S&P Capital IQ

CONTENTS

Arch Capital Group Ltd. NasdaqGS:ACGL

FQ1 2011 Earnings Call Transcripts

Tuesday, April 26, 2011 3:00 PM GMT

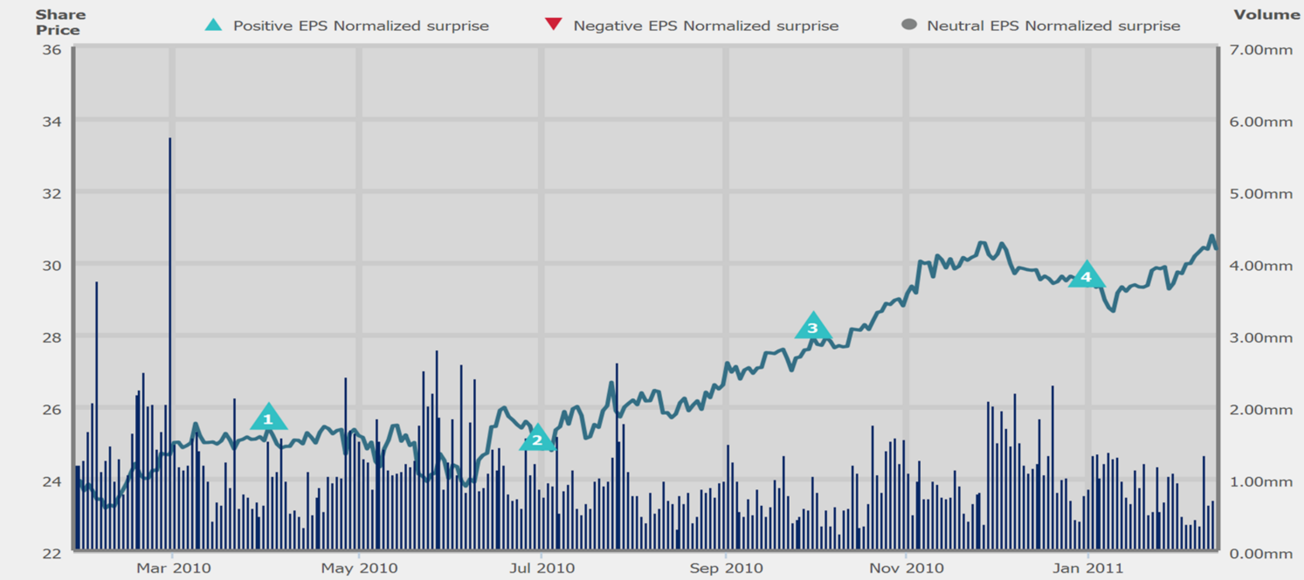
S&P Capital IQ Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	**ACTUAL**	**SURPRISE**	**CONSENSUS**	**CONSENSUS**	**CONSENSUS**
EPS Normalized	(0.33)	0.06	NM	0.78	1.88	2.68
Revenue (mm)	716.11	764.28	▲6.73	643.97	2571.44	2578.21

Currency: USD

Consensus as of Apr-26-2011 2:06 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.53	0.59	▲1 11.32 %
FQ2 2010	0.77	0.83	▲2 7.79 %
FQ3 2010	0.71	0.85	▲3 19.72 %
FQ4 2010	0.79	0.86	▲4 8.86 %

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

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

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

Gregory Locraft
Morgan Stanley, Research Division

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Adage Capital

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

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JP Morgan Chase & Co, Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2011 Arch Capital Group Ltd. Earnings Call. My name is Modesta, and I will be your coordinator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

Before the company gets started with its update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the Federal Securities laws. These statements are based upon management's current assessments and assumptions and are subject to a number of risks and uncertainties. Consequently, actual results may differ materially from those expressed or implied.

For more information on the risks and other factors that may affect future performance, investors should review periodic reports that are filed by the company with the SEC from time to time. Additionally, certain statements contained in the call that are not based on historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The company intends the forward-looking statements in the call to be subject to the Safe Harbor created thereby.

Management, also, will make reference to some non-GAAP measures of financial performance. The reconciliation to GAAP and definition of operating income can be found in the company's current report on Form 8-K furnished to the SEC yesterday, which contains the company's earnings press release and is available on the company's website.

I would now like to 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, Modesta. Good morning, everyone, and thank you for joining us today. The first quarter catastrophic events were yet another clear reminder that we're in the risk business. Considering the magnitude and number of these events, our performance was acceptable in absolute terms and superior relative to peers that are similarly engaged as we are in underwriting catastrophe business. I continue to be pleased with the discipline exhibited by our insurance and reinsurance underwriting teams in executing our overall underwriting strategy. Our strategy has been to stay within our risk management tolerances, and only accept and underwrite risks that are priced appropriately on a risk-adjusted basis in order for us to achieve the required returns relative to the risk assumed. Our performance in the first quarter emphasizes the good execution of that strategy.

Our total catastrophe losses for the quarter were $178.7 million, with the Japanese quake contributing $79 million, the New Zealand quake adding $65 million and the balance coming from the first quarter Australian floods and Cyclone Yasi.

Our annualized return on average common equity was 0.8%, on a reported basis, which was negatively affected by the above-mentioned cat losses, which exceeded our quarterly cat load by a significant amount. By our own estimation, we continue to believe that in the current underwriting and investment environments we operate in, on a normalized basis, we're still able to achieve approximately 9% ROE on an underwriting year basis. This is essentially the same ROE we achieved for the 210 (sic) 2010 underwriting year.

Our investment performance for the quarter was good, with a total return of 1.5% achieved for the quarter, and despite a slight upward movement in treasury rates, we were able to achieve this very good result. As a result of this good performance, despite the cat losses, we were able to increase our book value per share to $91.02, which is an increase of 18.3% from a year ago, and 1.2% sequentially.

From an underwriting point of view, we achieved 110 combined ratio for the calendar quarter, which we believe is approximately 13 loss ratio points worse than our normalized accident quarter combined ratio.

Cash flow from operations remained good at $225 million. The broad market environment continues to be competitive, with most long-tail product lines having plenty of capacity available, and which are experience the -- continue to experience slight price declines. In the property and property cat areas, the environment is improving, with the greatest improvements today, reflected in international cat-exposed businesses. From a premium production point of view, our gross written premiums for the quarter were up 1% and our net written premiums we're basically flat.

Our insurance operations were up 2% on a gross written premium basis, and flat on a net written premium. And our insurance operations were flat on a gross written and down approximately 1% on a net written basis.

