S&P Global
Market Intelligence

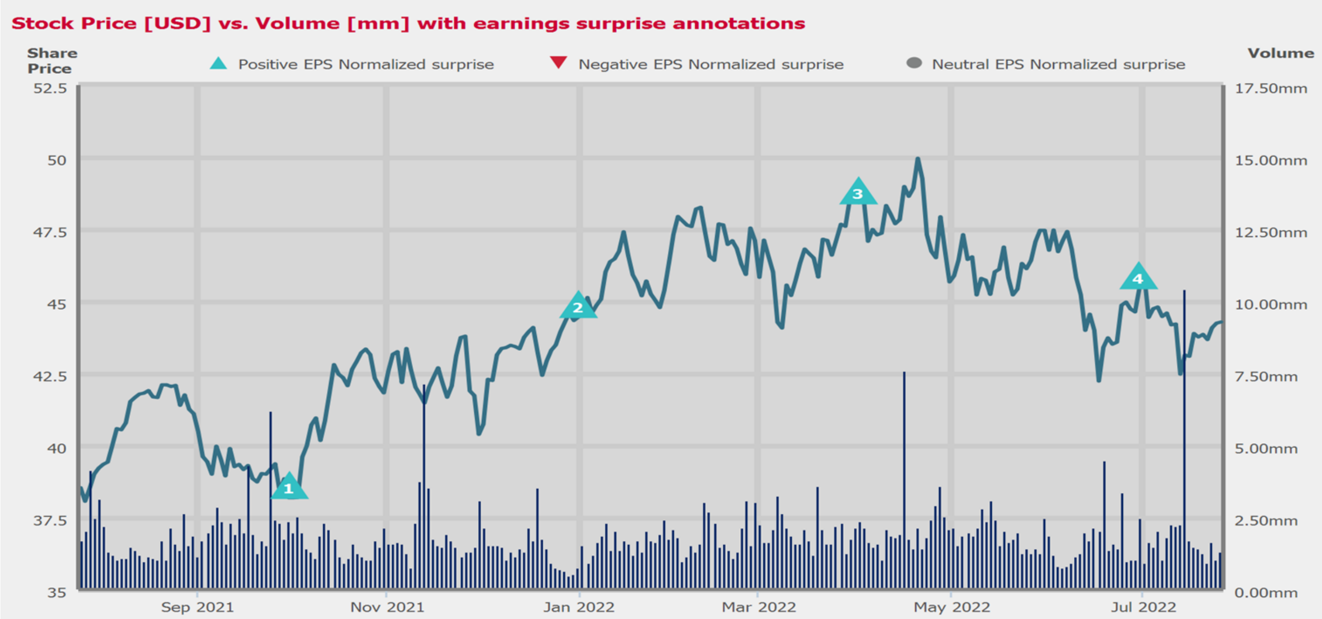
Arch Capital Group Ltd. NasdaqGS:ACGL
FQ2 2022 Earnings Call Transcripts

Thursday, July 28, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.09	1.34	▲22.94	1.00	4.51	NA
Revenue (mm)	2506.82	2684.64	▲7.09	2429.09	9811.04	NA

Currency: USD
Consensus as of Jul-28-2022 10:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.35	0.74	▲111.43 %
FQ4 2021	1.00	1.27	▲27.00 %
FQ1 2022	1.07	1.10	▲2.80 %
FQ2 2022	1.09	1.34	▲22.94 %

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EXECUTIVES

Francois Morin
Executive VP, CFO & Treasurer

Marc Grandisson
CEO & Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Ryan James Tunis
Autonomous Research LLP

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2022 Arch Capital Group Earnings Conference Call. [Operator Instructions]

As a reminder, this conference call is being recorded. Before the company gets started with its update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the federal securities laws.

These statements are based upon management's current assessments and assumptions and are subject to a number of risks and uncertainties. Consequently, actual results may differ materially from those expressed or implied. For more information on the 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 on the company's current report on Form 8-K furnished to the SEC yesterday, which contains the company's earnings press release and is available on the company's website.

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

Marc Grandisson
CEO & Director

Thanks, Elizabeth. Good morning, and welcome to our earnings call. Arch delivered strong results this quarter, headlined by an operating return on equity of 17%. Our results were driven by excellent underwriting performance across all 3 operating segments, as we continued our focus on growth opportunities during this hard market as demonstrated by the 27% increase in P&C net premium written over the same quarter 1 year ago.

