Arch Capital Group Ltd.

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Earnings Call

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Call Participants

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2023 Arch Capital Group Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded.

Before the company gets started with this update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the federal securities laws. These 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 on the company -- excuse me, 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 may make reference to certain non-GAAP measures of financial performance. The reconciliation to GAAP for each non-GAAP financial measure can be found in the company's current report on Form 8-K furnished on the SEC yesterday, which contains the company's earnings press release and is available on the company's website and on the SEC's website.

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

Marc Grandisson
CEO & Director

Thank you, Lisa. Good morning, and welcome to Arch's earnings call for the first quarter of 2023. I'm pleased to report that as a direct result of our premium growth momentum from the past few hard market years, we reported an excellent start to the year. Financial highlights include book value per share growth of 8.4% in the quarter and an annualized operating ROE of 20.7%.

Our P&C underwriting teams continue to lean into attractive market conditions were excellent risk-adjusted returns remain available, growing net premiums written by 35% over the same period last year. A key element of cycle management is to respond aggressively when you see conditions change. Since 2019, we have seen the market psychology pivot to underwriting discipline and our underwriting teams were prepared to become a more willing provider of capacity.

The current property cat dislocation has resulted in us targeting growth in property lines and this should further improve our returns as we continue to benefit on the cumulative effect of improved rates, terms and conditions. The $327 million of underwriting income generated from our 2 P&C segments this quarter is a testament to our commitment in the improved market.

Our mortgage segment operates on a different cycle than the P&C, but it remains a significant contributor to earnings, generating a healthy $243 million of underwriting income in the quarter as our high-quality insurance in force portfolio remained stable at $513 million. And in our P&C growth, I want to emphasize that Arch is first and foremost, an underwriting company. Being an effective underwriting cycle manager means that our underwriters know that they have degrees of freedom in choosing to deploy capital across our diversified specialty focused platform. Because we have a wider range of choices to allocate underwriting capital at any time, we can generate more consistent and stable underwriting income over the long run.

Our growth in this hard market would not exist without our unwavering underwriting integrity. Our focus on underwriting leads through profit stability and better reserving visibility. And over time, these more stable results lead to greater balance sheet strength which in turn enables us to more aggressively deploy capital when we see market conditions change in our favor. At Arch, we're deeply committed to the art and science of underwriting because we know that underwriting integrity over time solidified our conviction and agility to proactively respond to changing market positions.

I'll now share a few highlights from our segments. First with P&C. Overall, the P&C environment continues to offer plenty of opportunities as evidenced by our growth. As you see in our premium numbers, the reinsurance market, in particular, is very attractive right now. Reinsurance typically react more quickly to the changing environment and primary insurance, and we are witnessing this phenomenon in these early stages of improvement in the property market.

In our insurance segment, we continue to take advantage of favorable market conditions. For the past few quarters, property has seen significant rate escalation, which supported our 37% net premium written growth in that line of business during the first quarter of '23. The property market is still broadly dislocated, and we believe it will take further rate improvement before it finds equilibrium. Elsewhere, general liability rates have pick up again and large account D&O is on a very few P&C lines that has decelerating rates. Overall, the market remains disciplined in its behavior, and we continue to obtain rate above trend.

On our last earnings call, we noted property cat reinsurance dislocation at the 1/1 renewals, which led to significant effective rate increases. For the first quarter, reinsurance cat net premiums written roughly doubled over the last -- over the same period in '22. From our perspective, the improved conditions at 1/1 are a positive leading indicator as we prepare for the midyear renewals, where peak zone capacity remains tight. We are well positioned to take advantage of this opportunity.

Arch is an increasingly prominent provider of choice in the property and casualty space. This is to be expected over time because of our differentiated cycle management strategy. To execute our strategy, we continuously invest in improving our capabilities. We hire and retain tough tier talent and teams, and we seek to enhance our tools and technology with the aim of becoming a more intelligent, stable and able provider of insurance products for our clients. Finally, our compensation structure rewards underwriting performance first and foremost. This is a powerful glue that aligns strategy with execution.

Now let me move to mortgage. Our mortgage segment continued to generate solid underwriting income and risk-adjusted returns, largely because our portfolio was shaped with a focus on credit quality and data-driven risk selection. Credit quality in our mortgage portfolio is excellent, as demonstrated by our 1.65% delinquency rate, the lowest since March of 2020. Our disciplined underwriting approach has produced a portfolio with a more favorable risk profile, including higher fiber scores and both lower loan-to-value and debt-to-income ratios than our peers in the sector.

Typical seasonality and tempered demand for housing in the first quarter affected new insurance written. However, production was in line with our expectations given the healthy market conditions. We're seeing pricing discipline across the MI industry as rates have increased over the past year. The MI industry's underwriting discipline is encouraging and allows us to maintain our focus on risk selection to achieve adequate risk-adjusted return. The MI industry is competitive, but faced with the current risk factors in the broader economy is acting rationally. As a result, our MI team continues to have opportunities to deploy capital.