During the quarter and in our April 1 renewals, we saw no significant change in market conditions in most of our Reinsurance business, with what I mentioned before, property cat area being the only exception. We continue to see pressure from cedents to increased ceding commissions and in general, we saw a reduction in primary rates, which affect all of our pro-rata businesses of approximately 4%. We also noted that the clients are continuing to look for opportunities to switch from pro-rata contracts to excess of loss in order to maintain a larger amount of net premiums on their books.

In our Cat business, we saw increased submission activity, as a result of clients seeking to move to more secure capacity and brokers anticipating an increase in demand due to the implementation of RMS 11.0. The implementation of RMS 11.0 has not yet been adopted by the broad market, as the vendor continues to field test and make modifications. We expect this process to be finalized in the next few months, and by midyear.

Across our business segments, even in the most difficult markets, we always look for opportunities to find acceptable books of business to underwrite without sacrificing expected returns. We are starting to see some of these opportunities, both in our existing product offerings, as well as on our new product initiatives, which has helped us to stabilize premium production.

Our Insurance Group continues to emphasize and move their books of business to smaller accounts and to less volatile lines, with an emphasis on reducing their exposure to U.S. Casualty business. Two areas with significant volume reductions in the first quarter were executive assurance and aviation. We continue to see the market granting rate declines in segments of the D&O product line that we cannot support, and of course, as we have stated in prior calls, we have exited the Commercial Aviation business. Our exit from the Aviation business happened in the second quarter of 2010, so the second quarter of this year will be the last one that will materially affect the year-to-year premium comparisons. We saw increased activity and opportunities across our business segments, and resulted in premium increases in international professional liability, international casualty, including more business, national accounts, and lenders products.

We continue to monitor the primary casualty in that sector in the U.S., as we continue to see price increases in isolated areas, but we're not yet at a point to switch from defense to offense, as we still believe that the improvement today will not produce adequate returns.

During the first quarter, our board increased our share repurchase authorization by $1 billion and extended the time horizon in which to execute the authorization to the end of 2012. In the first quarter, we'll purchase 2.7 million shares for an aggregate value of $237 million, which represents an average price of $88.25 per share. So far, in the second quarter, we have not repurchased any shares. With these repurchases, our remaining available authorization stands at $992 million. I would like to reiterate that our capital-management philosophy has not changed. We will continue to return excess capital to our shareholders until such time that we can profitably deploy it in our business.

Before I turn it over to John for more commentary on our financial results, let me update you on our cat PML aggregates. As of April 1, under RMS 10, our 1 in 250 PML from a single event was $726 million, or 18.1% of common equity. This represents roughly the same exposure amount as of a quarter ago, and a slight increase as a percent of common equity due to the reduction of our common equity from our share repurchases. Under RMS 11.0, based on the current iteration of the model, our preliminary estimates of PML for 1 in 250 year event will increase approximately 32% in the Northeast zone, 22% in Florida Tri-County zone and by 29% in the Gulf. Under this scenario, our largest PML will be the Northeast zone, with $955 million or 24% of common equity, which remains within our risk-management limits.

With that, I'm going to turn it over to John for his comments. And after John, we will take your questions. John?

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

Thank you, Dinos. Good morning. I will now cover some of the financial highlights of this interesting quarter.

For the 2011 first quarter, property and other short-tail lines represented approximately 47% of our net premium volume, compared to 50% in the 2010 first quarter. However, on a trailing 12-month basis, the ratio is about the same at 45% to 46%. On a consolidated basis, the ratio of net to gross was 79%, roughly the same as a year ago. Our overall operating results for the quarter reflected a combined ratio of 110% compared to 96.4% for the same period in 2010. The 2011 first quarter loss ratio included $179 million or 28.2 points of current accident year cat activity compared to $58 million or 8.7 points in the 2010 first quarter. The Australian floods and Cyclone Yasi had a gross impact of $44 million, net impact of $33 million, which came in at the low end of our previously announced estimated indicated range of $30 million to $60 million.

The New Zealand earthquake was booked at $86 million gross, $65 million net, which came in at the higher end of the range of $35 million to $70 million. While Japan property losses were booked at $86 million gross, $63 million net, which compares to our previously announced 1 in 100 PML for Japan of approximately $60 million. Japanese marine and personal accident losses were $16 million net, and were not included in the PML calculations. The cat losses in the 2010 first quarter were primarily related to the Chilean earthquake. The 2011 first quarter combined ratio reflected 9.2 points, or $58 million of estimated favorable prior year reserve development, net of related adjustments, compared to 4.4 points or $30 million in the 2010 first quarter. The prior year development in the first quarter of 2011 reflected net favorable development, primarily in property and other short and medium tail lines, as well as in the Reinsurance Segment Casualty business from the 2002 to 2005 underwriting years. In particular, the favorable development included $15 million related to reductions for prior year named cat events.

Overall, our reserve position continues to be reasonable to slightly conservative. The 2011 first quarter current accident year combined ratio, excluding large cat events and net favorable development was 99.9% in the Insurance segment and 75% in the Reinsurance segment, both consistent with results of a year ago. The 2011 first quarter expense ratio of 32.1% was 0.4 points lower than the 2010 first quarter, benefiting from a lower level of contingent commission expense and certain costs, which were incurred in the 2010 first quarter that did not reoccur. The impact of these items were partially offset by the impact of a lower level of premiums earned in the 2011 first quarter.

On a per share basis, pretax net investment income rose to $1.89 in the 2011 first quarter compared to $1.67 the same period a year ago, and $1.81 in the fourth quarter of 2010. Income for the 2011 first quarter included $0.08 or $4 million of expected nonrecurring dividend income. Our embedded pretax book yield before expenses was 3.36% in the 2011 first quarter, down from 3.52% at year end, which reflects lower reinvestment rates and a shorter duration. Total return of the investment portfolio was 150 basis points in the 2011 first quarter, compared to a loss of 7 basis points in the 2010 fourth quarter. Excluding foreign exchange, it was 114 basis points in the quarter. The total return in the first quarter benefited from good returns on our equities and other alternative assets, partially offset by a slight increase in interest rates during the period.

We recorded net foreign exchange losses of $37 million, which results from revaluing our net insurance liabilities required to be settled in foreign currencies and resulted from the weakening U.S. dollar in the quarter. However, this should be compared to the 36 basis points contribution of total return from foreign exchange on our investment portfolio, which offsets this income statement loss in the equity section of the balance sheet. Throughout the past few quarters, Arch continued to allocate more assets to equities and alternative investments. Our allocation equities was approximately 3.5% of our investable assets at quarter end, while alternative investments and equity method investments were 6.6% of our investable assets. We continue to maintain the vast majority of our investable assets and a very high-quality fixed income investment portfolio with an average credit rating of AA+. The duration of our investment portfolio decreased to 2.73, down from 2.83 at year end.