These results demonstrate how our company is positioned to capitalize on market opportunities across the many lines that we underwrite. We've said it before, but it bears repeating, we are committed to agile cycle management, predicated by a focus on risk-adjusted returns, and it has enabled us to accelerate our growth through the deployment of meaningful capacity to our clients.

Because we invested in capabilities and preserved capital during the soft market years, we are in the enviable position of being able to maximize to this opportunity. Increasingly, Arch is seen as a provider of choice by our distribution partners and clients, which allows us to take on leadership positions as some in the industry retrench.

P&C rate hardening continues in many lines. It's important to keep in mind that for the vast majority of the P&C lines, we've been able to achieve compounded rate increases meaningfully above loss cost trends for the last 2 or 3 annual renewals. And as such, healthy margins of safety have been created.

We believe this attractive level of expected returns should remain in place for the next few years. I'll now offer a few highlights on our business units. In the quarter, our insurance and reinsurance segments both had excellent operating results largely because of how we leaned hard into the improving market early on. We also have invested in improving our data analytics while broadening our market presence.

In our North American insurance operations, premium growth was broad-based, with net premium written up 29% from the same period in 2021. Some of the most significant growth came from our E&S lines, both Property & Casualty, professional lines, including cyber and a resurgent travel and accident sector, all our lines of business where we believe risk-adjusted returns are most attractive.

Our specialty international insurance business, which includes our Lloyd's and U.K. regional businesses also delivered strong growth in the quarter with net premium written up 23% from the same period last year, driven primarily by specialty casualty and property. Our investment in building the U.K. regional small business is gaining traction as well.

When looking at the improved results of our insurance business, it's apparent that the work of our teams over the past several years is paying off. We have developed a platform that respond swiftly to opportunities presented by the hard market, while at the same time, building more sustainable positions in lines that are less cyclical. We have the capital, the people and the desire to lead in today's environment.

As long as attractive opportunities are available, Arch will be there to write them. Our reinsurance segment continued to deliver excellent top line growth and bottom line earnings this quarter because of the diversified and specialty focus of our reinsurance business.

The strong growth reflects our increased writings of quota share treaties, which allow us to participate in the rate increases experienced by cedents . The 6/1 and 7/1 renewals showed a property cat market in transition. And while I hesitate to make predictions, we are cautiously optimistic that this momentum will continue into 1/1/23.

The general psychology of the market appears to have shifted to requiring substantial rate increases to accept cat exposure. As an example, in Florida, where capacity remains constrained, property cat rates were up in excess of 30% and our PML in 1-in-250-year event increased as we selectively expanded our writings.

Rate pressure was evident also beyond Florida. However, we will need a few more quarters to confirm we are facing a hard property cat marketplace. Turning to our mortgage segment. The group continues to deliver the consistent underwriting results we projected when we began building our MI business a decade ago.

Our embedded book of high credit quality risks as well as continued on price increases have been key elements to our exceptional return this quarter. Although rising mortgage interest rates have slowed the volume of new originations, the purchase market remains strong, as housing demand continues to outstrip new supply. Rising rates also mean that persistency is increasing, which allowed Arch to grow its U.S. primary mortgage insurance in force to $292 billion, an all-time high.

The forbearance programs continue to roll off and cures have brought our delinquency rate down to 1.77%, which is consistent with what we experienced before COVID. Last and perhaps most important, the credit quality of homebuyers remains excellent, and we believe our portfolio is well positioned for a variety of economic scenarios.

We will continue to be deliberate in managing our mortgage portfolio, benefiting from a diversified business model that gives us the flexibility to focus on credit quality and profitability, not on volume. Briefly on investments, where rising interest rates and market volatility are setting the stage for additional investment income contributions over the next several quarters.

We're seeing the benefits of not chasing yield during the past several years as well as the work done to reposition our portfolio in response to the changing interest rate environment. Earlier this year, our investment team reduced our equity exposure and our fixed income portfolio's shorter duration has allowed us to quickly move our investments into higher rate securities that provides further cushion against potential inflation impacts.

This year's surge of inflation has been a call to arms to underwriting teams across the industry. And by and large, the industry has proactively incorporated higher trends into its models. We believe that the uncertainty surrounding future inflation should keep upward pressure on rates.

At Arch, we manage inflation by business segment. As we've said before, we believe inflation is a net benefit to our MI's portfolio's performance, while our P&C exposure to inflation is mitigated by many tools available to us.