It isn't a football season yet, but with the NFL draft beginning tonight, football was on my mind. Back in the 1960s, a football team from a small Wisconsin town dominated the sport winning 5 championships in a decade. The team, as you all know, was the Green Bay Packers and their coach was Vince Lombardi, widely regarded as one of the greatest coach of all time in any sport. One thing that made Lombardi a great leader was his obsession with excellence and execution. During their dominance, a key part of their offense was a very simple play called the Power Sweep. The quarter back would hand the ball to the running back, we ran the ball to one side of the offensive line and then defensive line acted at blockers, allowing the running back to [indiscernible] it. No frills, no surprises.

Opponents knew what was coming, but [indiscernible] and nobody could sell it. We talk a lot about cycle management and underwriting discipline on these calls and for good reason. It's hardwired into how we operate the company. They are not novel concepts. They're actually quite simplistic. The key, like with Lombardi Green Bay Packers is conviction and execution excellence. So day after day and year after year, we line up and essentially run the same play, write a lot of business when rates are high and a lot less when rates are well. Francois?

Francois Morin
Executive VP, CFO & Treasurer

Thank you, Marc, and good morning to all, and thanks for joining us today. As Marc highlighted, we kicked off 2023 with excellent underwriting results across all the segments, and our investment income continued its upward path, benefiting from a higher interest rate environment and strong operating cash flows.

For the quarter, we reported after-tax operating income of $1.73 per share for an annualized operating return on average common equity of 20.7%. Book value per share was up 8.4% in the quarter to $35.35, reflecting not only our strong results, but also the unwinding of approximately $350 million of unrealized losses on our fixed income portfolio net of taxes.

Turning to the operating segments. Net premium written by our reinsurance segment remained on its strong trajectory and grew by 51.5% over the same quarter last year. This growth occurred across most of our lines of business with a particular emphasis on property lines, marine and aviation and other specialties. The overall bottom line of the segment will also very good with a combined ratio of 84.3% and a relatively small impact of $59 million from current accident year capacity lawsuits. It's worth mentioning that our top line reflects the impact of some larger transactions which are not uncommon during periods of significant market dislocation. We cannot tell whether the frequency and size of these transactions will recur in future periods, but we are optimistic that market conditions will remain attractive for this foreseeable future.

The Insurance segment also performed well with first quarter net premium revenue growth of 19.1% over the same quarter 1 year ago and an [indiscernible] quarter combined ratio, excluding cat of 89.8%. There were a handful of items affecting our top line marked significantly this quarter, such as a large transaction in the lenders and the warranty line of business and very strong market conditions in the property, energy and marine lines business, both positives, which were partially offset by the headwinds of weaker foreign currencies against the U.S. dollar compared to a year ago.

We estimate that on a constant dollar basis, our net written premium growth would have been approximately 230 basis points higher than reported in our financials. Most of our lines of business still benefit from excellent market conditions both in the U.S. and internationally, and we remain positive about our ability to grow and write business at expected returns that meet our [indiscernible] as we approach the second half of the year.

Our Mortgage segment had another excellent quarter with a combined ratio of 20% from strong performance across all our units. Net premiums earned were up slightly on a sequential basis reflecting the increased persistency of our insurance in force during the quarter at U.S. MI and good growth in our units outside of U.S. MI. We recorded approximately $73 million of favorable prior reserve development in the quarter, with approximately 2/3 coming from U.S. MI and the rest spread across our other units. [indiscernible] activity this quarter in U.S. MI was particularly strong as we benefited from the highest first quarter cure rate we have seen in the past 6 years, excluding 2020.

At the end of the quarter, over 80% of our net reserves at U.S. MI are from post-COVID accident periods. Overall, our underwriting income reflected $126 million of favorable prior year reserve development on a pretax basis or 4.3 points on the combined ratio and was observed across all 3 segments.

Quarterly income from operating affiliates stood at $39 million and was generated from good results at Coface, Somers and Premia. As you may already know, Coface recently declared a dividend of EUR 1.52 per share, which should result in a EUR 68 million dividend to Arch and link May, subject to Coface shareholder approval. Although this amount will not benefit our income statement next quarter, we believe it reflects very well on Coface's results and prospects for the periods ahead.

Pretax net investment income was $0.53 per share, up 10% from the fourth quarter of 2022 as our pretax investment income yield exceeded 3% for the first quarter since 2011. With new money rates in our fixed income portfolio holding relatively flat in the 4.5% to 5% range, we should see further improvement in our net investment income returns in the coming quarters.