For the 2011 first quarter, our effective tax rate -- our pretax operating income was 2%, and minus 1.5% of pretax net income. Our expected range for 2011 for pretax operating income was 1% to 3%, but certain factors can always cause the tax rate to fall outside this range. Our balance sheet continues to be conservatively positioned, with total capital at $4.7 billion at March 31, 2011, down from $4.9 billion at year end, reflecting the share repurchase activity during the quarter. In the quarter, we repurchased 2.7 million shares for $237 million at an average price per share of $88.25, which added $0.16 to our 2011 first quarter ending book value per share. Our debt plus hybrids represents approximately 15% of our total capital, well below any rating agency limit for our targeted rating.

Our book value per share ended up the quarter at $91.02, up 1.2% from year end, and 18.3% from a year ago. Our excess capital position, which we define as the rating agency actual capital in excess of the required capital for an A+ rating plus a buffer, was estimated to be at least $600 million at the end of last year, under RMS 10 and including AOCI. The reduction in capital, mainly due to share repurchases in the quarter, brought this down by approximately $200 million to $400 million. The final implementation of RMS 11.0 and the rating agencies reaction to this one model may also have an impact on our excess capital position, but it is too early to estimate this impact.
With these comments, we are pleased to take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question today comes from the line of Jay Gelb with Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

Two issues I'd like to cover, if I could. First, in terms of the pace of share buybacks, you mentioned that Arch did not repurchase any stock in the second quarter yet. I mean, I'm trying to figure out if that's a signal, you think, that you're going to have the ability to write more business, or if it's driven more by the implementation of RMS. So that's the first one in terms of the alloc [allocation] for share buybacks. And the second one is, can you talk about more broadly in terms of the expectations for the June and July reinsurance renewals for the U.S. in terms of what your expectations are there?

Constantine P. Iordanou
Chairman and Chief Executive Officer

On the first one, the reason, usually when we're in the closed window, we put a 10b5 plan, and the parameters we put didn't allow us to purchase any shares. It doesn't mean that we're not going to continue to look for opportunities for us to return excess capital to shareholders. Our usual pattern though is, we do more in the first and fourth quarters, and we do less in the second and almost none on the third on the basis that the hurricane season is on the third quarter, and we want to make sure that we know the outcome of the season before we go back and accelerate the share repurchases. So no real change in strategy. Too early to tell if RMS 11.0 will have a significant impact, or a slight impact. We're in discussions with them, and also with the rating agencies and we'll know that, and we're factoring into our calculations to derive as to how much excess capital. We still have excess capital on the books, even though there were not a lot of earnings in the first quarter and we did repurchase quite a bit in the first quarter. So no change in strategy on that.

Your second point, you're focusing mostly on the Cat business. And all I can tell you

is that the environment is better today. Both significantly better on the international property cat area, and better for domestic, especially Florida and Northeast. And as I said in my prepared remarks, I think there is two factors by our own estimation, that is causing that. There is more need for more secure capacity. So some buyers, they rather do business with the A+ companies than the A or A- companies, if they can get more capacity out of them. And two, they're anticipating demand, because the PMLs will escalate with RMS 11.0, it will increase. We haven't seen that effect as of yet, in the marketplace, because everybody's dragging their feet in implementing RMS 11.0, and there is kind of a delay effect to it. But it's already affecting the market, because they ask even on great programs, it's slight negative or flat by the brokers, and on not-so-great programs, you're getting rate increases even for U.S. Too early to tell, but June, July. By the next call, I think, we'll have more clarity on that issue. John, do you want to add anything to that or...

Jay H. Gelb
Barclays PLC, Research Division

And just a follow-up on that, quickly. Sorry, John. So some of the brokers have come out and said slightly negative to flat for the June-July reinsurance renewal fees. Do you think that's a reasonable expectation? I mean, we've been hearing elsewhere from some other reinsurers of much higher expectations for rates.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I don't -- if I -- you're asking me to guess. I don't know how the market will react. If I had to bet, I'm not a betting man. I like my dollars in my pockets, so I don't bet. I would say, probably, it will be flat to up as an outcome, not negative to flat.

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

Yes, we're still at the bid-ask spread of the process here. So I think, what does this -- it takes a little more time before you get some clarity where the market's going to settle.

Constantine P. Iordanou
Chairman and Chief Executive Officer

The retro market is very hard right now. Not a lot of capacity in the retro market. Some participants, they own -- their capacity is driven or derived, because they can buy retrocessional protection. Absent of that, you might have some players that might not have enough capacity to deploy. So your supply-demand balance changes, especially with RMS 11.0, pushing PMLs up. So in essence, pushing demand up. Now, the buyers, they're resisting accepting it. And they're trying to rub a dough delay and hopefully, it will go away. I don't think it's going to go away. It will get readjusted, but it will have an effect in the market, and the effect will be positive.

Jay H. Gelb
Barclays PLC, Research Division

Very thorough. Thank you.

Operator

Your next question comes from the line of Dan Farrell with Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Just a quick follow-up on the models and the PML numbers that you gave. To what extent do those PMLs also factor in the other modeling companies and your own internal assumptions? And when you went through the exercise, how do you decide how to weight each model in your own internal views when you come up with your own results?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, we underwrite on a combination of models and adjustments we make to the models, and that's been our history for -- we don't take any one model and derive all of our decisions out of it. For consistency in reporting to you the PMLs, so you can have a point of reference that is consistent on a quarter-to-quarter, year-over-year basis, we always use RMS in its purest form, without any modifications our cat teams they will do, by using either AIR or our own internal modifications that we do. So two different things. I report to you, purely on RMS, and those escalations is using our data sets running it on RMS 10 and RMS 11.0 and getting the numbers. And you've seen that it's around the high 20s, low 30s, the escalation. From one to the other.

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

They're still preliminary though. So this is still underway. Our teams are still on discussions with RMS on all this. But we thought it would be good to at least share with you where we're at that this moment.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Right. But it doesn't mean that that's what we use to underwrite. Our underwriting process is much more complicated than that. And we don't talk too much about that. We like to enjoy the results we have been enjoying in Underwriting Cat business for 10 years. So we try to be as secretive as we can.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

That's helpful. I think, this -- even if they're preliminary, those numbers are certainly helpful to provide, so thank you. And then just one other follow-up. Can you talk about your purchases of any retro cover yourselves in the first quarter?

