess with the Reinsurance now being 70% property, I guess in -- I was just shocked that you would see running from like a 55 suddenly to a 60. unless there was something wrong with my...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, you got to look at the mix. Some of it is excess of loss, but we do write a lot of quota share. And when we write quota share, you have to reflect the underlying pricing that is happening in the marketplace. So that's basically why that is happening.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

With respect to the growth in Executive and Assurance and the National Casualty business, or the National business...

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

The National Accounts, yes.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Can you just -- can you opine a little bit on, I guess what the pricing trends are specific to those two businesses? And what you're picking up? And how that might be different? Or how that might contrast with what's in the book already?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Let me start with National Accounts. National Accounts is a law-sensitive business. These are large accounts that they self-insure a significant portion of their risks. So in essence, you're more of a excess provider and a service provider for those businesses. It covers the general liability, overall liability in worker's comp. And usually, the contracts you issue is statutory comp. And usually, million-dollar limits for GL [general liability] and auto and is done either on a retrospectively-rated plan or high-deductible plans, et cetera. So our advantage there is that there's been a flight to call, we saw some rotation of those accounts out of -- the major writers of that business has been AIG, the Travelers, the Hartford, the Zurich, Ace, XL, et cetera. So with what happened in the last couple of years, he gave us the opportunity. Also our model, the Embandel [ph] (00:47:56) model that we have, which we jointly choose at third party administrator between us and our client who handle the data they claims from a service perspective, in some cases, it's more attractive to clients. So we like that business. We do it carefully because there is credit issues associated with that business. You want to be always able to make sure that you're securing all the liabilities that you have even though you're not taking a lot of underwriting risks. You might be taking credit risks, and we watch both. So I would attribute a growth in the National Accounts, and that we were able to attract, and also the market turmoil with some of our competitors. So it gave us more opportunities in the marketplace.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I guess I was looking more towards what was happening specifically with price? In that line of business relative to...

Constantine P. Iordanou
Chairman and Chief Executive Officer

The price for our National Accounts business is been up in the quarter about 2.1%, if you -- but I was describing what the business is. We make our money not only just on where we take underwriter's risk, which is the excess over and above their retentions. But also, we do make money on the service fees that we write. On the Executive Assurance area, I think -- let me give you -- the rate increase for the quarter was positive, so it was a plus. Some of our growth is coming out of the U.K. And some of the growth is coming also from the new teams that we have. No real major change in strategy, other than we are writing more now in the private company segment and then on for profit segment, as the new team that we have has more market relationships in that. And we still like the pricing environment in the executive assurance, but we're more cautious. And in some products, we have reduced exposure, especially in the Financial Institutions segment, where pricing is still positive. But it kind of ease off with a rate increase, as we are getting in the first and second quarter.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I was just hoping, on the bank loan fund, am I correct to assume that there is no leverage left in that portfolio? In other words, if it's carried at 79.8%, when we think about recovery, it would be the par, not par-time something?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

No, the total bank loan funds still have leverage in them. And the leverage is about 1.7.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

So 1.7 times 25 is kind of the, would be upside to par, if at all, coming back?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

Yes.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

On the TALF participation, can you just give us a sense on what the yield is on the $250 million? And what the interest costs is on the $220 million?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

Yes, it's about four and two, I think. But it's flowing. It depends upon how this earn overtime. And then when you level that up, then you get in excess of 10. And it changes by bond in each -- it's different between the different portfolios. But on an average, we'd expect on this portfolio slightly over 10.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And that's 10 on your equity...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, 10 on the equity, but nominal yield is around four. They're about -- highly-rated AAA tranches. And they're not very long, two to three years.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And then will that all be reported net through NII [net interest income]?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

No, not through NII. It's through -- it's over a quarter at fair value through the P&L, both the assets and the liabilities. So it'll flow through the realized...

Operator

Your next question comes from the line of Vinay Misquith of Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the Reinsurance side, it just seems that the accident year loss ratio x cat picked up five points in the third quarter versus the first half of the year. And you mentioned a little bit of business mix change. Was there some prior-period unfavorable development for the year or two on that? And should be...

