S&P Capital IQ

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Arch Capital Group Ltd. NasdaqGS:ACGL

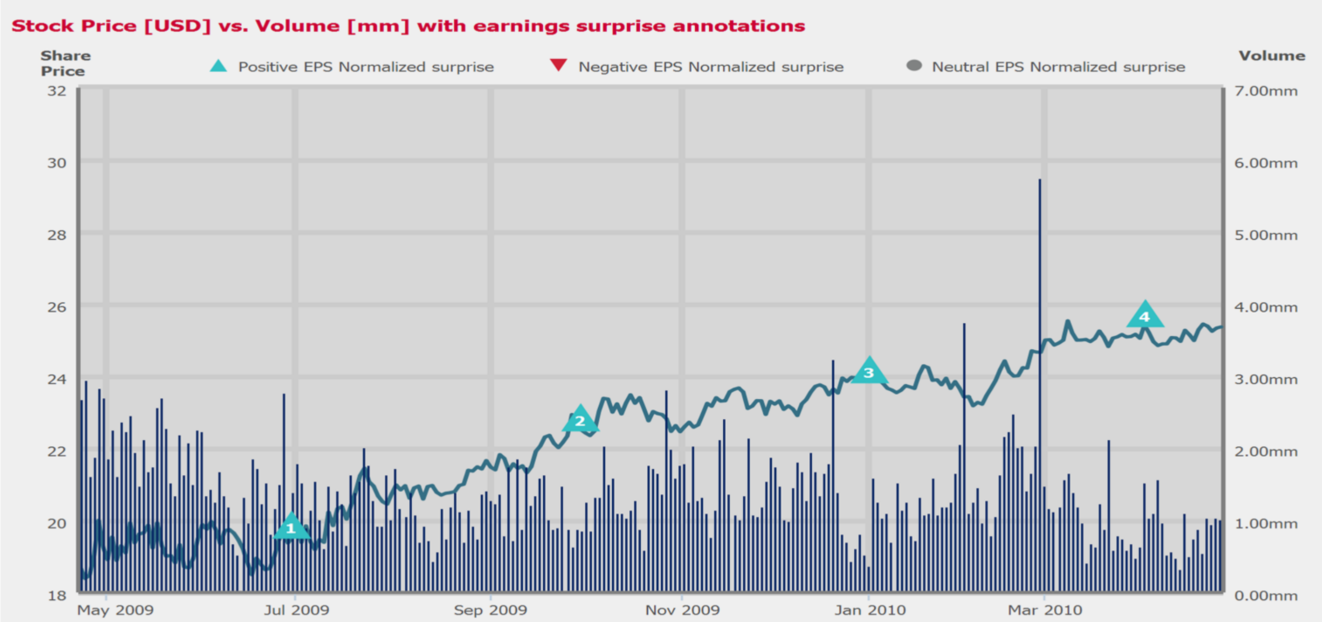
FQ2 2010 Earnings Call Transcripts

Tuesday, July 27, 2010 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.77	0.83	▲7.79	0.60	2.87	3.05
Revenue (mm)	682.41	624.26	▼(8.52 %)	713.83	2720.57	2732.07

Currency: USD
Consensus as of Jul-27-2010 12:43 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	0.82	0.87	▲1 6.10 %
FQ3 2009	0.79	0.85	▲2 7.59 %
FQ4 2009	0.84	0.89	▲3 5.95 %
FQ1 2010	0.53	0.59	▲4 11.32 %

Call Participants

EXECUTIVES

Constantine P. Iordanou
Chairman and Chief Executive Officer

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

ANALYSTS

Brian Robert Meredith
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Keefe, Bruyette, & Woods, Inc., Research Division

Elizabeth C. Malone
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Jay Adam Cohen
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Jay H. Gelb
Barclays PLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Keith F. Walsh
Citigroup Inc, Research Division

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

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Quarter Two 2010 Arch Capital Group Earnings Conference Call. My name is Jennifer, and I'll be your operator for today. [Operator Instructions] Before the company get started with this update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the Federal Securities laws. These statements are based upon management's current assessments and assumptions and are subject to a number of risks and uncertainties.

Consequently, actual results may differ materially from those expressed or implied. For more information on the risks and other factors that may affect future performance, investors should review periodic reports that are filed by the company with the SEC from time to time. Additionally, certain statements contained on 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 call 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, Jennifer. And good morning, everyone, and thank you for joining us today. Our performance for the second quarter was reasonable, in light of the challenging environment in which we're operating. Our annualized return on average common equity was 13%, which in our view is an acceptable result. These returns benefited from light cat activity for the quarter and favorable prior-year reserved development, while they were negatively impacted by the Deepwater Horizon loss in the Gulf of Mexico.

We continue to estimate that under the current market conditions, we are achieving a 9% to 10% return on equity on business written in the current underwriting year. This return is realistic for the current environment, but it does not meet our long-term goals.

In our most important measure for creating shareholder value, which is our ability to increase book value per share, we fair very well. At $82.07, our book value per share increased 12.4% from year end '09 and 6.7% from March 31, 2010. From an underwriting point of view, we reported a 90% calendar year combined ratio, which in our view is five to seven points better than the normalized accident year combined ratio of 95% to 97%

Cash flow from operations remain healthy at $206 million, even though our current book of business is declining, and our prior year's book is maturing. In addition to that, our mix of business have moved to more short tail than in the past, which also affects claim payment patterns. It accelerates the paid losses.

From a production point of view, our gross and net written premium were both down about 10%, all of the reduction was attributable to our Reinsurance operations. Our Reinsurance Group continues to pursue a strategy of reducing writings in long-tail lines while moving to more extra work contracts on short-tailed business. In addition, it should be noted that the 2009 second quarter included a large property cat contract, which is written on a two-year basis that negatively affected the quarter-over-quarter comparisons.