Constantine P. Iordanou
Chairman and Chief Executive Officer

We had purchased retro cover that gave us -- as you can see, there is a net -- a gross and net outcome, and I think we put it on the press release, of the likelihood of us renewing that, depending on what prices are is more right now, because we'd rather be a seller than a buyer right now, based where the prices are.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Okay. Thank you very much.

Operator

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

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

I was, first, wonder if you could sort of just touch on the three losses a bit. What could cause them to drip upwards or could cause us to see increased loss numbers there? And I guess, if you'd be willing to comment, what percentage of contracts for each of them are kind of booked at the full limits? Just any color you could give on those angles would help.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I don't -- you have the spread sheet in front of you, John. I don't know if we do. But let me give you the first broad question. I don't think the losses, at least for the reinsurance world, might have significant escalation. The one event that has the most potential is the Japanese quake, and the contingent business interruption, it's an area that it might shrink. But it's not going to be a significant number in the scheme of things. If you believe the industry loss is somewhere between $25 billion to $35 billion, the insured industry loss being between $25 billion to $35 billion, with heavy business, contingent business interruption losses, you might be on the upper end of that scale. And you might be on the lower end if that is not a significant factor. So I don't think it's going to change things significantly.

Now on the contracts we have, yes. Some contracts we have booked to -- if we believe that the limit is gone, we booked a full limit, and some of them we have not. It was a process that we went through, identifying all the contracts we had, information that we had from brokers and cedents and also using other methodologies like market share based on industry loss, and then from more of our putting it together, we came up with our booked estimate.

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

Okay. That helps a bit on that. Second question, shifting gears if I could, looking at the reserve development, even stripping out the $15 million from the named cat events. It does seem a little bit higher than maybe the historical run rate, the past year or so. Can you give a little additional detail, you touched on it a bit in prepared comments, but maybe just a little additional detail on where the reserve development's coming from, what accident years and some of the specific business lines?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Before I turn it over, let me give you a general comment on that, and then I'll turn it over to John. He can give you a little more detail. The cat event, it came from, well, Chile, I think, and Australia flood. And the Australia floods, it was -- remember, we had two events. We had a December event, and then we had a January event. When we were booking the losses for closing the fourth quarter of a year ago, we put quite a bit more than we needed on the December event. And then upon reflection, we had to release that it was more losses coming from the January event, not the December event. The Chile was an overestimation by us, and the losses didn't develop. So put that aside. So that's a one-off, it happens. You try to be conservative in setting up your estimate. And let's face it, quakes are very hard to estimate until you get all the information. Now, the '02 and '05 years in casualty reinsurance, they're really performing extremely well for us. And since there has been at least 6 years and maybe up to 8 and 9 nine years on the earlier years, we have more certainty, and as those diagonals on the triangles getting developed, I think you might be getting outside the point estimate range that you're allowed. And then for that reason, we had to release the rest of it. So with that, I'll turn it over to John to give you a little more color on the specifics you're asking.

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

Yes, well, certainly Arch has -- takes its time when looking at casualty. I think history's shown that you can be a little too optimistic on this line sometimes. So we tend to wait some time for it. But these '02 to '05 years in reinsurance really, we do our audits, we look at what's happening and developing, and we thought it was appropriate to release these years from '02 to '05. We also had property, cat had prior year favorable development, both in Chile and also, in Australia floods. But also, just general, other than the large named cats, we have a cat load for just smaller cats, and those just released and really came through on a flow-through basis. So those were the largest points, and the property happened both in the reinsurance and also on the insurance side.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Other than the $15 million that it was specific to the two events, we have more poverty, but we had more property releases both on insurance and also, on the Reinsurance segment.

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

Okay. That's very helpful. Thinking about the casualty reserves a bit, when do you start to get comfortable about some of the more recent accident years? Like the '06, the '07, the '08, and as of right now, are you seeing the same types of favorable trends that you've seen from the '05 and earlier from those years?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, you're getting into years that we have concerns, not comfort. When you get into the '08, '09, '10 years, we have concern. Not with us, but in looking at the aggregate accident year numbers that the industry had booked and all that, if I have to guess, probably if you see any development in those years, it won't be positive. It will be negative development. Meaning people, they're going to have to add to it, not release from it. And we're in that peculiar period of time in our business that the rate reductions now -- they've been almost 5 years or so. There've been rate reductions coming, going back to '05, '06. And at some point in time, the rate reductions have a way of eroding margins even if you have thick margins, it becomes thinner. And at some point in time, they get to be negative. And people don't always recognize that. And at the same time, you have the old years, the '02, '03, '04, '05 years that, they're getting more mature, cases get closed. You don't have that many open cases, you're carrying a lot of IBNR, the actuaries are looking at it. The accountants are looking at it and say, what are you doing with this, you've got to release it. If there is no claims, there is no claims. So we're in that peculiar period of time that you're going to see releases coming from the good underwriting years especially for those who haven't released them yet. And at the same time, you're going to see current accident years maybe not being booked exactly where they need to be. And that's what makes cycles. And at some point in time, is when that pain comes in, with the current accident years being unacceptable, that you're going to see the broader markets return. The market is trying to get this uplift. The rate reductions, they have been small, there is a lot of pockets that you're getting increases. You got to look hard for them to find them. But it's not a broad market. I will call it more of a bottoming and a recognition that things have to improve. Otherwise, it's going to be blood on the street. And that's our point of view about the market, where it is.

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

You remember that, if you're going to have casualty lines, you're going to have some fun things pop up 7 years from the year. So to answer your question, our 2010, well, 2017, we will be cautious and wait to let those fully mature.

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

No, okay. That's borne out by your history, and we appreciate that. So thank you for the thoughtful responses.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Dinos, a couple of questions. Most of the growth this quarter, a lot of it was coming from casualty lines, and you pointed out a lot of it's in the international side. Just wondering what's the difference in the market dynamics over there? And why are you seeing better pricing in some of those other casualty lines?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, don't translate that as optimism. It was opportunistic. Most of the casualty increases came from Energy Casualty-related business, and marine liabilities, and it was more of the aftermath of Deepwater Horizon. The specific, there were programs coming up. And most of it was rate increases. So in essence -- and my guys, they told me 3 times yesterday, when I was preparing for this call, just keep telling them, it's one-off, one-off. Don't let them think that it will repeat itself quarter after quarter. So that's that part.

Brian Robert Meredith
UBS Investment Bank, Research Division

The personal liability?