Overall, we're very pleased with our underwriting results and returns in the quarter, and we are optimistic about the rest of '22 and into '23. As always, our objective remains to generate profitable growth and deliver long-term value for our shareholders, and this quarter's results are another example of our ability to do just that.

I want to thank the Arch team for everything they've done this past quarter and over the last several years. Our people have made Arch into an employer, an insurer of choice and have us well positioned to sustain our growth trajectory into '23 and beyond. Francois?

Francois Morin
Executive VP, CFO & Treasurer

Thank you, Marc, and good morning to all. Thanks for joining us today. As you will have seen by now, we had a very strong quarter and with very few unusual items to discuss or highlight to you, I have kept my prepared remarks relatively brief to allow for more time for the Q&A session.

So here we go. For the quarter, we reported after-tax operating income of $1.34 per share, resulting in an annualized operating return on average common equity of 17.1%, 2 excellent results. In the insurance segment, net written premium growth of 27.5% over the same quarter 1 year ago, combined with excellent underwriting performance, resulted in an accident year combined ratio excluding cats of 90%, a 140 basis point improvement over the same quarter 1 year ago.

Like last quarter, a change in our business mix resulted in a slightly different split between the loss and expense ratios compared to the same quarter 1 year ago. In the reinsurance segment, net written premium grew by 25.7% over the same quarter 1 year ago. The segment produced an ex-cat accident year combined ratio of 82.8%, 430 basis points lower than the same quarter 1 year ago. Here also, a reduction in the accident year ex-cat loss ratio was partially offset by a slight increase in the expense ratio due to growth in areas with slightly higher acquisition expenses and targeted personnel expansion to support our growth.

Losses from 2022 catastrophic events, net of reinsurance recoverables and reinstatement premiums stood at $82.4 million or 3.5 combined ratio points, compared to 2.4 combined ratio points in the second quarter of 2021. The losses were split approximately 80% to reinsurance and 20% to our insurance segment.

It's worth noting that approximately 2/3 of the estimated losses came from events outside the U.S., including Australian floods, South African floods, devastating storm in Canada and other miscellaneous natural catastrophe events. Our mortgage segment had an excellent quarter with a combined ratio excluding prior year development of 39.2%.

Net premiums earned increased on a sequential basis due to increased persistency of our in-force insurance, which now stands at 71.3% at the end of the quarter and growth in our CRT portfolio. Production levels also increased from last quarter, consistent with the seasonality of the business. We recognized $118.1 million of favorable prior year development across the segment this quarter, a meaningful benefit to our bottom line, as delinquencies cured at a higher rate than expected.

Close to 80% of the favorable claims development came from our first-lien insured portfolio at USMI mostly related to the 2020 accident year. The remainder of the favorable development came from recoveries on second-lien loans and better-than-expected claim development in our CRT portfolio in our international MI operations.

In all our segments, we maintain a prudent approach in setting loss reserves considering the uncertainty we face in a variety of factors such as macroeconomic conditions, inflation, both monetary and social and lags in settling longer tail liabilities as COVID-related delays get worked through the legal systems.

Income from operating affiliates stood at $4.6 million and was generated from good results at Coface mostly offset by the negative mark-to-market impacts on the summer's portfolio for those securities that are accounted under the fair value option method.

Gross investment income before investment expenses increased 20% from the first quarter of 2022 to $123.6 million driven by the reinvestment at higher yields of proceeds from the maturities and sales of investments in securities and the presence of floating rate investments in our portfolio.

Total investment return for our investment portfolio was a negative 3.02% on a U.S. dollar basis for the quarter, hurt by mark-to-market losses due to rising interest rates and weak equity markets. As you know, it is worth remembering that while mark-to-market impacts are fully reflected in our financials, a significant portion of this decrease hasn't been crystallized through the selling of securities and has the potential to reverse itself over time, in particular, for our fixed maturity investments as they mature.

As we discussed on the first quarter call, the defensive investment strategy we have employed for a number of quarters with high-quality investments in a short portfolio duration has helped minimize the impact of rising interest rates and the mark-to-market hit to book value. Our investment duration remains slightly below 3 years at the end of the quarter and slightly underweight relative to our liability duration target.