At July 1, property cat rates were down 5% to 15%, with a few late deals being written at better rates than January 1 and last year's pricing. On quota share contracts, terms and conditions remained basically stable with most of the rate erosion occurring in the primary business level. The actions we have taken in our Reinsurance business, which I just referred to, have an exaggerated effect on written premiums but a more modest impact on overall profitability and a beneficial effect on returns.

Our Insurance Group continues to emphasize and move their books of business to less volatile lines and to reduce their writings in the casualty lines. Despite these actions, due to the challenging market conditions that exist, margins continue to be under pressure. Rate in the U.S. market range from a plus-2% to minus-9%, depending on the line of business and size of account. Across all lines, rates were down 3% for our book of business, as it compared to a decrease of 2% recorded in the first quarter of 2010.

Our capital management philosophy has not changed. We intend to continue to return excess capital to our shareholders as long as we do not see attractive opportunities to deploy it in our business. With our share price trading below book value in the second quarter, we repurchased 3.6 million shares at an average price of $73.83 for a total of $269 million. At June 30, 2010, we have 541 million authorized for future share repurchases, and our excess capital is estimated to be in the range of $600 million to $900 million.

Before I turn it over to John for more color on our financial results, let me share a few thoughts on our cat writings and PML aggregates. We continue to find the East Coast wind opportunity still attractive, even though pricing has come down from a year ago. We chose to deploy about 8% of our available PML capacity due to the change in rates.

As of July 1, 2010, our one in 250 PML from a single event was $797 million or 19.6% of common equity, up from $674 million at April 1, 2010. This PML is for the Florida Tri-County area, which is our largest PML zone as we have expected. Our Northeast wind area, PML stands at $733 million, up slightly from $719 million we had as of April 1, 2010. Both zones are significantly below our self-imposed 25% of equity limitation based on our risk management guidelines.

With that, let me turn it over to John for his comments. And then we'll come back to handle your questions. John?

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

Thank you, Dinos. For the 2010 second quarter, property and other short-tail lines represented approximately 46% of our net premium volume. However, adjusted for the two-year property cat contract written in the 2009 second quarter, the comparable percentages are 48% for the second quarter 2010 versus 46% in the 2009 second quarter.

On consolidated basis, the ratio of net to gross was 76%, the same as a year ago. Our overall operating results for the quarter reflected a combined ratio of 90% compared to 87.2% for the same period in 2009. The second quarter loss ratios for both 2010 and 2009 included little to no cat activity.

As of the end of the 2010 second quarter, the provision for the first quarter cat events, which included the Chilean earthquake, did not change materially. The 2010 second quarter loss ratio also reflected physical damaged net losses of $15 million, or 2.4 points from the Deepwater Horizon rig that was not booked as a cat loss.

The 2010 second quarter combined ratio reflected 5.2 points or $33 million of estimated favorable development, net of related adjustments compared to 8.8 points or $62 million in the 2009 second quarter. The prior development in the second quarter of 2010 reflected favorable development, primarily in property and other short-tail lines, partially offset by adverse development in casualty, after the mid-year reserve review in the Insurance segment.

The 2010 second quarter expense ratio of 31.7% was 1.5 points higher than a year ago, reflecting lower premium volumes year-over-year, as well as changes in the mix of business and changes to the reinsurance cedent structures in the Insurance segment. The second quarter expense ratio was about the same as the first quarter of 2010.

On a per share basis, pretax net of estimate income was $1.70 in the 2010 second quarter compared to $1.60 for the same period a year ago and $1.67 in the first quarter of 2010. The growth reflects the accretive impact of the share repurchase program, offsetting lower reinvestment yields.

Total return of the investment portfolio was 1.74% in the 2010 second quarter. Excluding foreign exchange, it was 2.22% in the quarter. Also, the total net return benefited from a deliberate $135 million natural short position that we took against the euro. The duration of the portfolio increased slightly to 2.9, up from 2.77 at the end of the first quarter of 2010, principally in the treasury space. However, the overall duration of the asset portfolio at 2.9 is still less than the estimated overall duration for the liabilities, which we feel is appropriate given the "unusually uncertain economic outlook". We continue to be conservative with regard to the investment outlook and maintained a AA+ average credit quality on the portfolio.

Our balance sheet is conservatively positioned, with total capital of $4.8 billion at June 30, the same as at March 31, which reflects the share repurchase activity during the quarter totaling $269 million. The cumulative share repurchases added $0.63 to the diluted operating earnings per share or three points to the ROE. Our debt plus hybrids represent approximately 16% of our total capital, well below any rating agency limit for our targeted rating.

As Dinos mentioned, as of June 30, we estimate that we'd hold approximately $600 million to $900 million above our targeted capital level based on current rating agency models with an appropriate buffer. Our liquid cash, short-term investments in U.S. treasuries represent about 22% of our investable assets. With these comments, we are pleased to take questions.

Constantine P. Iordanou
Chairman and Chief Executive Officer
Jennifer, ready for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Keith Walsh from Citigroup.

Keith F. Walsh
Citigroup Inc, Research Division

First, within the commentary on the press release that it's an adverse development, the '03 to '05 accident years in the Insurance segment. Maybe you could give us a little more color on that.

Constantine P. Iordanou
Chairman and Chief Executive Officer

We do profitability reviews in all of our profit centers pretty much every year, some of them on a six-month basis. At the same time we do profitability review because we also always look at the reserve position we have on a profit center by profit center. As you probably recall that in our Excess and Umbrella segment in the Insurance Group, we had a couple of large losses that we took total limit losses. Of course, once you do that, the case incur and paid for that year changes, and then the actuaries in reviewing that, they will establish a new projected loss ratio picks. And that's what happened with that segment. We allow our actuaries to always review all of our reserves, and we really believe that we have a different outcome that we thought. We make the adjustments. And that's what happened in that particular case. John, you have anything further on that?