Total return for our investment portfolio was 2.54% on a U.S. dollar basis for the quarter with all our strategies delivering positive returns. The contribution to the overall result was primarily led by our fixed income portfolio, which benefited from slight downward pressure on interest rates during the quarter. While fixed income market volatility was elevated intra-quarter because of the stress in the U.S. and Swiss banking systems and the implications for monetary policies of central banks, spreads at quarter end were generally consistent with those at year-end 2022. The overall position of our investment portfolio remains neutral relative to our target allocation and we are well positioned to capitalize should there be further dislocation in the capital markets.

Of interest, our commercial real estate exposure is distributed across a variety of strategies. Accounts are only 6% of Arch's investment portfolio is highly rated as a low loan-to-value ratio and is more concentrated in multifamily housing investments with minimal positions in the office properties. [indiscernible] the acquisitions are concentrated with large money central banks with no significant exposure to U.S. regional banks.

Turning to risk management. Our natural cat PML on a net basis stood at $1.69 billion as of April 1 or 8.1% 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 U.S. Northeast and reflects some pockets of increased capacity we deployed at April 1 in response to good market opportunities ahead of the more active renewal period at June 1 and July 1.

In summary, we remain very positive on the current market and the opportunities ahead of us across all the segments. As the current expected returns, we believe deploying meaningful capacity in our businesses currently represents our best option to maximize returns for the benefit of our shareholders. Our commitment to being active yet disciplined capital allocators, remain a core principle of ours that should lead to long-term value creation and success. With these introductory comments, we are now prepared to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Marc, in your introductory comments, you said that we're in the early stages of improvement in the property market, right? We've seen strong rates at January 1 that have persisted into April 1. And my sense is could persist through the midyear. So could you just comment on what you mean by early stages and how you could see this playing out in -- during the rest of 2023 and into 2024.

Marc Grandisson
CEO & Director

Very good question, Elyse. I think the -- when we have a dislocation such as the one we sort of realized and experienced after Ian in the fourth quarter of last year, the renewals took place on the reinsurance place at much higher rates by 30%, 50%, 60% price and the rate increases. Obviously, you have heard that on other calls. We had the same experience. The reason [indiscernible] the first to move reacting to deploying capacity and they should because they have to commit the capital for a 12-month period. Now we have a lot of portfolio from the insurance side. This is what I think is going to be leading the market and continue to underscore and support the market is the insurance portfolios hours included at the interest level, they're going through a reoptimization, realigning of capacity, realigning our pricing terms and positions, and this is widely spread across the industry. But an insurance product does not get all renewed at 1/1, right? The renewal takes place over a 12-month deal.

So what we're seeing and hearing right now is the market psychology is squarely in the camp of getting improved terms and positions on the primary side. Which will then lead to obviously further improvement from the distance as a reinsurer. Now this will take 12 to 18 months to really take hold, and we believe, which is actually a little bit positive from our perspective. We should see that improvement carrying on and staying around for more than this year. We expect the underlying property improvements to be there for 2, maybe 2.5, maybe 3 years, which is a great, great leading position to be on insurance.

So first, the reinsurance react. The interest is reacting, it takes a longer time to modify and correct itself as momentum being built and creating a better equilibrium on the insurance level the region will get renewed again at [1.24]. We most likely have more things to improve on the portfolio. I think this is how hard market takes place over time, how it developed and unfolds over time. what we mean. We think that we have a little bit quite some nice runway ahead of us because of that reason.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. Then could you give us a sense if in your margins in both insurance and reinsurance, did social inflation or financial inflation that impact on how you booked the current accident year in both insurance and reinsurance?

Marc Grandisson
CEO & Director

Yes. So the way we operate and the way we put our reserving or loss ratio you won't be surprised to hear from us is we tend to take a prudent stance. That's the first step that you need to understand and we could all realize, and I know we saw that historically is one of the key things that we need to -- that we work on. Our game plan is to look at the trend and look at the rate level on a quarterly basis, modified if we have a good reason to modify it. And book it to a [indiscernible] 60th percentile confidence interval, not playing too close to the average because we want to have some protections because who knows what the future will hold.

So if you look at the reserving overall in our company, we look line by line, we look at inflation in financial, social, bilayer by attachment point by region, and we correspondingly loss ratio for the overall portfolio. And what you see in our results in our numbers is a sum total of the aggregation of all of these very decisions within our insurance or reinsurance units. And I think that -- and then at the end of the day, as when I look at it to make sure that we have -- we feel more comfortable than possibly the average bear out there, and we make sure that it's on a trajectory that is responsible and prudent as well. So our tendency will not depict all the good news right away. We will probably wait and see and we've grown as well, at least, as you know. So it means that we have to be [indiscernible] careful and thoughtful in the way the [indiscernible], which we would recognize some of these improvements.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And maybe just one more, sticking there, Marc, right? In the reinsurance segment, right, the -- the growth, exceptional really strong, but the underlying loss ratio, right, was did tick up from last year. And I think part of that, there's always noise in each quarter, and it does take time to earn in this business for January 1. But can you help us kind of put that all together and just give us a sense of the margin profile of the reinsurance business over the balance of the year.