The performance of our alternative investments remained very solid this quarter, as we benefited from the returns generated by a number of funds that outperformed broad market indices. Turning briefly to risk management. Our natural cat PML on a net basis stood at [$888] million as of July 1 or 7.7% of tangible shareholders' equity, again well below our internal limits at the single event 1-in-250-year return level.

Our peak zone PML is currently the Florida Tri-County region. On the capital front, we repurchased approximately 7.1 million common shares at an aggregate cost of $320.7 million in the second quarter. Our remaining share authorization currently stands at $600.6 million.
With these introductory comments, we are now prepared to take your questions.

Question and Answer

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the rate versus trend discussion, which you've had a lot so far this earnings season. Marc, you started off your conversation by saying, you continue to see hardening in many lines. Where would you place -- when you think about your insurance business, where do you place price and loss trend? And how do you think that could go from here, as we think about higher inflation levels?

Marc Grandisson
CEO & Director

Yes. I think the pricing -- nice to hear from you Elyse. I think the pricing in the market is definitely clearing the loss trend. You've heard us on some of the calls that we would concur with that conclusion. .

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And do you think -- as you're thinking out the next year, do you think that remain case, especially right to your comments when you've heard about weight on top of rate, on top of rate? Do you see dynamics there we can keep talking about that for the next year or so?

Marc Grandisson
CEO & Director

I see what you mean. So I think I would answer by saying the perceived risk in the marketplace has actually increased. The results that on the property cat, which I mentioned briefly in my comments and also on the liability side as well. I think that the uncertainty about the social inflation and what it could mean.

And also other geopolitical risk, there's a lot of stuff going on in the world. I would expect this to continue well into 2023, but I've been wrong before. So I have to be careful the way I tell you this.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then on the investment side, were you putting new fixed income money to work in terms of rates? And then how much of the portfolio is turning over the next 12 months?

Francois Morin
Executive VP, CFO & Treasurer

It's a good question. I think we don't plan specifically how much is -- how much of it we're going to turn over. But we've been -- listen, our investment team has been pretty active trying to make sure that, "Hey, first of all, we did take a lot of investments."

We off risk in the first half of the year. And then it will all be about how much of -- what kind of opportunities we see as -- with the environment we're in. But we certainly -- with the short duration that we're at 3 years, you could certainly think that a meaningful amount of it that's going to turn over in the next 12 months.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then what's the new rate today?

Francois Morin
Executive VP, CFO & Treasurer

Well, new rate, I want to be a little bit careful. Certainly, corporates, you've heard it, we're at, call it, 4 -- approaching 4.5% in some places in the corporate investments and corporate securities that we made in the month of July. With the Fed announcement yesterday, I mean, the risk free, the treasuries, I think everything is going to move up a little bit from there. So that's kind of what we're seeing today. It's going to evolve as we move forward, and that compares to an embedded book yield of 2.2% or so at the end of the quarter. So it's meaningfully higher than what we're -- what the portfolio has been at.

Operator

Our next question comes from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I just had a question on the mortgage insurance business. How are you -- what's your view on the operating environment in the business, but just the threat of a potential recession and then -- and its impact on margins and then just with the higher interest rates and how that's going to affect top line growth in the business?

Marc Grandisson
CEO & Director

I think before I answer it a bit more specifically, I think that, as I mentioned in my comments that we mentioned more than once on the call, you're going to hear from the other, I believe, competitors, is that the credit quality of the borrowers that we see right now is exceptional.

By and large, the credit quality has actually improved through the pandemic. So we're very, very pleased with this. And I'm saying this because the biggest driver of default in the stress is the credit quality of the borrower. It's by far -- it overwhelms the risk possibility. We also are in a position where we have substantial equity buildup in the housing stock. So that's also helpful. So we're very comfortable with the way the portfolio is positioned.

And I think it's -- we're not recession proof, but I think we have a lot going for us if there were to be a recession. Now the top line, as you know, if there's less production, there's some indication that the third quarter might be a bit slower than usual, then that would mean production that's lessened possibly for the industry in that quarter, but the impact on the premium will take a little bit longer to be felt because as you know, monthly premiums are written through a longer period of time. And most of what we write and earn at this point in time comes from prior underwriting years in 2020, 2021 and 2019.

So we're not going to see a huge impact, immediate impact. It's not like a property casualty portfolio. So again, it's somewhat of a tempered impact on top line, we believe.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on share buybacks, you've spent, I think it was $321 million this quarter, $255 million last quarter. And if I look over the past 1.5 years, they've averaged almost $300 million a quarter. Do you expect to be at the same pace going forward? Or should we assume a slowdown? .