Constantine P. Iordanou
Chairman and Chief Executive Officer

The personal liability, it's a team of underwriters -- if you've been watching us closely, we hired about, I would say, a year ago, 5 quarters ago. They came from Lloyd's, they underwrite Professional Liability for small and medium-size enterprises. They have a terrific track record, with extreme profitability through the years. It took them some time to get accustomed to us and our systems, and get traction. And that's where that business is coming from. So that is more, I would say, has more potential to be having more growth, depending where the market goes. But we're pleased with both areas. But this is not a broad movement on the casualty lines in the international arena that we think the environment is much better. But when we find certain opportunities because of an event, and we can take advantage of it, it's in our nature to do that.

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

They're underwriting this Professional Liability mainly in Continental Europe for the SME type businesses.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then next question just quickly on the capital management and your excess capital, that you talked about it being in excess of kind of where the S&P levels are. I'm curious, when you talk about excess capital, or you talk about debt, are you factoring in ability to take call it the 1-in-100-year PML loss and still be able to write business without raising equity capital? Or how should we think about that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well it's the same formula we had in the past. We take the rating agencies required capital at our rating. We look at how much capital we have, and then we add to that capital what 1 year's earnings will be. And then we subtract from it, the 1-in-a-250-year event, and that gives us the cushion, that I can begin and end my year with a 1-in-250 event with my required capital. And then the rest of it, I consider excess. You got estimated earnings that you're comfortable with. You know you're going to eat up the earnings for the year, if you have an event, then I need to have a little extra above it, because the event might be, I don't know, twice our earning potential, whatever it is. So I count for that. And then, basically, that gives me, the rest as excess capital.

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

Brian, that's what I referred to as our targeted rating, plus a buffer.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. That's great. Thank you.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Brian, actually, took one of my questions, but the other question that I had is within the investment portfolio, the cash and short-term investment component continues to rise fairly sharply. Obviously, we've had a little bit of a reversal in short and medium-term rates. Is there any plan to deploy any of that on a little longer-term basis? I know you commented in terms of that into the equity exposures, but it seems like the liquidity under it is -- you're still keeping an extremely short duration now.

Constantine P. Iordanou
Chairman and Chief Executive Officer

I don't think our outlook is changing. We want to be short in the current environment. We're in the camp -- and we don't know if we're right or wrong, but at least, we tell you how we think. We're in the camp that we're afraid interest rates will go up, not down. And that will have -- if you're long in duration, it has a devastating effect on your portfolio. What we're doing that is -- it's also difficult for you as analysts to go quarter to quarter and see what investment income is. It's not only we're putting some more into equities. But also, we're putting more money into sometimes segregated funds that would force to account on the equity method, even though some of the investments in those funds might be fixed-income type of investor. So if we own them outright ourselves, they probably count as investment income. But because of the structure of the transaction, we have to account for them on an equity method. So we focus more on our total return and how well we do quarter after quarter, not the accounting, because every time we get with accountants, it's a three-Advil discussion with me, because they got so many rules. I'm a reasonably smart guy. Reasonably, take that with a grain of salt. But I get confused with all the accounting rules. They got so many, it's beyond my comprehension sometimes.

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

Well, Mark, Arch always believes in running a conservative investment portfolio. But it's a fascinating time when a conservative portfolio may not mean investing in long-term treasuries. It's sort of the opposite way. So we think being shorter is the correct approach today for the risks that are out there, and we'll have to wait and see if we're proven right or not. But going long right now doesn't appear to be a good risk-return trade-off.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Well, thanks for the clarification. Thanks.

Operator

Your next question comes from the line of Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The continued healthy level of favorable reserve development, even excluding some of the named cat favorable development you've talked about, I guess, suggests that the claims environment hasn't changed all that much. And I'm wondering if you could talk about that, what you're seeing from a claims-frequency standpoint in newly arising claims.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, don't forget, a lot of our reserve -- favorable reserve development is coming from the years that both the frequency and severity, they were very favorable. The frequency trends are still positive. Meaning that, we don't see an uptick in frequency. But we're starting to see a little bit of an uptick in severity. And of course, what you need to worry about is not only what we see, but how you project into the future, because it's not CPI that causes us problems. It's wage inflation that it will cause problems, it's medical inflation that we already have in the numbers that causes problems, and most importantly, it's socio-economic inflation, as to how 12 jurors in a box -- they're going to determine if $0.5 million or $1 million is a little bit or a lot of money when they have to determine pain and suffering or anything of the other theories that the plaintiffs bring forward. And I think, that period of time that we had low frequency and low severity, it will reverse itself, especially with -- when people feel more wealthy, I think the numbers all of a sudden, even when they have to calculate pain and suffering, go up, and we call that socio-economic inflation. Very, very hard to predict, but you got to have your eyes open. That's why in maintaining our claim process true to what's going on in the environment our -- every single open case we have has to get reviewed at least once a quarter, and get readjusted to all the new information we have, independent if it's changing, case law and/or new reality in order for us to be able to derive our needed pricing going into the future on an as-needed basis. So it's not an easy process. That's what makes this business more interesting. And you got to have -- not having the right reserves is not just embarrassing when you have to make a reserve addition. It's problematic, because it might be guiding you underwriting to be pricing the business at not-adequate rates, because you didn't get your reserves right. And that's why we looked at not only our own data, but we looked at a lot of industry data in order for us to have a point of view on pricing that allows us to feel comfortable for the business we put on the books.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful. And just a follow-up on that, on the property side, we certainly read a lot about commodity price inflation and building materials, whether it's steel, or lumber, or roofing shingles. Has that shown up at all in property claims?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, because labor cost, which is a big component is so much down. It's more unemployed construction workers. I think the construction industry is the hardest-hit industry, and -- listen, I'm in the midst of building a house. I mean, this project is -- I gave my wife on a limited budget and she's exceeding it. But I can tell you, one in a bushel with these guys, we get prices that even my GC says they're unbelievable today. So I know first-hand that it's a good buying opportunity. If somebody wants to build a new factory, this is the time to do it. And if somebody wants to renovate a home, this is the right time to do it, in my view. So that can change, quickly. You get unemployment, you get new construction permits, if we're going to start getting into street and road work, and you will see that escalate very, very quickly.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great. Thanks for the answers.

Operator

Your next question comes from the line of Matthew Heimermann with JPMorgan.