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

Yes. Well, being an actuary, we tend to blend these in overtime. And we looked at the loss development patterns in excess casualty and strengthen in the '03 to '05 accident years. And especially casualty, the frequency resulted in some general strengthening across the board. So just really trueing up to be on track for all the things that these will end up.

Keith F. Walsh
Citigroup Inc, Research Division

You mentioned 10 ROE on 2010 written business, are there any specific lines where you can achieve more robust returns?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, that's a blended -- there is lines of business that in the low single-digits, nothing to write home about. And your question is why don't you get out of it. It's not that easy to get out of our business, especially in the Insurance Group. You've got to maintain the infrastructure. You've got to maintain market relationships. If you've got to continue to serve these customers. We still believe the best returns are still in the property cat area and some of the A&H lines, some of our low-limit Professional Liability business that we write on a claims-made basis. So those there in the probably double-digit, mid double-digit ranges, and of course in order to average down to 9% or 10%, that means there is other lines that they're not carrying their weight. So we try to be realistic, and that's how we navigate as to what we want to write and what we want to reduce in writing, say, over the year. And these are open discussions we have with our pricing actuaries and the profit center managers and each one of our units, and is part of our capital allocation process and also resource allocation, as to where to allocate more resources, underwriting personnel versus where we -- through accretion, we might be shrinking personnel.

Keith F. Walsh
Citigroup Inc, Research Division

And then my last question around contingent commissions, I think you've probably seen the two largest distribution partners out there, saying, they will take them. At one point are you, in your discussions with them, to reinstating those types of payments?

Constantine P. Iordanou
Chairman and Chief Executive Officer

We're always in discussions on contingent commissions. There is some cases, when there is benefit in the overall approach to us that we will do some. And there is cases that we're going to refuse it. At the end of the day, it's got to be some value to both parties in order to do it. If it makes us more efficient on contingent, because they're providing us either better information to underwrite or more efficient way to transact the business, then those efforts will be rewarded. On the other hand, we're not interested in paying just contingent commissions, just for the asking. Let me share a couple of statistics, a little more flavor, even though it wasn't in your question. We monitor total commission, and our gross commission in the Insurance Group year-over-year was flat. It was 14.8% in '09 and 14.7% in '10. Of course, you got to get into the granularity, and you got to see the mix of business and different books of different commissions, et cetera. But in the aggregate for the corporation, in totality, that's where the numbers. When you look on our submission activity, we were flat. We got 27,000 submissions in '09, and we have 27,000 submissions in the second quarter this year. So from an activity point of view, we're seeing the same business, from a total commission payout, at least on a gross basis, would be steady even. On a net basis, our commission of course went up by 1.7%, but that's structural changes to our reinsurance structure and how much ceding commission you're getting, and are you moving from quota share reinsurance to XOL. So there is a lot of moving parts in those calculations, but we monitor all that, and we make the appropriate decisions. John, anything to add to it?

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

Nothing, I think that's all covered. And we continue to remain disciplined across the board as we write these.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to talk just a little bit about more on the expense associated with the prepayment of the Ginnie Mae interest-only CMBS bonds. I'm trying to understand how much interest you're earning off those bonds and sort of put in relationship the scale between the charge and the interest that you're receiving on those bonds.

Constantine P. Iordanou
Chairman and Chief Executive Officer

What we have approximately was about $100 million of these IOs, interest-only bonds.

Joshua David Shanker
Deutsche Bank AG, Research Division

Is that par or your purchase price?

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

That's our amortized value today.

Constantine P. Iordanou
Chairman and Chief Executive Officer

And the effective yield is a little north of 10% on those bonds. Of course, at the end of the day, as we receive these cash payments on a monthly basis, part of it is for the yield and part of it is to pay down the principal, so between principal and payment. The $3.7 million is associated with our change in the prepayment pattern that I think we have a more conservative approach.

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

We bought these in very late '08 and in '09. So we've had to -- how the accounting works is you check how the prepayments are happening on these new true up in a quarter to fix the amortization as you go more or less than you think. So $3.7 million over 100 over the last three quarters isn't a great deal of change.

Joshua David Shanker
Deutsche Bank AG, Research Division

It is a great deal of change, yes?

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

It is not.

Joshua David Shanker
Deutsche Bank AG, Research Division

So essentially, you received probably about $2.5 million of interest on this quarter? Is that reasonable?

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

Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

I mean as far as -- because I don't know this industry at all, the extent to which, there's a risk that, that would repeat itself.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, unless patterns change significantly, no risk. Basically, we took a different approach to it than in the first couple of quarters that one of our outside investment managers that were taken in recording these. And we believe that unless there is a significant change in the pattern, there will be no further adjustments. And we don't anticipate a change in the pattern. We like these kind of bonds, the prepayment schedules and default, it affects the pattern. But we haven't seen anything. And when we stress test these things, they still produce very high yields even at 3x change in default rates. So we're very comfortable with the investments on their own. And I think we're getting the accounting to where we're very comfortable with.

Joshua David Shanker
Deutsche Bank AG, Research Division

And can you discuss some claims and merchant's patterns you're seeing on the '08 and '09 executive assurance book?

Constantine P. Iordanou
Chairman and Chief Executive Officer

That was related to the financial crisis out of our London book.

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

Some in the U.S. book, this credit crisis...