Francois Morin
Executive VP, CFO & Treasurer

Yes. I'll take that one, Elyse. I think a lot of interest people obviously look at the quarterly numbers. Our view is we -- we look at it, but we don't lose sleep over it. I think we look at long-term trends. We look at the quality of the business and how it prices and what the expected returns are. And when we find the deals. But specific to this quarter, as I mentioned, didn't give you really a whole lot specifics, but there's 2 transactions that really distorted a little bit our ratios with basically higher loss ratios and lower acquisition. So yes, you saw a little bit of movement on both the loss ratio and the combined ratio impact on the ex cat accident year loss ratio was 2.2 points.

So it's -- if there -- we know it's there. We don't -- again, I wouldn't make that a trend. I mean it's just the reality of the business we've had this quarter. That's why I mentioned that we these are nonrecurring items. But in this market, we know there could be more in the coming quarters. So that's kind of how we -- that's the result of the business we have this quarter.

Operator

And the next question is coming from Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I had a question on your comments on pricing, obviously very positive, both in reinsurance and insurance. But can you distinguish between pricing in both reinsurance and insurance on property and more of the cat-exposed business versus the casualty lines?

Marc Grandisson
CEO & Director

Yes. So the last numbers we heard is a good question. Last number we heard on the primary side, we're looking at pricing depending on the [exotic] cat exposed, obviously, is more acute, but rate increases 40% to 50% plus, definitely, and a little bit less if you're intercoastal, if you win in land, it's many 10% to 15% increase. But it's clearly, clearly a push for rate increase.

But what's not really fully reflected and you should hear there are other things going on underneath the terms and conditions, deductibles are going up. That's also a really important factor also helps if you're a reinsurer of this portfolio. There's a statement of value, which pretty much states that any company now providing coverage needs to have an up-to-date valuation of the property you're trying to ensure. And that is a big deal because the industry has been frankly lacked in updating these numbers. And once you have the right exposure, it actually makes the pricing that much more effective and accurate. So this is the whole market is moving in that direction.

And thirdly, I think that's also important, which creates more dislocation there is a shrinking of capacity at the individual players. So when people were putting $25 million, $30 million worth of capacity on even a cat exposed. So these are [indiscernible] going down $2.5 million to -- $2.5 million, maybe $10 million on an exceptional basis. So I think that the -- so the insurance portfolio, the rates are going up for a lot of reflection, echo back to questions about an inflation on the property side that is reflected the statement of value. So we're definitely clearing that one. So depending on where you are in working [15], lesser get exposed to [40], [50] cat exposed.

On the reinsurance side, it's a little bit similar, although it's a bit more of a monolithic marketplace. The rates are going in a more slower narrow range. It's almost like more commoditized, if you will. It's a little bit between [30] to [50] pretty much broadly across. Of course, there will be differences. We'll see what the doing reserve for us. But the more acute the cat need, the more acute in the key zones of capacity demand the higher the pricing. But the general -- the overall general pricing is in sync. The insurance one will be able to grab those increased rates and improve time on condition over the next 12 months. The reinsurance or were able to get there quicker.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then just on the MI business. You had very high cues. I'm assuming most of these are just on reserves you put on around COVID when there were forbearance programs. And if that is the case, how much more of these such reserves do you have that will most likely I'm assuming it will be released over the course of this year?

Francois Morin
Executive VP, CFO & Treasurer

Well, we still have -- we definitely do have still some delinquencies that are in forbearance programs. I quote 80% of our loss reserves are from post COVID periods. We don't have all the detail around how much or by year, et cetera. But just hopefully, that gives you a flavor of like what maybe could potentially be down coming down the pike in terms of more releases if able to secure. I think the fact that unemployment levels are still performing very well. I think that's a good sign, right? I mean that's there's some pressure on home prices, et cetera. But for the in-force book, we think, again, the credit quality has been excellent, and we think there is performing well. And when we go to cure those delinquencies over time, hopefully, that should help the bottom line.

Operator

The next question is coming from Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I'm trying to understand mechanically why an LPT type of transaction could add noise to your underlying loss ratio on the reinsurance side. Is it that you're not imposing a loss corridor and you're assuming losses would attach at inception? Or is it accounting on the premium recognition? If you could explain the mechanics, that would be helpful.

Francois Morin
Executive VP, CFO & Treasurer

Sure. I mean at a high level what these transactions typically look like is the limited. So in terms of, a, the acquisition expenses is hero, if not very, very small. So if you think in a traditional quota share deal where the -- I assume the acquisition ratio could be 30%, well, that goes away. And then you're effectively just picking up losses and the investment income on the float is effectively part of the overall return of the transaction. So it changes the dynamic, and that's what we're trying to convey here is that -- on the underwriting side, it's usually book closer to 100% combined within that kind of range. But the investment income that you pick up is significant. So that impacts the overall bottom line return on the business.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Also, and maybe a little bit early, but can you discuss how June 1 and July 1 renewals are shaping up at this point? Like how would you compare pricing to what you saw in January?