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, there was no prior-year unfavorable development. It's our call on the accident year. Don't forget, we monitor pricing. When you write quota shares, we think that, that's the right action. And yes, that's how we're going to book it.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

So should we expect a similar sort of run-rate for the next quarter and for the rest of next year? Would that be fair?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I can't predict the future, Vinay. Because at the end of the day, the one good thing about property lines, they're short-tailed quarter-after-quarter. And you factor additional information on performance. We think that attritional losses that have been booked to higher and actual performance is better, we got to reflect it. So I can't predict the future. I'm just giving you the methodology that we use in setting at our accident years. And some people think that maybe would a bit more conservative than others, but I don't know. I think we are what we are.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the property fac business, there was a significant amount of growth this quarter. Was that from new business? Or is it higher line sizes from existing clients?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's both. Our line sizes haven't change, but I think we're penetrating more clients. I think we're doing business today with about 140 different clients. So as the team is becoming more known in the marketplace and our penetration with clients gets deeper, that's what's causing it. And it's been a steady kind of growth from this team over the two years that they've been with us.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And with respect to new business, one thing we've heard from competitors is that new business is written at maybe 5% lower pricing, or sometimes even more lower pricing than renewal business. If you could help me understand your business and your new business, and how that compares to your renewal business?

Constantine P. Iordanou
Chairman and Chief Executive Officer

You're correct in that assessment, we monitor that. As you know, we're one of the few companies that not only measures rate movements on a newer business, but also we have a system, a benchmark system that allows us to compare our new business in relationship to our renewal business. It's not as high as 5%, but is less than if a renewal piece of business gets 100, our new piece of business depending on the product line, probably going to be in the high 90s. There is at least three, four points of price differentiation between new business to existing renewals.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And why are these clients coming to your company, versus staying with the old carrier?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I mean for many different reasons. Sometimes is when you compete in the marketplace, sometimes it's service. Sometimes it's capacity you're putting on. Sometimes it's relationship with the underwriters. Some of our new underwriters that we have hired, they had existing market relationships. So they see some of the accounts that they had a relationship with in the past. So it's not one single reason that you get a new piece of business. But don't fool yourself. When you get a new piece of business, you compete it in the marketplace. That's why as we monitor new business pricing, we find it to be a little more challenging than renewal pricing.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And one last point, on the executive assurance, you mentioned some of the growth came from the new teams you employed. That the new team that you thought over, contribute to some of the growth this quarter from the executive insurance?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Don't forget, we don't -- when we get personnel, David now runs a whole segment of our professional liability and executive assurance. So when we get new people joining our team, we integrate that into our existing operations. And basically, underwriters have responsibility of accounts we have, or new accounts that are coming in. So I don't try to maintain statistics about what it was new and what's it came from, either a new employee or an old employee. The whole team is fully integrated already and is in operation nationwide under the executive management of Dave McElroy.

Operator

Your next question comes from the line of Dean Evans of KBW.

Dean Evans
Keefe, Bruyette, & Woods, Inc., Research Division

I was wondering if you could touch maybe on the progress of some of the newer teams of underwriters that you brought over and some of the new hires recently? How they're progressing?

Constantine P. Iordanou
Chairman and Chief Executive Officer

We're very pleased with all of our teams. Going back with the fac teams we brought, or executive assurance or the teams we, or the underwriters we hire, either in the UK office or in Canada, we're very pleased. At the end of the day, it's our trademark. We'd try to get talent when we have the opportunity to hire talent in the marketplace. And I think we give them a strong balance sheet to operate from and a good underwriting environment that we don't put pressure on volume. We do put pressure on them on returns, and a lot of good underwriters don't mind that environment. Especially when you link that with our compensation system that, our underwriters, they know that they're going to get compensated on ROE performance, and we seem to be attracting those type of people.

Dean Evans
Keefe, Bruyette, & Woods, Inc., Research Division

John, could you give sort of the mechanics behind the lower tax rate in the quarter? And what drove that?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

We had, where the reserves were released in the quarter, mainly from Bermuda, drove less taxes through the quarter.

Dean Evans
Keefe, Bruyette, & Woods, Inc., Research Division

So it's just that simple, there's nothing that would be...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, it's a low cat, I would say low cat in the quarter and most of the cat business is written in Bermuda. There was a lot of investment income this quarter, or most of that is coming out of Bermuda, so that's an unusually low tax quarter.

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

I should just clarify on the TALF investment income, where it's booked, just to be clear on this. The investments of book through net investment income in the income statement, and then in the expenses for the loan is an interest expense.

Operator

Your next question comes from the line of Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Related to the TALF, is that particular facility? does that have some prespecified duration or maturity? Or Can you x come and go from that as you please?