Constantine P. Iordanou
Chairman and Chief Executive Officer

So the combination of those we put some additional reserves for the D&O lines for those. And again, part of this is on our quarterly reviews. And when we look at the reserves, and we go in a granular basis and see what got reported, what potential for some of these cases to materialize in losses, we make those judgments, and we adjust our reserves.

Joshua David Shanker
Deutsche Bank AG, Research Division

And at this point, this is IBNR and not the case?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

And are the increases severity-related or frequency-related?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's probably both. In a couple of Madoff cases, we've put some. I will consider that more severity. And there is no significant appreciable change in number of claims reported on the frequency side. But in the aggregate, we put some money up.

Operator

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

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

I was wondering, first, I guess, if you could just give some more details sort of on the decline in the Reinsurance segment. First off, I guess, could you give a little more clarity, sort of as to how large the two-year property cat contract was from last year? But second, also, really was the decline just sort of more related to pricing, or was it turning the book, or sort of what was the blend there?

Constantine P. Iordanou
Chairman and Chief Executive Officer

There is a few things. I'll give you some general color and have follow-ups if that doesn't answer your question. First, the contract. The contract is for a large client. It's about $43 million or $44 million thereabouts. It's a two-year contract. So we look at it every two years. We bound this two years ago, it was written premium last year, not this year. The following year, we will renew it, it will show up again next year. Now what is happening in the Reinsurance segment, with the exception of a lot of the short tails that -- especially property cat that we do on an XOL, we're a company who prefers quota share contracts. So we try to align our interests with the interest of the cedent. For that reason, a lot of our decisions if we're going to continue a contract or not is obvious to what's happening with the underlying primary business and where rates go in that sector. In the Casualty area, we've been reducing consistently now for the last four, five years. And we continue to do into almost nothing. I think our Reinsurance operation in Bermuda had very little, probably less than $30 million. And we write a little more out of our U.S. Reinsurance operations, et cetera. But it's our view about the pressure that Casualty business is feeling on the primary sector. Of course, we're not a big XOL writer on the casualty side. And similarly, on the properties side, some of the quota share opportunities for this year, we felt rates were coming down significantly, especially on international, national kind of accounts. And for that reason, we chose to reduce some writings in that area. That's what's going on, on the Reinsurance side. We'll continue to remain disciplined. And we'll react to the market conditions. And If we have to give up some volume to maintain margins, we'll prepare to do so.

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

My second question, kind of a bit of a numbers question. But looking at the other expenses, it seems that they're always a bit higher in the second quarter. What is sort of the driver behind that?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, you've got a little bit of incentive calculations. So usually, we've got to pay our underwriters, right? So that usually has an effect, but when you look at our expenses, the expense ratio went up, and most of it is coming from the change in the Reinsurance structures, who even though our gross commission, which is the commission we pay on individual deals out, hasn't really gone up on a net basis, it has gone up because we're not getting as much ceding commission. Also in the second quarter, if you read our proxy statement, that's when we do all the equity grants and share appreciation rights to the troops. So that hits in the second quarter.

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

And there's an accounting provision that for some portion of those, we have to book all when it's given, not spread out over time. So that's why there's a bump in Q2. You see it again last year, probably before. So this is a bump of other operating expenses.

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's for us, the old guys. I think the provision is that if you are eligible for retirement. Don't get any wrong ideas, I'm still a very young 60, so don't get any ideas. But accountants think that we're eligible for retirement so I accounted [indiscernible].

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

Just sort of a quick numbers question, you did mention in your discussion that the rig losses were booked as non-cash, and I think that was $15 million. So then the cats that were in there, what was that, that $7 million, I believe is related to?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, by the 1.1 [indiscernible].

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

Yes, some of the Tennessee storms and some of the smaller windstorms that affected players. But for us, it was not that significant event.

Constantine P. Iordanou
Chairman and Chief Executive Officer

There was no movement on the Chilean earthquake. It was like less than $1 million movement negative coming down. And so it was not a cat event for us this quarter.

Operator

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

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the adverse development, just curious as to whether the higher casualty claims you're seeing from the 2003 to the 2005 years, how do you think your reserves hold up versus peers? And was it just that you just decided to raise your lost picks rather than take down IBNR when you saw the numbers?

Constantine P. Iordanou
Chairman and Chief Executive Officer

I don't know what appears booking those years. All I can tell you is we have raised our reserves. Now raising the reserves doesn't mean that those years are unprofitable for us. They're still profitable years for us but not to the extent that we originally thought. So in essence, it's our own view that the '03 and '05, at least for us, in that segment, in that profit center, the results are not going to be as robust as we originally thought. I don't know. I don't have inside information. And everybody else says accident year by line of business to give you a comparison.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And could you give us a sense for the IBNR for the company as a whole? How did it change this quarter versus last quarter?

Constantine P. Iordanou
Chairman and Chief Executive Officer

We're still at 68%, which I believe is about the same as a quarter ago. So it hasn't changed at all. Even though somebody will argue as our earned premium is coming down and we're writing less, maybe that should be changing a bit. We haven't changed it.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The second question was in the Deepwater loss. How much of that would you say is a normalized loss? Because I believe that was $15 million or 2.4 points.

Constantine P. Iordanou
Chairman and Chief Executive Officer

What do you mean normalized?