Marc Grandisson
CEO & Director

We heard from our team, we've been talking to them quite a bit of late, and the -- I can talk about all specifics, but at a high level, the continuation of the hard market that we saw at 1/1. We're seeing continuing partnering or continuing on the same level as 1/1 if not that better. But I want treatment to tell you, 6/1 and 7/1 are not done yet, like people are still very actively for ended. But is the momentum is there, clearly.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So how would that compare and you see momentum the same or better since January?

Marc Grandisson
CEO & Director

It's early. I think it's early right now. I don't want to venture because also rather we all want to collect the veto keep in mind is 7/1 of '22 was also pretty good renewal floor, for instance, right? So it may not need as much of a pricing because we believe we're specifically in Europe, that we're -- we believe, not as well priced as ought to be based on the risk that you're taking. So it's still going to be return-wise, better, most likely better return than possibility, most likely the 1/1 that we sell because it such peaks up if everybody source of capital or use of capital.

Operator

The next question is coming from Yaron Kinar of Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to go back to the margins in reinsurance, the underlying margins. And I think that even with the LPTs, the accident year loss ratio ex cats, still deteriorated a bit. And I just want to understand kind of the context of why that would be if we are seeing business mix shifting more to kind of inherently lower loss ratio lines on an underlying basis and with the rate environment?

Francois Morin
Executive VP, CFO & Treasurer

Yes, 3 things I'd say, a, is I mean we focus on return. And while the obviously, what's in front of you is just the underwriting part of it. We focus on overall returns, which is the first thing. Second thing I'd say is you've got to give us a little bit of a chance to earn the premium. I mean, the market was solid in '22 and get better at 1/1/23. We're a quarter into the year. I think there's more benefit or more improvements that come, but it doesn't all sell up initially. And third thing, as Marc said earlier, I think we'll be proven. I mean, the math may suggest that, a, if you did this on that, that the combined ratio of losses should be yes. But we are proven in how we look at things. And when the data tells us that maybe we were a bit high, we'll be more than happy to release those reserves. But we're not going to declare victory quite yet.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then a second question just on cat. Can you maybe offer some color on the distribution between the various sources, whether it's Turkey or New Zealand floods, the European stores and so on in both reinsurance and insurance?

Francois Morin
Executive VP, CFO & Treasurer

Yes. I mean it's small ticket items. I think the biggest one for us was we had $25 million loss in Turkey, which is kind of what we do. It's not a huge deal, but that was the biggest item. Yes, we had some kind of participations in New Zealand with the cyclone and also some floods. And in the U.S., kind of the normal[indiscernible] tornados, [indiscernible] storms that hit -- that was mostly insurance, but a little bit of noise there as well in reinsurance so it's -- call it a hunch punch of small things, but the biggest one was -- for us this quarter was a Turkey.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And was Turkey and New Zealand were those mostly reinsurance?

Francois Morin
Executive VP, CFO & Treasurer

Yes. Yes. Turkey was only reinsurance. Yes. Okay. And so -- I mean both of them are only reinsurances..

Operator

Next question will be coming from Josh Shanker of Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. I was looking at the investment return. I mean, there's a lot of ways to measure yield. Let me just take the investment income divided by the float. I'm getting about 2.76% for the quarter, which makes Arch [by material amount] the lowest burner on its float in your peer group. I know you guys have a more conservative portfolio that's also allowed you to redeploy [IO] pretty quickly, but with new money yields maybe in the 5% range without taking any equity risk or whatnot, you have an opportunity to increase that yield of are you still seeing some powder drive? You still think it's time to be fairly conservative in seeking yield less points?

Francois Morin
Executive VP, CFO & Treasurer

I think it's something we obviously realized that there's -- new money yields are higher. And for us, it becomes a question of like crystallizing losses, there's implications around statutory versus GAAP accounting, we have restrictions in some places. So I think for us, we do the analysis very carefully in trying to make sure that we're doing what's best for the -- ultimately the shareholders. Sometimes we're better off kind of holding some investments to majority until and not kind of taking on the loss and reinvesting the money faster.

But in terms of opportunities, whether we see more or want to think on more risk, it's something that we are thinking about. And we have grown our presence in alternative in the last few years, and that's something that -- and for us alternatives is, call it, more right structure kind of investments, and that's where we see the better opportunity and we've been pretty aggressive in growing the money there. But obviously, the returns there don't show up in investment income. They show up in equity method funds for the most part and that's where we expect to see a little bit of pickup as well going forward.

Marc Grandisson
CEO & Director

We're also just thinking about the overall risk, right, about the enterprise, right? So we have a lot of underwriting push and growth. So that's also factored in our risk -- now that we're -- sorry, but just it's all one of the other part of the equation that we have to factor in as well.