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

We participate through various dealers. It's running, I think now until sometime next year is the current authorization. We don't know if the government is going to continue this, but it has been fairly successful. We'd like to see some more it. It's hard, there's not that much supply of these things. We'd pick only the best quality pieces we can and we operate through a couple of dealers. But we think it's an attractive opportunity for at very low risk to get some good returns.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And then, I know people have kind of kicked this can around already. But in terms of the pricing, I understand your comments earlier, Dinos, particularly related to the casualty lines of business. But I would have thought that there would be signs of a much greater price pressure on the property lines, particularly after coming through a year with very little activity, really, anywhere in the world, in particularly, in the United States. So you're saying that we're not seeing that in...

Constantine P. Iordanou
Chairman and Chief Executive Officer

I can tell you what we're measuring. I think in our property lines, we achieve a 5% increase for the quarter. And of course, is down from 7.2% of the second quarter, but it's still a positive increase. And don't forget, that's specific to our book of business. Our book of business is more heavily E&S driven. Of course, we write some national property accounts too. And now, I don't know what's going to happen with January 1 renewals in the cat market, which is going to get negotiated in the next couple of months, in November and December. For the cat placements, both during January 1 and then April and of course, the Florida exported us in June and July. But don't forget, that market is being pretty disciplined. It's been, there are models, there is exposure, pricing that needs to be considered. I don't anticipate significant movement in pricing. There might be a bit more competition, but you can go on one year with no cat and base your pricing on that basis alone. We look at the long-term averages, we look at what the long-term expectancy is, and we have to price our business on that basis. And I think the rest of the market does the same.

Operator

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

Ian Gutterman
Adage Capital

My first question is on the excess capital. If I just do some quick math and assume do you deploy that whole $700 million, $800 million. Your PML would, just from the denominator going down, obviously your PML would go from 20% to right around your 25% limit. So I guess I'm wondering is that $700 million to $800 million really deployable excess capital? Or could you only maybe use half of that and half of it, and you just sort of sit there in case there's mark-to-market impact or cat or something like that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

I think all of it is deployed. I will because you're doing a static calculation. Don't forget, I don't expect to be reporting quarter-after-quarter with no earnings. So I want to keep my job.

Ian Gutterman
Adage Capital

Sure, But there are quarters where because of whatever credit markets do, or because we have a cat in a given quarter, that it could go down for a quarter, right? We saw that last year.

Constantine P. Iordanou
Chairman and Chief Executive Officer

The way we measure excess capital, you got to understand, we look at the rating agency's requirement, we put a cushion on top of it, because we don't want to run thin on capital, ever, and then we measure excess above it. And the reason, you see us, we get an authorization for share repurchases, you don't do it all in one day. We do it overtime and you do it depending where your share price is at in the market place and also, what opportunities you have to deploy capital. I don't think 700 or 800 is a number that is not available. I think all of it is available, and it's a question, and like I said, we will have discussions with our board as to how and when and under what circumstances. But our long-term goal, and we've been consistent for years, is that we always want to be capital conservative for the balance sheet for our insurers but also capital friend to our shareholders. If we have excess, we'll find a way to get it back to the shareholders.

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

And Ian, also, in sort of thing, a buffer and how much we have, just remember that we have a relatively low debt structure towards other total capital position, which is another area of conservatism that we run the company at.

Ian Gutterman
Adage Capital

I guess what I was wondering, if that is all deployable, is this the time to maybe start to reconsider dividend, given the magnitude of excess capital on that, maybe the company's mature enough to be able to support even a small dividend?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Clearly, we can support a small dividend, but don't confuse one with the other. I mean, a small dividend is not going to give you capital management. I mean, it would pay, I don't know, $0.25 a quarter. That's a $1.00 a year. We only have 60 million outstanding shares, it's not going to be a lot of money. And in a capital-intensive business, you don't want to get locked in on paying a high dividend. That's not the right way, in my view, to run the company. So when we talk about capital management, we're talking about something that is significant. We measure the excess, I think it belongs to shareholders. If I have a clear vision that I can deploy that into the marketplace at attractive rates, I'm going to hold it on to the balance sheet and try to do that because that's what shareholders pay us to do. But if I see the horizon, and it says, no I can't deploy, the best way is to return it. And right now, we have our share prices trading, buying back shares is the most effective way, in my view.

Ian Gutterman
Adage Capital

And then I also want to talk the question on the accident year, I guess, on the insurance segment. Can you maybe just help us understand, I appreciate that you're trying to be conservative and all that, and that's right thing to do. But what about your business mix suggests that you should be over 100%? I guess, that's where I'm a little confused, we have 25%...

Constantine P. Iordanou
Chairman and Chief Executive Officer

We look at it at IBNR family by IBNR family. And as you can see, we have a much higher accident year loss ratio in the insurance group because we have more casualty lines...