Francois Morin
Executive VP, CFO & Treasurer

That's a good question. I think, yes, we've been active. I think we -- it's part of our evaluation of all the alternatives in front of us when we buy back stock compared to how we deploy the capital in the business. The 1 thing that I want to make sure is you're aware -- I mean realizes -- I mean -- and we're bullish on the market, right? We think the market that we see today is strong and has some potential for even getting better. Time will tell.

We are certainly going to put odds on that, but the reality is if it gets better, and we have the ability to deploy more capital in the business at 1/1. We'll certainly want to do that. So the -- we'll reevaluate that daily and weekly like we always do. But I could see a scenario where we have to pull back a little bit on the share buybacks really just to have the capital base that we need to fully execute on deploying the capital in the 3 segments, which are, as you see, all humming and growing at a very good clip, make sure that we can execute on that opportunity in '23 and beyond.

Operator

Our next question comes from Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I also had a lost trend question. Marc, you said in the past that your view of loss trends for your book is roughly 200 to 250 basis points above CPI and for excess layers, it could be even higher.

Can you share your latest take on that because I think when you talked about these levels, CPI was below 2%. .

Marc Grandisson
CEO & Director

Yes. I think it's -- it's on a long-term basis, right? The surge and inflation may create distortion and that spread over this. But over the long haul, I still maintain this and seen another statistics recently that concurs with that sort of analysis.

I think that the CPI, we're fitting it right now in the shorter lines of business -- shorter tail lines of business and property specifically. As you know, we've had all collectively a lot of labor and cost material that went through higher very significantly. I think that in some lines of business, we're not seeing evidence of -- yet of trend above that CPI -- significantly above the CPI.

So I think our position has been to maintain, as we said before, Tracy, a longer-term view of the loss trend and when we had indication perhaps of 0 to 1% in certain years, we probably [indiscernible] higher from a longer-term perspective. So that helps on a cumulative basis when you price the business, not having to do as much catch-up. It keeps you a little bit more balanced through changes in inflation as we see right now.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. So it's more of a long-term view, not what you're seeing today.

Marc Grandisson
CEO & Director

Correct.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. I also saw your conversation yesterday on the intersection of investment yields and combined ratio target. Typically, combined ratio targets that you share with underwriters is informed by ROE. And I believe you guys, when you come up with these targets, you're actually looking at new money yields on a risk-free duration match basis, so not your portfolio yield. Are those the right puts and takes of your pricing model, I guess, ultimately could hire new money yield risk-free in your case, change your indicated rate needs?

Marc Grandisson
CEO & Director

Yes, it's a great question, Tracy. And I like the way we've built our compensation scheme for our underwriting team. It's actually self-correcting and self-adjusting as we go forward. Number one, when they price the business -- this is our underwriters, they actually look -- they used to look in the Wall Street Journal at the 3- or 5-year equivalent treasury rate. And that's what they would describe to the cash flow in terms of investment income that they could earn on the premium -- that we could earn on the premium.

So it's really a treasury return. This is what they get credit for their compensation plan. So as interest rates go up, their interest yield go up on their -- on the flow that they create or help generate for Arch from the insurance perspective. But as a counterpart to that, our target is also in flux and actually moves in lockstep with that treasury equivalent, right? We have actually set a target of 950 bps above treasury for the target.

So while at the same time, they're getting more investment income, you can see a higher margin, they're going to have a higher threshold on the target that they're looking at. And we do this continuously. I know our reinsurance folks because it's portfolio-based, it's almost a daily occurrence. They actually look at us every day.

On the insurance basis, we actually looked at it through a portfolio on a quarterly basis unless there's a big change that we just saw, then there'll be like immediate changes made to the pricing model. So everything is linked together. So interest rates go up, yes, you get more investment income, but "hey, guess what, we need to have a higher return,"

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. That was excellent color. If I could to speak and this is really quick. Why did your new insurance written in MI go up this quarter sequentially?

Marc Grandisson
CEO & Director

Can you repeat the question again, please?

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Sequentially, yes -- sequentially, I noticed your new insurance written for mortgage insurance went up...

Marc Grandisson
CEO & Director

Yes. Okay. It's $23.5 billion versus $20 billion in the first quarter. And largely, as you know, Tracy, it's a very seasonal marketplace. A lot more origination takes place. In the second quarter, right, people the school year finishes, people move, the size of the summer gets around. That's why there's a lot of people moving and buying houses and refinancing even not so much easier, but certainly purchasing houses in the second quarter.