Joshua David Shanker
BofA Securities, Research Division

And what's the new money yield right now for you?

Francois Morin
Executive VP, CFO & Treasurer

We're [4.5] to [5].

Joshua David Shanker
BofA Securities, Research Division

Okay. And then, look, I know that you do listen to your competitors' conference calls and think about what they're saying. It looks like the pricing environment is pretty attractive. I think that's universally viewed few of your competitors have said as much. And then when we look at their premium growth in the quarter, it's kind of tepid, especially on the insurance side. You guys are growing your net premium in about 20% right now. It's been going that way for a little while. Is business hard to capture? Is it hard to get the business you want, and you've been silly successful outmaneuvering your competitors?

I guess there's 2 things. One is, why are you so successful growing when others have not been able to do so. And two, can you give comfort on the fact that maybe some question, maybe the market is not as good as we think it is, and maybe there should be more concerned. So how can you give a comment with the rate adequacy? And why are you successful where others have failed?

Marc Grandisson
CEO & Director

So from a rate acuity perspective, I mean, this is sort of a system that's well establishing our company. I don't know how many kind of reverify the assumptions and projections beat the individual underwriter level, group level in segment level corporate between the holding company, including the Board. I mean there's a lot of vetting going on comparing to and triangulating. So we're pretty confident. We wouldn't be growing that level if we didn't think that the returns were in our favor. Does that mean that we're going to get all the returns that we expect precisely to the decimal, most likely enough, Josh, we're in uncertain world, and we're making a bet on the longer term expected and that's the best thing that we can do right now.

We are a fans of thinking about the rate as being by far the most important place to start to make sure that you have enough -- you put the odds in your favor and the rates going up, a lot of lines -- rates go up 60%, 80%, 70%, even some of them went to 2x and even if there's some of it decrease goes to 1.9x. While we also look at the history of the industry and the industry was printing 5 or 6 years ago, 60%, 65% loss ratio, even if they were on a reserving level grows to 80% and you put all the factor in the trend and you put a cumulative rate impact, I think that there's no certainty, but there's certainly a level of margin safety that you build within the price and that's what makes us feel that much more comfortable.

Now in terms of our reduction in the marketplace, how we're able to lean in and see that business. First, we were early in the 2019 to really lean into it. A lot of people were pulling back, and that creates void and vacuum for our clients. And we were the ones the beacon in the storm, if you will, able to give them capacity. And that goodwill for lack of a better word, really builds upon itself. So it really creates more relationship build relationships that, frankly, has been a little bit less strong because of our defensive mode prior to 2019, but we rebuilt it very, very nicely. We're always there, but we rebuild, we kindle them in a much major way because I talk to our producers, they'll tell you that we're a great partner of theirs, and that makes a big difference.

So when the next piece of business comes in, you look at the people who could write that business, and we've heard this from insurance group. Well, we can look at kind of markets. The market that wants the business right now was on 4 years ago, they'll probably not have the first bit at it. We probably has to first look at it because we were there for 4 or 5 years.

Also, I would add that we're an E&S player. And as you heard, the E&S market is growing. So the market is also going towards the tailwind going from our perspective on that note. And we're pretty good security, Josh. We're a pretty good company. People want to deal with us, we're good for their money. We have a good expertise and good teams that really can't buy the client. I think we spent a lot of time not only providing coverage and policies but finding clients and being a good market leader right now. And certainly, that growth for the last 3 or 4 years have created its own momentum and inertia. So the gravity, if you will, that it's increasing has been pretty nice. It helps. It helps grow further even in that marketplace. And even the market gets a bit more competitive. I would argue that we'll be able to hold on to a lot of good business that we've written for the last 4, 5 years.

Joshua David Shanker
BofA Securities, Research Division

Well, thank for the fulsome answers. And congratulations to everyone on graduating from rounding to the nearest thousand surrounding to the nearest million from bunch of new people.

Operator

Next question is coming from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple with me for you. Just quickly. Francois, you gave us loss ratio impact of the LPT. Can you give us what the combined ratio, maybe the premium impact just for modeling reason purposes?

Francois Morin
Executive VP, CFO & Treasurer

Combined ratio was 1.1 point. 2.2 in the loss ratio and all that cap, and the premium was $118 million.

Brian Robert Meredith
UBS Investment Bank, Research Division

Brilliant. Second question, Marc, looking at the 6/1 renewals, Florida, I guess, one, what is the impact of the legislation that was recently enacted having, you think, on that marketplace? Will it have an impact on renewals, pricing capacity coming into the market? And then, how do you typically think about Florida from a reinsurance perspective. Is it a market you'd like to play cat? Do you like to play quota share? How do you kind of think about it when you look at the Florida market?