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

Hopefully these will be quick. I just was -- and I'll give them to you first. A lot of other commentators or managers of companies have suggested that they've made tweaks to the model over the years. And therefore, that's going to mitigate the impact that RMS 11.0 might have on these folks. I'd just be curious on if that's something you did internally, because based on the numbers you gave it didn't necessarily sound like it was dramatic if that was the case, and then how believable some of the other commentary we may have heard is. And then just quickly, remind us what Alternative Markets business is. And also, just the national accounts, that's one -- following up on Brian's question, that's another area that pops after several quarters of pretty significant reductions of just some contacts there.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Okay, let me start with three questions, let me start with the first one. The first one, first, the numbers we gave you is purely running the model at its purest form, okay? So that's the comparison. Usually, I think, the statement that was made and also, what we do within our shop is correct. A very few shops that they will run the model and underwrite without any modifications. We always had modifications, especially in Florida. Our cat teams had a different point of view about the manageability in inland areas versus the models. So it steered our underwriting posture in a different direction than others. I can't tell you as to what other modifications others make, but I knew our guys, they were modifying their approach to underwriting, especially in Florida. Some of that comes from the experience we have with different storms. If I take you back to 2004, Charlie entered from the Gulf and exited into the Atlantic, and I can tell you it did more damage exiting than entering Florida. So, if you go back and see what happened, and people they're going to tell you, it was an narrow storm, the whip of the eye wasn't that wide, et cetera. What difference does it make? I mean, here it is, here is a storm that was doing a lot of damage in the middle of the state, than it was doing on either one of the coasts. So our guys in their thinking and modifying things, they change their underwriting approach, and it wasn't just that storm. They do a lot of analysis. So the statement that others make that they do modify the models is correct, and we do it, and I'm sure others are doing it, as well.

Alternative markets is predominantly self-insured programs that buy rented captives. We have captive capability in Bermuda and this might be a collection of clients that they want to self-insure most of their primary risk. Most of their primary risk is GL, Auto liability and workers comp, and they might be taking maybe the first 250 or maybe 0.5 million of each and every loss, and then they will buy a bit of the excess and maybe some aggregate protection to protect their under-captive. And we're in that business. We have the capabilities of managing all that.

And national accounts, it's a similar business. Exactly that GL, Auto, workers comp, but written for a single entity, a very large corporation that they want to self-insure quite a bit of their primary risk. A lot of them, they will take 250 on each and every loss, or 0.5 million. And when I say, primary is the first million of risk on the GL and Auto, and then statutory, of course, on the workers comp, and that's what we do on those two 2 areas. A lot of this business, it has some underwriting risk, but it's more limited. You're underwriting the buffer, and in some cases, you're underwriting the aggregate stuff that you might put. But to be successful in this business, you have to be very, very good in service, because it's a service-intensive business. And I think, we're small in the sector, we're not as big as the Zurich or the Travelers or the Hartford et cetera. But for the clients that we attract, we give very good service and our retention percentages are very, very high.

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

Just following up on the -- thanks for that, Dinos. Just following up on the first question on the PML then, is it fair to say then that, I forget exactly what the number was, but relative to your -- it was 24% of capital, about 955.

Constantine P. Iordanou
Chairman and Chief Executive Officer

We take it at its face value.

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

Yes, so realistically, we're probably splitting the difference somewhere?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It could be. And don't forget, it's only for our Northeast zone. A lot of zones around the world, we don't have that much exposure. The zones that will affect us a bit is the Northeast. And maybe, a little bit in Florida. We still have more -- quite a bit of more capacity in Florida. And then the changes on the quake was minimal.

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

And Matt, it's John. This is still under review. We're in discussions with RMS, to really understand all the various components of this. So we still stress preliminary but thought we would just give you an indication.

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

Okay. Much appreciated. Thanks.

Operator

Your next question comes from the line of Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Thanks, guys. Just again on this RMS model, as I seem to recall, I think you all had excess capital a couple of quarters ago in the $600 million range at the midpoint?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Correct.

Gregory Locraft
Morgan Stanley, Research Division

Okay. If I now run it forward, you've had a heck of a quarter, in terms of the storms. You guys were very aggressive and continue to be aggressive in buying back capital, and the PMLs went up, I mean it's not a stretch to say your excess capital is less than $600 million, right?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, we said it is already $400 million, and it might go even below that, depending on the RMS 11.0 implementation.

Gregory Locraft
Morgan Stanley, Research Division

Okay. So that $400 million, I apologize. I missed the numbers. So that $400 million, is without RMS or is with RMS?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's based on the old RMS model.

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

Right, on RMS then.

Gregory Locraft
Morgan Stanley, Research Division

Okay. And then RMS, you take the PML from a $726 million to a $955 million, why wouldn't I just assume that $400 million goes down by another $200 million-ish?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, because that's a simple mathematical approach to it. It depends what the rating agencies are going to do with the new PML. Is that going to require additional capital or not? How? Because the rating agency's in their capital model, they're not looking at just one event. They're looking at the aggregation or the aggregate exposure that you have over multiple events within the same year. So it's not as simplistic as doing that calculation.

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

There are also multiple models, and which the rating agencies are still learning about all this, as we are with RMS 11.0. So we need some time to sort all of this out.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Right. And don't forget, that's my own calculation as to how I determine the cushion. It's not what the rating agencies want, right? I go far beyond the rating agency's requirements. If I don't believe $955 million is the right number, and I'm going to modify my internal models, and they'll say that number is $800 million, that's what I'm going to use. So there is still a question as to how much safety we need to have in the way I calculate excess capital.

Gregory Locraft
Morgan Stanley, Research Division

I totally appreciate that. And I mean, you guys have always had tremendous levels of excess capital. And I guess I'm sort of surprised at the rate of decline, in 6 months in your levels of excess capital. And I sort of wonder, in a world without retro, how does one -- how do your peers, and how do people manage going forward?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, listen, it depends how they count. And also, don't forget, I bought aggressively in the first quarter, because -- our shares back because I thought it was the right thing to do for shareholders. When I combined my shares, I had a pretty attractive prices. And I knew, based on the events that our earnings, they're going to be skimpy or non-existent, right? As it really happened. When you get 3 major events in one quarter we're lucky to be in the plus, right? So at the end of the day, you got to know your book of business, you have to understand your capital position and manage accordingly. We will never run this company thin on capital. We will always have the cushion that we like to have to handle, in our view, a 1-in-250 event, and begin the year and end the year with the required capital the rating agencies want for our rating. The whole principle around that methodology is that I want to be on the dance floor when -- if you have a 1-in-250 event, which in our estimation, depends on which part of the world. If it happens in Florida, it's an $80 billion to $100 billion event. I can tell you, you have a totally different market, and I want to be one of the companies participating on the aftermath of that. That's why we're conservative with that, and that's why we're conservative, also, in our capital structure by only having about 15% of our capital in hybrid securities debt and hybrids, which allows me to quickly access the debt markets, if I need to, in the opportunity to expand dramatically is there.