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you think this was a higher loss than you would normally expect in the quarter?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. Listen, when you get an event like that, which is significant, this is not an unusual loss for us to take. At the end of the day, it's lumpy. You're right, offshore energy accounts, you're putting big limits. Will you get it under reinsurance? You get it under reinsurance. So it could've been $30 million, and it wouldn't be a surprise to us. It depends what you write and did you get hit on that particular account. Of course, our philosophy is both on the Insurance Group. We have a maximum net position that we take, especially on first-party coverage that you have to write big limits, which continues to be no more than $15 million any one risk. And then on the Reinsurance side, we take much smaller lines because you might get hit from multiple clients. When you have a big loss that all the layers go, you might get it from two, three or four cedents and you get a small portion of each one's loss. So it was not an unusual loss for us, but it's lumpy. And some quarters, you're going to have it, and some quarters, you're not going to have.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Which segment did that come from?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's offshore energy sector.

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

Both Reinsurance and Insurance.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

How much came from reinsurance versus insurance?

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

It's about $10 million from Reinsurance and $5 million net from Insurance.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

One just last follow-up with respect to the adverse development, just curious, does that mean that there's a lower probability that your reserves developed favorably from the past for all those years? Or do you still think that you've been more conservative putting reserves up, and there is still a possibility that as time goes by, those reserves may be redundant?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, you're asking a question that only the data can answer in future quarters. We'll react to the information that comes through. When we get another diagonal on the triangles, we make those determinations. And like I said, we spend a lot of time making sure that we try to get the reserving right, because that affects what action we're going to take in the marketplace. If you don't get reserves right, you're not going to price your business right, or at least you won't know if there is profitability or not in the business that you're underwriting. So it's part of our fabric, when we do profitability evaluations in all of our units, to make sure that there is an in-depth analysis and discussion as to where our reserve position is and what we believe each one of these years profitability is. So it's through that process. So we do react, I think, faster on negative news and slower on positive news, because that's a better way to see. You guys get very excited on minor adjustments. If they're negative -- if the positive, you forget about them. So for that reason, we try to be as cautious as we can.

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

And in all of our lines, but in particularly, the longer-tail lines, which I'll be very disciplined when the developments come in, to book them in, and be cautious on taking them down, because it's a very long-tail line, and it's a bit lumpy from time-to-time. So you'd rather have the reserve there than not.

Constantine P. Iordanou
Chairman and Chief Executive Officer

And Vinay, listen, I think we're a reasonably good company, but we're not perfect. We're not going to get everything perfect. So we don't profess to be perfectionists.

Operator

And your next question comes from the line of Jay Gelb from Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

First, on the year-over-year comparisons for gross written premium growth. The reported number was a decline of 10%, overall, for the company in 2Q. Am I right in saying that if you back out, the two-year reinsurance contract written in the second quarter of last year would have been down 6% on a reported basis?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes and no. It depends, how you do it. The proper way to do it is you've got to split that contract into two, and says, if it was annual contracts, it would have been like $21.5 million and $21.5 million. And if you do that calculation, I think you'll be right. Because you can't say, I have it in one year, and I want to have it in the next year. Because in essence, the accounting rules doesn't allow you to say, yes, I've got two payments, but I got to hold that cash upfront, and it's $21.5 million each time.

Jay H. Gelb
Barclays PLC, Research Division

But on the reported results, the full impact was -- the benefit was in the second quarter of last year and nothing in 2010 [ph] (48:16)...

Constantine P. Iordanou
Chairman and Chief Executive Officer

That is correct, but when you go in the earnings pattern, it doesn't change that. Because a two-year contract, you're going to earn over two years, where a one-year contract, you're going to earn in one year.

Jay H. Gelb
Barclays PLC, Research Division

And then second, on the Deepwater Horizon. Is there any exposure up at all for liability?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes, there is exposure for liability. And basically, there is a lot of contractual issues that need to be resolved, et cetera. But at the end of the day, there is four to five parties that they might be involved. And depending on what we get from our insurance and reinsurance participants, there might be some exposure there. Having said that is way too early. Clearly, most of the liability goes to BP, when you look at all the contractual agreements. On the other hand, there is some other companies who probably have liability, either because they made equipment that fail and/or they provided services that were not, and there is a dispute as to some of the facts. So...

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

But it's a very long way to go, I think, before we get clarity as to what the exposures are there.

Jay H. Gelb
Barclays PLC, Research Division

And then finally, on the excess capital position. At the mid-point, that's about 20% of common equity, which seems pretty substantial. To what extent can the share buybacks help to draw that down, in light of the company probably still earning well over $400 million this year?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, listen, I think we've been friendly to shareholders, so far. At least, that's the feedback I get. Usually, we like to be a little quiet there in the third quarter, because that's when we have exposure to the cat season. So we like to be more conservative and keep a lot of excess capital on the balance sheet to see exactly what happens. Even though we're very comfortable with our underwriting and long-term patterns, when you're writing Cat business, any one year can be a year of surprises. But having said that, the fourth quarter, depending where we trade, we'll probably get back to our policy of returning excess capital to shareholders. That discussion always happens in every board meeting we have on a quarterly basis in our Investment committee and Finance committee, at the board level. It's a critical question as to what do you do with your capital structure, and how do you deploy excess capital. Clearly, I don't want to give it to our underwriters and try to spend it in the wrong place, if there is not an opportunity for them to write profitable business. That's not the place we want to put it.

Jay H. Gelb
Barclays PLC, Research Division

Would it be aggressive to expect Arch to complete the share buyback authorization this year?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Hard to tell, but based on a lot of the rules, it's difficult to do that much in one quarter. There's limitations as to how much you can buy, et cetera. And for that reason, absent of -- for whatever reason, a significant reduction of price and availability of a blocked trade or some sort, it's very hard to find that much.

Operator

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

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

Gross versus net on Horizon?

Constantine P. Iordanou
Chairman and Chief Executive Officer

The gross was...

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

$22 million, I think.

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, it's more than that. It was -- we'll look at that number. The gross on that, it was, it might have been -- the gross and net on reinsurance, it was the same. And I believe $22 million was the gross on insurance that netted out to $5 million. So it might be $32 million to $15 million.