So historically, the first and fourth quarter are about the same. They're lower than the middle 2 quarters. So that's sort of a -- it's just by virtue of the market origination. There's nothing pricing or appetite has changed in the quarter.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here for you. First, Marc, I'm just curious, big growth in Florida, property cat. How do you get comfortable reinsuring some of the kind of less credit-worthy companies down in Florida? .

Marc Grandisson
CEO & Director

Yes, we have -- it's a very good question, Brian. I think probably like other competitors of ours, we have a very extensive list of clients, and we've been ordering of all of them, even if they're not our clients throughout the years on 2 aspects, but we look at the claims paying ability, how good they are adjusting claims because as you can appreciate, Brian, is very important.

And secondly, we look at the financial situation. So we have ranked order them in 2 or 3 buckets, and we actually tend to focus our limit and the ones that are healthier and the ones that we believe have better claims adjustment processes and teams and expertise.

So if you were -- if you -- but having said this, we won't do a business with someone who's a bit more fragile from a financial perspective, but you probably heard it already that there are conditions that put in a contract such as prepaying reinstatement premium to make sure that we don't have to run after the credit risk.

So there's a lot of things you can bells and whistles. We treat different clients in different ways based on our assessment of claims paying ability and the expertise and creditworthiness.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then second question, just curious, professional liability premium insurance, still really strong growth. That's the 1 area we've actually been hearing some concerns from some companies, maybe not concern is the right word for it, but that you're seeing some competitive pressures in the public market D&O area? Maybe talk a little bit about what's in that professional liability line for you all? And are you seeing the same type of trends?

Marc Grandisson
CEO & Director

Yes. The exit D&O, I think, is a little bit more stable, more sideways, some go down, some go up, but it's clearly not as heated as it was 3 or 4 years ago. But 1 thing I want to mention, Brian, that people forget rate and excess D&O are 2, 3, 4x what they were 3 or 4 years ago. So it's extremely still a very, very healthy marketplace.

I think -- we would argue that capacity is stable. There's not much -- no longer any dislocations. I just think that for the right company, for the right experience, there would be no claims or very good quality, there's a tendency, there's a willingness on the marketplace to give us more credit to those companies, which is sort of normal and given where we are in the market after 4 years of extreme rate pressure.

I think on the second question, our growth, a lot of our growth is in the cyber products. We actually have put cyber in the professional lines. That's 1 area which we said before. We're very keen to develop and grow as we're seeing really great opportunities there as well and much needed -- our capacity is much needed in that marketplace actually.

Operator

Our next question comes from Joshua Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I'm understanding your answer to Tracy correctly, you have a long-term view of inflation and the changes in inflation wouldn't cause you to change your -- the inflationary outlook embedded in your reserves? Now if that's correct, does that mean some years you're going to run a little hot because inflation will be higher than you expect and then some years lower? And would you need -- would you or any other insurer need to take a charge in order to shore up higher inflation for an extended period?

Marc Grandisson
CEO & Director

No, I think that what I say is when there's lower interest rates -- lower inflation rates, loss trend, we tend to take a longer-term view. And as you know, Josh, we had multiple years of, I would argue, depressed loss cost trend, which was great for the industry, but we still maintain a healthy skepticism as to how we can last over the long haul.

So that makes us maintain our pricing actually higher during times of, I would argue, softer, softer times. What I think it means is that our bright line as to where we think we can make a great return or a good return, it doesn't move as much around as we go forward, right? Because we have probably -- we believe we want to have a healthier or more conservative, if you will, view of the loss cost trend as we price the business going forward.

Joshua David Shanker
BofA Securities, Research Division

So your loss cost trend assumptions were already higher and inflation -- social inflation is meeting the loss trends you already assumed?

Francois Morin
Executive VP, CFO & Treasurer

Yes, I think that's fair. Let me -- a bit more on your question, I think, Josh, I mean, specifically on reserves. I mean that's where the feedback comes into play where we do start with more long-term assumptions around trend. And as Marc said, we've been through a period where inflation has been pretty benign.

So we effectively, over time, because we've been pretty -- I guess, we're slow to react to good news that's been an Arch kind of philosophy for a number of years, forever, really.