Marc Grandisson
CEO & Director

But the second part -- Brian, the second part of your question is easier. I think we're much more of a excess of loss in the library floor. We believe it's a better play for us at this point in time. And that seems to be sort of well also where the market is slowly migrating towards at least from the first indication. The second part -- the first part of your question which is the most interesting one is we're in Florida, we might well be in Missouri. You did show me state, but we stole to see and as evidence that those to reform will take hold. It's going to take a while. As we all know, we've got through a claims when before the 1st of April, 1st of May [indiscernible] of claims to make sure that we -- that they take advantage of the last resonance of the weaker toward area there.

But that's going to take a while to work through. It also might mean that some of the losses from prior years are developing adversely, which is not necessarily useful and helpful for those who try to renew for on an ongoing basis, why if you have more losses from that on the prior years, the acceleration of losses you may have to make up for a lot of that or some of that, it's not a lot of it is pure value of reinsurance.

So I think overall, I think the market will take sort of a view that it's not there at 100% and they'll probably sort of factor in who is more -- is more or less exposed to those, but they get credit those more or less exposed. But you're not going to get -- like everything else, we'll need to see it through to get full credit. I think the market will get some credit, but not the full extent of it. There's no way at least not at this time. Maybe in 2 years or next year or 2 years time, but don't take a while because we need to show and see what's happening for.

Operator

And the next question comes from Meyer Shields of KBW.

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

I have one, I guess, a technical question on the LPT side of things. Is it fair to assume that this is 100% combined ratio business as you write it? Or does the fact that it pertains to -- well, let me stop there.

Francois Morin
Executive VP, CFO & Treasurer

Well, that's typically where we book it. I mean plus or minus those types of transactions, that's kind of where they -- yes, that's where the combined ratio is on those.

Marc Grandisson
CEO & Director

Because the contribution to profit and margin is square a lot more on the investment income side than it is on the pure rating income side.

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

Okay. And then speaking -- I don't know if you want to talk about the transactions or the demand that you're seeing. You talked about that, I guess, understand that we being a function of distress in the marketplace. Is this -- is the market right now focusing on the, let's say, 2019 and earlier accident years where pricing was soft or to say and/or is there interest in even more recent years because of loss trends?

Marc Grandisson
CEO & Director

Yes. I think the market is focusing on it because I think that -- and also if you add on top of it the reopening of the court post-COVID, there's a lot of uncertainty. We've heard about inflation, financial inflation and social inflation. So there's a lot of scrutiny. And the rates were much lower then. So there is definitely less banked for those years to get the right number, the right loss ratio pick. So yes, definitely, people are looking as we are as well and where we -- on the reinsurance side, if you're treated we can see not anything or some companies have development that adverse in those periods.

Some of them don't. But yes, it's definitely a point of discussion, which I think [indiscernible] helps explain why we had the -- we continue to have this price increase in the GL, for instance. I do believe that people are realizing it and understanding that for their recasting, right, the long-term trend and long-term loss ratio projection on a [null] level basis how that works. So I think really that people are reflecting. And that's also why we have this. We don't have massive combined ratio above [100] across the industry. We do have still a healthy level of price increase because of that [indiscernible].

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

Okay. That's helpful. And if I can just pick up on that because in your prepared comments also you talked about GL rate increases ticking up a little bit. I haven't heard a lot of that. We've heard a lot on the property side. I was hoping to get a little more color.

Marc Grandisson
CEO & Director

Yes, the liability lines are -- of course, a lot of it has been historically led by auto, specifically on the umbrella. But the GL is clearly picking up again and it's late it's also international. And we have a low book of business as well as our insurance portfolio in the U.S. I think that there's also a dislocation going on the GL side, people are reevaluating the lines of business, the areas and the industry that they're providing coverage for. So this is happening probably a bit more -- it sort of slowed down a little bit towards the second half of 2022.

And I think that's reoptimizing or re-underwriting or refocus on the underwriting and price for the GL and it also led, as you can appreciate, might some increase in trend, specifically in the excess layers because it's levered. So I think that's what we're seeing some of that prior year coming through. We're having to recast the pricing, which you wouldn't have had or would have seen necessarily in 2020, '21 because those years '16 to '19 were probably too young to really get the development coming out. So you probably can see that the duration of development of GL coming through and people reacting to it.

Operator

Next question comes from Mike Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe a question or 2 on the catastrophe levels this quarter. I mean, Marc, you brought up terms and conditions changes. I think it probably blows certain people's minds that the valuations on property are just getting up to date and it seems kind of antiquated, but that's just, I guess, the way that the reinsurance maybe -- or sorry, the overall marketplace works. But just curious to the piece, yes, cat loss levels for the industry in the U.S. were way above a normal 1Q. I know you guys aren't right? That's not the best guy for Arch. But it looks like Arch's cat levels were normal-ish, but you can correct me if I'm wrong. Any read-throughs on the terms and conditions changes that have taken place that are -- is there any read through there that there are some good things coming through?