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

And then with respect to the management liability reserve change, was any of that related to increased defense cost assumptions?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, it's not a specific reserve attributed to that. It was an evaluation of us of putting more on the '08, '09 year, based on the financial crisis. So it's kind of a bulk number.

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

And just to clarify, is that management liability stuff, which is where you're attaching...

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, these are excess placements, predominantly. We're not a primary writer, and we believe that in order to get to us, it will go through a lot of layers, but people can be optimistic. People can be pessimistic on these things. We've got our set of eyes, and we have very good people who understand that business. And based on our pricing actuaries, the evaluation of our Claims department and our underwriting and what we've seen, we put up the bid in '08 and '09.

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

I've got the right number. $29 million was the gross...

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

On the Horizon?

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

Yes, on the Horizon.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Right. The Insurance, it was 17 to 5 and then the Reinsurance was 12 to 10.

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

Just a quick comment on the Travel Accident line, an area of growth that slowed down. And then the other question was on the Reserve Development, just Reserve Development, generally, does any of the assumption changes on the Insurance side affect how you think about the Reinsurance side?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Yes and no. Listen, the Reinsurance side depend -- we look at every single contract that we have, and some of these contracts, especially old quota-share contracts, they have a lot of underlying data coming from our cedents that they might have their own patterns. And then we will reserve based on those patterns because there is significant credibility to that information. Having said that, we always have also the kind of the sixth sense to evaluate a product line, how the marketplace is doing on the product line for the accident years, are we significantly different and why. And if we can explain it, then we've got to make adjustments. And that's why we hire outside actuaries, also, to review our reserves, from a holding company point of view, to make sure that we don't stray in the wilderness without having all information feeding into our reserve decisions. But as we mature, and we promise the Street, we're going to release our triangles, which are going to come in August. I think I deserve a little vacation, so I'm leaving next week and the week after. And when I come back, hopefully, they will let me look at them before we put them up. But in August, you're going to see our triangles. We would tell you that it's still a blend. We don't depend 100% on our own data, but more and more of our own data affects our reserve positions.

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

And then just on the Travel Accident?

Constantine P. Iordanou
Chairman and Chief Executive Officer

The Travel Accident, it's been a good business for us. It's been a good business for the industry. It's difficult to grow it organically, and we're doing the best we can to try to grow that business.

Operator

Your next question comes from the line of Beth Malone from Wunderlich Securities.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

A question on the investment portfolio. You mentioned that you were starting to write more of the short-tail business in your total book. I was wondering, are you making any changes to your investments portfolio as a consequence?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Not at that time being. But let's talk about a little bit, because we have a philosophy on how we deal with our investable assets. We bucket those into three categories: First, we got the reserves; second, we have the company capital; and third, we have borrowed money. On the borrowed money, $300 million of bonds we have, when we got those funds, we will only want it to be subject to the spreads. So in essence, we invested them in the same duration. Where we make judgments is where should we be with the funds that there are for reserves. And those, we match duration of liabilities. So if duration of liabilities in our reserves changes, we will change that component. And where we adjust, the view that we have on the economy that should we be longer or shorter from our liability durations, we do with the equity capital of the company. And we've been shorter in duration than what our liabilities are. Right now, we're probably, I would say, three quarters of a year, probably six months to three quarters of a year shorter than the duration, because we don't like the economic environment. And we believe that being more conservative and not taking duration risk, even though it comes at a small cost to shareholders, it's a better position to be than being long at this point in time.

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

Beth, we also make sure, in addition to matching the duration, that the key-rate durations that were matched with cash flows from buckets one, two, three, four, five, six is so that it's not just matched on an average numbers, it's matched across the board. We also keep a good portion liquid, in case there's a large cat event comes through from property-to-property cat that we can't have the ability to pay on a pretty rapid timeframe.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

On the Transocean event, you said it was not defined as catastrophic, and I was just curious as to why it might not be?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, no, we consider cat activity to be natural cats, not man-made cats. It's a catastrophic event, but it's man-made. An explosion in a refinery or a blowout in a well, et cetera, it's not what we consider a natural catastrophe. This is not a hurricane or a tornado or a hailstorm or a wind or an earthquake. So that's where we make the distinction. So you might refer the expression some companies call it man-made cats or attritional cats. They use different phraseology. For us, always our cat numbers is what comes from natural catastrophes.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

And then, as regards to the Transocean, I assume you've seen improved pricing in the energy market as a consequence in the second quarter?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Slightly on the first party, but it's still disappointing, not much on the liability side. So that tells you that the market is pretty soft. An event like this, even though the liability questions are still unanswered, we have not seen any movement on the liability side. We're just disappointed.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Dinos, a quick question. The Neal bill has been getting a lot more talk recently. There's speculation that it may pass here. I guess my question is, what do you think about that? Do you think it can pass? And number two, are you doing anything at Arch's to potentially prepare yourself in the event that it does happen and to minimize any financial impact?

Constantine P. Iordanou
Chairman and Chief Executive Officer

For the first question, I don't know. Washington does a lot of strange stuff. Clearly, the Neal bill is a protectionist bill. If you can see who is behind it, it's predominantly a few domestic insurance trying to serve their own interests at the expense of policyholders and their consumer. What you see is behind the coalition for affordable rates and insurance. It's a much broader coalition of people. Having said that, every company looks to make sure that it has the proper structure and tries to maximize its ability to serve its customers at their lowest possible cost. And we're one of those companies. At the end of the day, our interest is to provide a lot of cat capacity to the U.S. at the best possible prices. So I don't know what the future will bring, but we're prepared.