Gregory Locraft
Morgan Stanley, Research Division

Okay. Thank you very much.

Operator

Your next question comes from the line of Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Real quick, just want to circle back to the share repurchase discussion. I know you talked about how maybe changes in the RMS model play into that as well as, obviously, capital levels. How much does the recent expansion evaluation in the shares temper your appetite at all for repurchase going forward?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, we have, Matt, we have that formula that we use all the time. It's a grid that it looks what ROE can I produce by writing business and what is the multiple to book value that I combined my shares. Of course, when it is less than, it's very easy decision, when it's more than, you got to go through the calculation. And as long as our recovery is 3 years or less, we still believe that our share repurchase is the right way to return excess capital. Of course, you got to look also what the outlook is for the business. What you expect for things to happen in the future et cetera, is part of that calculation. But on the pure price, 112x, we're trading at about 112x, 113x booked is still attractive for us to buy shares back.

Matthew John Carletti
JMP Securities LLC, Research Division

All right. Thanks.

Operator

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

Ian Gutterman
Adage Capital

I feel like I have to clean up some of the questions. The PML thing, actually, I think people are beating around the bush. So if I can ask a little bit more directly. I think if we take at face value, that 955 RMS, and noting historically, your PML tends to go up into wind season a little bit, maybe that goes over $1 billion and you're over 25% on paper anyway. So I guess the real question that people are trying to ask is, if cat rates really, are up 10% or more at midyear, do you have the ability to grow exposure? Or are you just looking to maintain exposure and take the price increase?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, don't forget, you -- the one thing you miss, and usually, you are a careful listener, I said Northeast. The Northeast is not going to get affected. Northeast doesn't go up for us in June and July. Florida has the propensity to go up, or the Southeast. So there is still quite a bit of capacity for us to use depending on pricing, and there is no limitations other than are we getting the right rate on international cat, where we see a lot of opportunities? Or in quake zones anywhere in the world, which also, we believe, we have significant additional capacity.

Ian Gutterman
Adage Capital

I guess, I'm looking traditionally though, Dinos, it seems the past few years, Q1, the peak came out within Northeast, and I wonder, it becomes Q2 and Q3, it becomes Florida, that number has been larger than the Northeast numbers. So I would expect that 955 to go up traditionally.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well the 955 is the Northeast. And the Northeast usually doesn't go that much up going in the middle of the year. So what we have is what we have.

Ian Gutterman
Adage Capital

But I just meant that Florida tends to surpass the...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, Florida might go -- we adopt, don't forget, the percentage in Florida was less than Northeast. Northeast, if you recall, it was 32%, while Florida was 28%. So even with that, we have capacity to go to $1 billion, so there is plenty of capacity there. I wouldn't worry about it.

Ian Gutterman
Adage Capital

So you feel you can grow exposure if the opportunity is there?

Constantine P. Iordanou
Chairman and Chief Executive Officer

You tell me the prices, I can tell you, how much I can do.

Ian Gutterman
Adage Capital

Got it. Okay. And just to clarify Matt's last question on the repurchase, I think, last call, you said 115, 120 of book was a governor and as you mentioned you're pretty close to that. Is that grid based on with the stated book or x the unrealized gains, because x unrealized gains are obviously over your grid. h

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

Stated book.

Ian Gutterman
Adage Capital

It is stated, okay. Do you worry though the fact that unrealized gains are a meaningful component and if we saw a little rise in treasuries, all of a sudden, you're over your target price there, because that makes [indiscernible]?

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

No, economically, you would get it back.

Constantine P. Iordanou
Chairman and Chief Executive Officer

I mean, unrealized gains is, it's your entire portfolio, you got to worry about, not just unrealized gains. What difference does it make if they're unrealized or realized? At the end of the day, your bond portfolio is exposed to that reality and you got to calculate. As a matter of fact, when we do our scenarios with -- you guys, meaning, analysts have a tendency to worry only about the cat events. But I worry about a 200 basis points movement on interest rates, a parallel movement that it can happen within 5 or 6 months. And we might have an event like that. To me, that's a cat event. What it does to you, what it does to your balance sheet.

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

Which is why we run with a buffer, as well. I mean, the buffer could be for a big hurricane or a massive spike in interest rates.

Ian Gutterman
Adage Capital

Okay. Well, that's why I was wondering if that will it make you slow the repurchase because if we did see that move in interest rates, you would have, in hind sight, have bought it back too high.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, I don't -- I still have, don't forget, I'm still within all the cushions that I talked about, because at 200 parallel move on a bond portfolio for us, cost us approximately $700-something million, which we will recover on the 2.7 years of duration we have. But still, if it happens rapidly, I have a lot of competitors that they're a lot more wounded than I am. And also, their recovery period is a lot longer than mine. The magnitude is going to be greater, and the recovery period is going to be longer. So I think I'm in great shape.

Ian Gutterman
Adage Capital

Okay. Fair enough. And just some quick numbers months, hopefully, reinstatements in the quarter, what were they and what segment where they in?

I think, in the press release you mentioned there some reinstatement premium?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, for our retro purchases, we have to pay.

Ian Gutterman
Adage Capital

Or how much was it, I guess, is what I'm wondering.

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

Well, we got, I think, it was $4 million.

Constantine P. Iordanou
Chairman and Chief Executive Officer

I think it was about less than $4 million. It was about $3.5 million?

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

Yes.

Ian Gutterman
Adage Capital

And that was received or paid?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, paid if you -- paid in some cases.

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

That was received in reinsurance.

Constantine P. Iordanou
Chairman and Chief Executive Officer

In reinsurance on some contracts, but also we had some that we pay. That was the net net.

Ian Gutterman
Adage Capital

Got it. Okay. And then were there any losses from any of those large property losses like Grifton or any of the opportunities like that in the quarter?

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

Nothing material.

Constantine P. Iordanou
Chairman and Chief Executive Officer

No.

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

It wasn't anything -- it's all included.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes. John would've had highlighted it.

Ian Gutterman
Adage Capital

That's right. But I just wanted to double check. And then your remaining cat cover for international events for the year, where are you on that? I mean, I don't know if you renew that on January 1 or July 1, but given we've had so many significant events, do you have enough cover for the remainder of the year? Or do you have to look to buy more?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, we have plenty for the remainder of the year. As a matter of fact, our Insurance Group, there is not an event that they even got close to even attaching their cat cover. We're one of the companies that we just gave them premium. We're not going to give them any losses.