John C. R. Hele
Former Chief Financial Officer, Principal Accounting Officer, Executive Vice President and Treasurer

Longer-term lines.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Is long-tail lines. And at the end of the day, I don't think some of our competitors are factoring in yet new money invested, at what rates and what kind of a return you're going to get in that business. So I think the market is pricing that a bit light, in my view. And for that reason, that's where you're seeing the shift that we have reduced our writings. If you look at, and we gave you the supplement, or where we're growing and where we're shrinking. And as you can see, it's being consistent, both on the reinsurance side and on the insurance group, we're shrinking in healthcare, we're shrinking in casualty. In the reinsurance group, we're shrinking in casualty, which includes professional liability. So we try to do the best we can in navigating through these wars. But on the other hand, I'm not going to be optimistic on the accident years.

Ian Gutterman
Adage Capital

I guess where I'm confused at Dinos, is when I look at your insurance book, casualty is about 10% and I see a lot of mix of their businesses.

Constantine P. Iordanou
Chairman and Chief Executive Officer

That's not the only thing that is long tail, right?

Ian Gutterman
Adage Capital

But what are you calling long tail? To me, professional liability, executive assurance, construction, those are all mid-tails...

Constantine P. Iordanou
Chairman and Chief Executive Officer

It just seems you asked the question, I'll give you a flavor of what it is. Our professional liability, most of what we do is small accounts and it's all claims that are made, so it's medium tail, right? We still consider executive assurance, even though it's all claims made as long-tail. In a construction business, in national accounts, they're pretty much similar products, we write three-line retros and we write large deductible plans, and those basically have long-tail characteristics. The order is not the predominant component. It's mostly workers comp and general liability. That's the bulk of the premium, we consider that long-tail. Our program business is medium tail, and of course, our healthcare is longtail. Even though it's written on a claims-made basis, and we do write a lot of facilities and we write some excess hospital liability, it is in the long-tail line of business. And in the other, which includes our excess workers comp, that's very long tail too. So we don't try to, we measure a long-tail business and we set up reserves on that basis.

Ian Gutterman
Adage Capital

And I understand what you're saying, I probably do some more math and try to work it all out. I guess they're just intuitively, which seem you would need about of just give what are straights are, what that probably weighted average duration is, that it would seem you have, you're talking in maybe in mid-single digits are. Or are we, if we really end up having that insurance book over a hundred at today's yields.

Constantine P. Iordanou

Chairman and Chief Executive Officer

And some product line, that's with their earnings. That's why I believe at some point in time, you will see that kind of pain that, I believe, some management sort of recognize. Because you've got to run your business as to what you're doing today. What you've done a year ago, five years ago, three years ago, and you're living off the hay that have in the barn is not the right way to think about the business. You've got to think about what is your price in the business today, and what's the returns today. That's the way we try to focus, and that's what we do. And at the same time, we don't try to fool ourselves, because some all of these might not like it that we book our current accident year excluding adjustments to over 100. We're going to do what we believe is the right thing.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

First, back in the reinsurance base, when you increase the loss texts to this quarter, did that have any impact on the first and second quarter loss texts that you had booked in? Sort of was there a little bit of a catch-up at all?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. None whatsoever.

Brian Robert Meredith
UBS Investment Bank, Research Division

So just purely on business written in the third quarter.

Constantine P. Iordanou
Chairman and Chief Executive Officer

The business earned in the third quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Can you chat a little bit about your view on the M&A environment, and maybe that as a use of excess capital here, looking forward?

Constantine P. Iordanou
Chairman and Chief Executive Officer

I mean, I get asked this question, maybe I'm not a good M&A guy. I just, it's very, very hard to find the right opportunity for M&A. The culture has to be right, the book of business, what you're trying to gain has to be right. More importantly, you've got to have a clear view of the balance sheet that you're merging into or you're buying. And the price got to be right. And it's very rare that you can get all four right. So I'll prefer what you've growing is by finding people and adding to our underwriting talent, that culturally, they're a good fit with us, in our philosophy, as to how we want to run the company. And we've been successful doing that for the last seven, eight years. And unless there's an extraordinary opportunity that very rarely come across, we're going to continue on that path. I'd rather return excess capital to shareholders than try to force some transactions that I will live to regret.

Operator

There are no further questions at this time. I would now like to turn the call over to Mr. Iordanou for closing remarks.

Constantine P. Iordanou

Chairman and Chief Executive Officer

Thank you, operator. Thank you, everybody for joining us. We're looking forward to talking to you in the next quarter. Have a good afternoon.

Operator
Ladies and gentlemen, this concludes the presentation and you may now disconnect. Have a good great day.