Marc Grandisson
CEO & Director

I think on our results, I don't think you would describe the improvement in terms of conditions. I think it's probably just a function of how we book -- where our exposures are, right? We didn't have as much exposure in the areas where the losses occurred. That's -- I guess I would say the miss that could happen, that happens sometimes. That's really all we can see right now. We haven't seen the impact of the things I mentioned already because they're starting to pay holding. So it's going to take a lot of them to see.

So that loss of these losses next year would presumably be because of all the conditions in terms that I told you are changing. It would be reasonable to expect that the losses will be less than they are right now, but we have yet to see whether the portfolios go through these changes. So nothing other than our exposure was not where the losses occurred.

Michael David Zaremski
BMO Capital Markets Equity Research

And as a follow-up, when we're hearing about the substantial rate increases, especially in property, does that take into account the terms and condition changes? Or is that -- are these kind of risk-adjusted rate increases that you're speaking to on some industry participants are speaking to?

Marc Grandisson
CEO & Director

Yes. They're not fully risk adjusted, -- it's a really good question because it's a factor of a harder market or a softer market that when you see a rate -- the things that you can measure, you all incorporate into your calculation, but there are things that you cannot calculate or specifically isolate for input in your formula, right? So there's some core insurance wallets in there that are finally going to be put back in the marketplace. But really prevent some of the collections and that could otherwise happen. That's not factored in the pricing. There's -- adding the venue for litigation or mitigation of the losses to be in a different environment, one that's, for instance, more than its 2 or 1 that's left at it, that's not unable to factor that in the pricing. So I would say to the extent that you factor in the deductibles, the sub-living and you can run the cat losses based on the layers where you attach, if you attach higher. I think that is reflected in the pricing that we mentioned.

The other things that are also going in the same direction, that's the trademark of a hard market, that is not fully reflected the extra backup that takes a brave that we don't see that we know collectively is there. So it also helps us feel a bit more -- we have more conviction on running more of that business.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. And maybe lastly, switching gears a bit. I believe Arch write a decent amount of professional lines. That's one marketplace that we've seen some stats pointing it to being more of a softer marketplace. Maybe you can comment if that's the case for Arch as well. And I don't know if you gave commentary also just on overall kind of rate increases on your primary insurance book this quarter.

Marc Grandisson
CEO & Director

No. So thank you. Good question. So on the first part, for the D&O, we -- our portfolio has been going down a bit further than the rate increase that we saw the professional lines that we have on our financial supplement includes more than this, obviously. But suffice it to say that we're, like everybody else, are seeing a little bit more aggressiveness in that segment. But the one thing that we're -- that makes us being still want to be in there and not declare that this is over by any [indiscernible] is that the trends have been favorable to the OSC claims were down for the last 2 years.

And a lot of clients got more broadbrushed rate increase -- rate increase and personally did not fully deserve it. So there's a lot of pushback on this as we speak right now. So again, talk about underwriting and risk selection. There are ways and there are areas where you'll keep getting a 10% rate. There are the areas where you're not okay getting a plus 5%. So I think our team is extremely experienced. I've been doing this for almost 30 years. So there, they're pretty good at picking and choosing their spot in that basis.

The overall rate change on that -- we don't record it because the overall rate change is not a good indicator, especially when you have so many varied line of business going up and down. I think that the delta between the rate and -- but you heard with other people and also our book of business, the average is not really a good indicator. But I think the pickup between the trend and the rate is anywhere between [200] to [500] depending on the line of business. So we're still getting some pickup.

And those that we may not be getting pickup in margin, at least from the appearance the jury is not as to whether the losses -- the loss trend is truly positive. So it's still not certain where these lines will to be specific D&O.

Operator

We have a follow-up question from Jimmy.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

On your PMLs, they've obviously gone up because you've written a lot more business and you're retaining a lot more. The 8.1% number that you mentioned, it's still lower than peers. Where would you feel comfortable taking it if the market environment remains favorable?

Francois Morin
Executive VP, CFO & Treasurer

Well, we think -- yes, just a quick reminder, I think zones for us right now, we're kind of Northeast [indiscernible], we also have like Florida Tri-County, which is kind of at the same level. The 1/1 renewals were more international, more national. So national accounts, not really Southeast specific where we expect to see more activity at 6/1 and 7/1. So no question that we think it will go up. I mean if the market stays as it is right now, could it go up 10%, 12%, we think so, and I think it's a reasonable scenario.

But obviously, we'll have to wait and see and figure out and see how the renewals -- how everything gets lined up, but then directionally, I think that's kind of where we think we might be at July 1.

Operator

I'm not seeing any further questions. Would you like to have closing remarks?

Marc Grandisson
CEO & Director

Thank you, everyone, for listening to our story. It's a great one, and we are looking forward to get even more good news in the July call. So thank you for everything then.

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