Ian Gutterman
Adage Capital

Perfect.

Constantine P. Iordanou
Chairman and Chief Executive Officer

When you pay for something, you want to get something in return.

Ian Gutterman
Adage Capital

Well, understood. But it's better than the other way. All right. That's all I have. Thank you, guys.

Operator

Your next question comes from the line of Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

In terms of the Aviation business, I think, you guys started to shrink that business a while back and coming into the premium now, how long should we expect the premium to shrink for in that line of business as you move away?

Constantine P. Iordanou
Chairman and Chief Executive Officer

I don't think -- with Aviation I think the last year, in the second quarter, we had about maybe $13 million, $14 million gross and about $4 million or $5 million net. Don't hold me to the decimal point. I'm going by memory. And that would be the last component that you would have had. Something that is not renewing coming up, because we're out of that business.

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

For our commercial and general aviation.

Joshua David Shanker
Deutsche Bank AG, Research Division

So when we think about the property, energy and marine aviation lines, that should stabilize going forward?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, yes. After the next quarter.

Joshua David Shanker

Deutsche Bank AG, Research Division

And then executive assurance versus Professional Liability, while they're not the same customers, they're often the same underwriters who are participating in those lines. Can you sort of explain the [indiscernible]?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, they're not [indiscernible]

Joshua David Shanker
Deutsche Bank AG, Research Division

Go ahead, you can completely explain.

Constantine P. Iordanou
Chairman and Chief Executive Officer

They're two different units of Professional Liability underwriters, a different set of underwriting that [indiscernible].

Joshua David Shanker
Deutsche Bank AG, Research Division

No, not at Arch. I'm talking about your competitors. You're competing with the same competitors in both those businesses.

Constantine P. Iordanou
Chairman and Chief Executive Officer

That's correct, yes. Okay.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so in terms of the market trends, are competitors being more aggressive in executive insurance and they're lightening up? Why is this bifurcation happening?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, if you're pricing the business on experience, you can justify being more aggressive in this market. If you're pricing the business on exposure, I think, you ought to be more cautious. And that's our point of view, our underwriters' point of view. So listen, I'm not saying we're right and they're wrong or vice versa. It's a difference of opinion. I have faith in our underwriting teams that they're calling it with caution and we're giving up some volume. And at the end of the day, believe me, I want to grow this business. But I want to grow it in the appropriate market. And right now, call it on financial institutions, and in some commercial segments, what we see is not acceptable to us. So that's the reason we chose to shrunk it.

John Donald Vollaro
Senior Advisor, Director and Director of Arch Capital Holdings Ltd

Josh, you're seeing a shift between regions, because we're decreasing executive assurance in the U.S., but you're seeing what -- spoke about the Professional Liability and SMEs growing in Europe.

Joshua David Shanker
Deutsche Bank AG, Research Division

Very good. And finally, on the Aeolus loss expected for the next quarter, will you get an opportunity to reinvest the for potentially higher rates there? Is there an opportunity as well of a loss there?

Constantine P. Iordanou

Chairman and Chief Executive Officer

Well, I mean, no. Listen, we're participants in investment and I don't have a preview of their underwriting. But I can tell you, their underwriters, that they write a lot of -- all of their businesses in the Cat business, and the Cat business is improving. So at the end of the day, we go with basically whatever activity they decide to do.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. Thank you very much.

Operator

Our final question today comes from the line of Vinay Misquith from Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Two questions. The first is on retro. You seem to have bought more retro this quarter. Was that just reinstatement premiums? And when do your retro purchases expire? And which of your PMLs go up because of that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

The PML, we don't calculate on the basis of retro purchases, okay? But at the end of the day, we want to -- we eat our own cooking. So at the end of the day, we go with the capacity that -- because there is no certainty that always, you're going to be having the ability to buy retro, and you don't know at what price. So from the PML perspective, it will have no effect on us. As a matter of fact, like I said, we don't anticipate that the pricing will be attractive for us to repurchase. So the likelihood is that for next year, we won't have retro protection.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Sure. Fair enough. And did you buy more in the first quarter?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. It's whatever we bought, we bought. It was a program that we renew year after year.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Okay. Great. And the second question is on share repurchases. Is some of the decision not to buy shares in the second quarter because of maybe waiting for higher pricing later on? Or is it just fairly an evaluation of the stock?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. As I said, when the window is closed, we put a plan, 10b5 plan. And then you got to set your parameters as to -- and well, then, the stock price move and when it went beyond, the agent couldn't purchase anything , because it was outside the parameters. Now after the earnings release, I think, the window opens in 2 days, tomorrow. Then we can resume, depending where our share price is, to repurchase shares. So the fact that we -- don't read into the fact that we didn't buy any in the closed window that our desire or our strategy has changed on share repurchases, it's just that it happened as such, because of the 10b5 parameters that I put.

Vinay Gerard Misquith

Crédit Suisse AG, Research Division

Sure. And the fact that you are willing to buy back stock, would that mean that you think that the cycle turn is further away?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, no. I still have the excess capital, right? At some point in time, I got to account for it. If it's excess, we -- unlike the first quarter, we had no earnings, we're anticipating that you're going to have earnings in the second quarter, third quarter and fourth quarter, I'm hoping your model you have is earning some money. That's what we're here for. So at the end of the day, we should be building additional excess capital through earnings. And then, you need to do something with it. So it's not an indication as of yet, as to where the market is. What I said, we still believe. It's not a broad market trend. I think, there is -- and this expression, we're starting to see some green shoots in some of the casualty lines. But they're isolated and they're specific. And the property, property cat especially, international property cat is improving. Florida, you heard the prior commentary. We're going to wait. But there is more positive movement even for the Cat business in the Southeast. So we're optimistic that it's going to be a better environment. Is that an environment that allows us to deploy oodles of money? I don't know as of yet. But share repurchases, the beauty of it is, you can turn the faucet on and off, and it's at your own volition. So at the end of the day, we can monitor where the market goes, react to it. And we can continue purchasing at the same level, or stop, if we think that there is really tremendous opportunities for us to deploy the capital in the business.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Okay. Thank you very much for your answers.

Operator

Ladies and gentlemen, this concludes today's question-and-answer question. I would now like to turn the call back over to Mr. Iordanou for closing remarks.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, thank you for listening to us and enjoy your lunch, everybody.

Operator
Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.