We effectively end up building a little bit of a cushion that may come in handy if things do pick up again, right. If there's a bit of a spike in inflation, which depending on the lines of business and some lines of business, property, short tail, no question that we're seeing a little bit of higher inflation on labor and goods and materials and some other lines of business, we're just not seeing it.

So it doesn't mean it's not there. It doesn't mean that it won't happen. But for the time being, we have built up this again, buffer that we would call or a little bit of cushion in the reserve base, which would prevent us or would actually kind of -- we use up first before ever having to take a charge, which in our 20-year history, we've never had to take charges, and we certainly hope to keep it that way.

Joshua David Shanker
BofA Securities, Research Division

That makes sense. I'm trying to understand mechanics. So you have a high -- and I don't mean to repeat, but you have a high assumption going in. Nothing has changed that assumption. If something were to happen that would change the assumption, by definition, it would mean you need to carry more reserves, but you have a buffer in there and so you don't need to.

Francois Morin
Executive VP, CFO & Treasurer

On the old years. The new years we include, right. The new business that we price today, we will increase, we have increased -- and again, it varies by line, but in some lines of business, no question that we've raised our assumptions or pricing assumptions on loss cost trends. So implicitly, that when we reserve those new years, '22, and moving forward, they will start at a higher level, reflecting the inflation assumptions that we put in place today.

When we worry about reserves on the old in-force or the old years, right, '21 and prior, the fact that we price them with more conservative assumptions on loss cost trends gives us that buffer that we think will be a mechanism to absorb some of the volatility.

Joshua David Shanker
BofA Securities, Research Division

And in terms of buffers, could you update us on your IBNR reserves for COVID? .

Francois Morin
Executive VP, CFO & Treasurer

Our total reserves for COVID are still at $160 million, 75% of which are either IBNR or ACRs within the reinsurance segment.

Operator

Our next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just 1 question from me. Can you talk a little bit about the impact that global minimum tax would have on the MI tax rate?

Marc Grandisson
CEO & Director

It's premature, Ryan, to analyze all. There's so many moving parts of these global minimum tax right now, whether it's going to take place, whether it's going to happen, which country is going to enact. So way too premature. I mean, of course, our tax folks are working always every week. There's a new -- something new coming from all the various governments and agencies and treasuries around the world. But right now, it's still a moving target. Too early, too premature to say what it would mean for us.

Operator

Our next question comes from Meyer Shields with KBW.

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

First, I want to follow up on Brian's question, if I can. Not so much in terms of the quality companies in Florida, but given the sort of bizarre litigation environment there, how do you get comfortable that even the good companies are with reinsuring?

Marc Grandisson
CEO & Director

It's a very good question, Meyer. I think that in general, that's why we actually ask and want a higher margin of safety in Florida. So I think if you look at the -- our expected pricing in Florida reflects all of these and we need a healthier margin and you will find that the margin in Florida is higher than most other jurisdictions around.

And I think we've increased a little bit in Florida. We didn't go -- as you Francois mentioned, the PML went up slightly in the Florida Tri-County area. But these price -- the prices we saw as well, Meyer, at some point, they're not necessarily sort of standard market. They might be sort of harder to place or a layer that needs to be finalized.

So the pricing will be quite a bit better than you would expect than the average market would be. Again, Meyer, there's no guarantee in this slide specially in insurance. As you know, I think we tend to think about having a higher margin safety in Florida and several deals give us that opportunity this year.

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

Okay. No, that makes perfect. Second question, if I can look over your shoulder on the reinsurance side. You talked a little bit about the industry recognizing faster rates of inflation. How much does that vary when you look at potential cedents?

Marc Grandisson
CEO & Director

Wildly -- it varies wildly. I think now we probably have more consensus building in the industry, but it does vary widely because to be fair to our clients, they have different books of business. They have different lines. They have different focus geographically or line size. So it does vary a lot.

But there's clearly among our clients that we can see in a sense that there is development coming. There is some of that inflation picking up a little bit, which they have, by and large, already understood and appreciated would come. But I think it's -- I would say it varies by ceding company, the level, but I think the general direction of pricing for more and recognizing more is there in our ceding company clearly. They've been very, very proactive at most of them, if not all of them.

Operator

Not showing any further questions. I'd now like to turn the conference over to Mr. Marc Grandisson for closing remarks.

Marc Grandisson
CEO & Director

Thank you very much, everyone. We're looking forward for the second half of this year, and we'll talk to you soon.

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