Brian Robert Meredith
UBS Investment Bank, Research Division

But I guess my question would be, then, what do you think the financial impact would be today, if something went through?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's going to be minimal, because unbeknownst to what -- at not knowing what they will pass, we still pay a lot of tax, when you consider the excise tax and there is transfer tax that we paid on the business we write in the U.S. Don't forget, a lot of our income is coming from investing our capital, which is offshore, and investing some of our reserves there, offshore. So that is not going to change.

Brian Robert Meredith
UBS Investment Bank, Research Division

Can you talk about the interest rate environment right now? It looks like it's going to be low here for a little while. As a result, have you changed kind of your return thresholds that you think about that you can achieve? And then particularly, when you look at underwriters and allocating capital down and what kind of return on capital they need to achieve, have you lowered the return assumptions?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, what we do in the Investment department and how we price business are two different things. Our underwriters, they're required to produce a return based on the risk-free rate of return of new money invested. So in essence, in a lot of cases today, maybe that's why we're pessimistic on Casualty business or long-duration business is because when you look at the risk-free rate of return, three-year, five-year T-bills, you're not getting much in return. And that's what our pricing actuaries are. They're instructed to factor in when we develop our rates. So it's probably affecting us by being less optimistic, as to how much return we can have on a risk-free basis in writing business, but that's reality. I mean you can't escape reality. The reality is that the returns are going to be very skimpy, moving forward.

Brian Robert Meredith
UBS Investment Bank, Research Division

So 15% return on capital. When you're talking to underwriters, you're not telling them we need to make it over [ph] (1:06:31) 15% return on capital or something a lot lower than that now, whereas, a couple of years ago, it was higher?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Listen, we have not officially, through our discussions, we, either our underwriters or our board or our shareholders have changed our long-term goal of achieving 15% return over a long period of time. Having said that, we always said that there are going to be years we're going to give you a high teens, even 20% or more. And there are going to be years, we're going to be in the single digits. But if this environment stays for a long period of time, which we don't believe it will, at some point in time, I think interest rates are going to move up. I don't know exactly when. But then, the 15% might be unrealistic if we have a prolonged period of time.

Brian Robert Meredith
UBS Investment Bank, Research Division

It sounds like a Japan scenario [indiscernible] years that's stay at 2%...

Constantine P. Iordanou
Chairman and Chief Executive Officer

2% or 3% interest rates. But I'm not that smart to predict interest rate movements into the future, I think. And that discussion, we always have with us, our senior people. And at the end of the day, I can tell you, earning 9% or 10% in today's environment is pretty difficult. It's not an easy thing to do, and we believe we're earning it.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. The first is if you could comment maybe more broadly on claims trends, in general, the frequency of claims being reported, because obviously, even though we've kind of zeroed in on some of these adverse development, overall, you're still having favorable development, which suggest still, favorable trends. And then secondly, I'm going to zero actually in the adverse development for another second. And what you've seen, whether it's from the '03, '05 year in the Casualty business or the more recent years in Executive Assurance, has any of that made you rethink where your pricing is today on those lines of business?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, let me take it with the last part, and then I'll go to the first part. That, no. As a matter fact, we were reducing casualty writings way back in '05, '06, actually. Not because we had any reported claims, but because we just didn't like the pricing environment, the rate reduction that was significant, et cetera. And at the end of the day, we just factoring industry loss ratios and how much rate we're giving, we didn't find that business to be the most attractive. So we started cutting back a long time ago. So from that perspective, no surprise. Same comment for our D&O business. It's not a surprise, it's just further detailed evaluation of the financial crisis and making adjustments to it. So now, your first question, John, you want to comment on that, then I'll come back to it.

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

Generally, in this quarter, if you took the expected claim activity that we would have, we were favorable across the board in a total aggregate sense. And we had many lines that had some positive development, because in total, we were positive. But we thought it was appropriate to flag the areas that also had some adverse development, to give you a clearer picture into what's going on within our business. And we think that's important to do, but this adverse development, I wanted to put it in the totality of -- it has to be balanced with the fact that, overall, we still have a total positive development in the entire quarter. And it's just part of the ongoing process. Every quarter, every six months, we review the trend and what's going on, and we adjust. And there's positives and there's negatives on an ongoing basis, as we move forward.

Constantine P. Iordanou
Chairman and Chief Executive Officer

On the frequency and severity. Frequency has been steady and has better than expected for quite a bit of time, and we don't see significant change in frequency trends. The severity is picking up a little bit, but not anything to ride home about. From a pricing point of view, when we calculate trend, our offshore is, actually, they're looking at the long-term patterns and we still have -- I would tell you we have more than 3% trend in most of our lines, when we factor in as to what pricing we need in order for us to get adequate returns.

Operator

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

Ian Gutterman
Adage Capital

Just a little bit more on the adverse development, just maybe from a different angle. The Executive Assurance, I guess the only thing that surprised me a little bit about that was not so much that you've shown it, but that many of your peers have protested rather fiercely that the credit crisis claims are kind of not that big of a deal, and everything is coming in favorable, and we're all too worried about it. So you actually have become the outlier, showing some adverse development there. Do you have any thoughts on...

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, the only thought is we like independent thinking.

Ian Gutterman
Adage Capital

But did you see anything that refutes the claims that many others are making that this is [indiscernible]...

Constantine P. Iordanou
Chairman and Chief Executive Officer

No. We're starting to -- no, listen, you can sit around the table, and smart people can come to two different conclusions. Do you put some made of related -- when you look at contracts that were issued out of the London market, et cetera, especially for some of the fee-to-funds that they might not have done the proper due diligence, et cetera, we think there might be a potential for exposure there. So there is people that they say, "No, that's not going to happen." So they choose not to put any money. We have a different opinion. It's independent thinking. Different people will see it on the same set of facts and come up to a different conclusions. We're comfortable where we are and...

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

Because you can say, historically, say, European courts haven't been that big on these things, but on the other hand, there's a trend now that some countries has started to be a bit more consumerist in their finding. We'd rather err on the more conserved end of that, and we'll see how things develop over a period of time. It's going to take some time to shore itself up.

Ian Gutterman
Adage Capital

The other one that I don't think we discussed too much, I think there's a lot of discussion on the Casualty Insurance. I just wonder if you could talk a bit more about the Casualty Reinsurance from recent years. What have happened in recent-year casualty that would be developing adversity already?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, it's not anything that is coming and developing. It's our view that the '08, '09, maybe the '10 year is not going to be as good as the industry thinks it. And in essence, we try to be ahead of the trend and make sure we have enough reserves up. So I don't have to spend my life explaining why I have adverse development.

Ian Gutterman
Adage Capital

Any specific lines in casualty that have showed up on the Reinsurance?

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, it's a general -- listen, the audio and the video has to match. We're telling you we're not writing a lot of casualty that means we don't like it today. So we can say, "Well, we're going to do wonderful, well in '08, '09, but we don't want to write a lot of that business." So we've got to match your story. And what we believe is that these are not the most attractive years. And for that reason, you'd rather be more cautious as to what reserves you're putting up.

Ian Gutterman
Adage Capital

The Reinsurance, again, I look at the accident ex-cat, your first half is high 70s, around an 80. It's the best first half you've ever had in the history of the company in reinsurance accident in your ex-cat. Why would that be, given the environment we're talking about? I know you said...

Constantine P. Iordanou
Chairman and Chief Executive Officer

It would -- because their book of business is probably 70-plus percent short-tail, and there's no cats. And there is no -- attritional is being low. And my hands are tied, as to you can't put that much in reserves on short-tail lines. It is what it is. It's lumpy business. Some quarters will surprise you one way, and some quarters will surprise you the other way.

Ian Gutterman
Adage Capital

I guess, I mean, in those numbers I gave you, that 79% to 80% have four points of Deepwater, and I even stripped that out.

Constantine P. Iordanou
Chairman and Chief Executive Officer

No, I understand. But it's short-tail, again. This is not an actuarial exercise. It is what it is.

Ian Gutterman
Adage Capital

No, understand me. I guess where I get confused on is when I look at your first half 2010 versus first half 2009 earned premium, which is where I would think we should see it, your overall earned is down 21%, your Casualty down 24%, and your property and short-tail are down 20%. I mean, there's not that much of a difference. That doesn't look like a big mixed shift to me.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Look, don't forget, you can't look at the sequential change. You've got to look at the overall book of business, and how much is short-tail versus -- the short-tail runs on its own. There are no actuaries that says, "I'm going to book this at 50, 60 or 70 loss ratio." The short-tail book, it is what it is. Either you have attritional losses, or you don't have them, et cetera, and you've got to let it run through the book. You can't imagine of things that might happen and put up reserves on short-tail business. That's why you're going to get some lumpiness. And when you book, it's probably 70% short-tail, you're going to have that.

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

Short-tail builds up over time, as it's been happening in the last year or so. So the overall mix is, the mix of the risk of the book is becoming short-tail, and so it's flowing out on an ongoing basis now. If we don't have the claims.

Constantine P. Iordanou
Chairman and Chief Executive Officer

If you look on the first quarter of '09, the property and other short-tails for Reinsurance was 73.5% of the book, and 26.5% was Casualty. This second quarter of '10, 77.9% is Property short-tail, and only 22% is Casualty. So if you go back, let me take you back to, let's say, '07. If I look at '07, it was 63% short-tail, 36% Casualty. And if I go a year back in '06, it was 54% to 46%. So there's been shifting over time. But at the end, the key number is 78% of what you write in the reinsurance is short-tail. It's going to run itself, and it's going to be lumpy. Some quarters are going to be very good. Some quarters might not be as good. And hopefully, our underwriting is good enough that, overall, for the whole year, we're going to have pretty good numbers.

Ian Gutterman
Adage Capital

I'll follow up with you offline. It's just when I do the numbers on premium, I get first half of last year was 29% Casualty, and first half of this year was 28% Casualty. That's why I'm having trouble. Maybe I'll follow up offline.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, it could be on the earning ladder [ph] (1:20:20), depending if I have some property there. These are the written premium that I mentioned. The net written premium, it's the numbers that I mentioned to you for '10, '09, '07 and '06.

Operator

Your next question is a follow-up question from Vinay Misquith.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Just the 9% to 10% ROE, you said that you have on your current business. Is that based on the current interest rates?

Constantine P. Iordanou
Chairman and Chief Executive Officer

It's based on the current returns we get on the investment portfolio.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And so, if rates are flat because they were down now versus the first quarter, should we expect the ROE to go down next year versus this year?

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, if pricing environment doesn't change, then yes, that will be a good conclusion to get to. Of course, if the pricing environment changes and maybe we can make a little more money on the underwriting side, then that will be a different -- I don't expect the pricing environment to improve. I'm not as optimistic as some others are on changing. I think '11 is going to be a tough year and probably '12 will be a tough year, because I haven't seen enough blood on the street yet for people to change. The market change on fear, and there's no fear yet out in the marketplace.

Operator

There are no further questions. I will now turn the call back over to Mr. Dinos Iordanou for closing remarks.

Constantine P. Iordanou
Chairman and Chief Executive Officer

Well, thank you for your patience, and we went a bit overtime. So next time, I'll speak faster, so we can do it in an hour. Have a good day, everybody. Thanks.

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