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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 Q2 2024 Arch Capital Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

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

Management also will make reference to certain non-GAAP measures of financial performance. The reconciliations to GAAP for each non-GAAP financial measure 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 at www.archgroup.com and on the SEC's website at www.sec.gov.

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

Marc Grandisson
CEO & Director

Thank you, Jericho. Good morning, and welcome to Arch's second quarter earnings call.

We are pleased to report another highly profitable quarter due to significant contributions from all 3 underwriting segments and strong investment results. Our ability to successfully deploy capital into this extended hard market has fueled excellent risk-adjusted returns. Coupling our cycle management strategy with an emphasis on returns and consistent disciplined execution throughout the enterprise resulted in a record $762 million of underwriting income and an annualized operating ROE of 20.5%. Our results are thanks to our teams that work diligently with deep capability and a long track record of experience to earn these results.

Broadly speaking, the P&C environment remains excellent, and opportunities for attractive returns are plentiful even as competition normalizes. The duration and breadth of the current hard market of the last several years has been exceptional and while rate increases are broadly above trend, disciplined underwriting requires that we keep our eye on the primary goal, shareholder returns. An overly aggressive appetite for growth could come at a cost of eroding underwriting margins. The art of underwriting in this part of the cycle rests on one's ability to know how hard to push and when to pull back.

At Arch, we strive to be an active yet disciplined market participant practicing restraint and patience. We believe that capital allocation is one of our most powerful differentiators. Our priority is to deploy capital into our underwriting units first, where we have the knowledge and experience to better price risk. However, we are always assessing other value-creating opportunities. One example is our previously announced intent to acquire Allianz's U.S. MidCorp and Entertainment businesses.

With regulatory approval on MidCorp secured, I'm able to share a few thoughts about the strategic acquisition. The addition of the talented team and their client relationships gives us a greater presence in the U.S. primary middle market while expanding our cycle management toolkit. We will have more to say about the opportunities in the middle market as we integrate our teams.

I'll now take a few moments to highlight the performance of our underwriting units this past quarter. Second quarter results from our property and casualty segments demonstrate the benefits of our strong leadership throughout the ongoing hard market. The reinsurance and insurance segments combined to deliver $475 million of underwriting income and just over $5 billion of gross premium. Reinsurance generated $366 million of underwriting income, despite higher frequency of catastrophic events from secondary perils, both in the U.S. and internationally.

Higher premium rates in our diversified book of business enabled us to report excellent underwriting results for this segment, which has built a resilient, stable platform. Due to our view of heightened overall storm risk this year, we chose not to grow our property cat writings at the midyear renewal. We've grown property cat meaningfully over the last few years, but as we learned during the 2002 to 2005 hard market, when there are so many good things happening across the underwriting platform, why chase returns in cat exposure at the risk of being unlucky.

Property in general, is very well priced. We just want to have the right balance across our portfolio. As you have heard from others, casualty lines remain an area of interest that we'll continue to monitor as we observe rate increases and ongoing reserve strengthening taking place across the industry.

Our Insurance segment contributed $109 million of underwriting income in the quarter. Net written premium growth was 7% this quarter compared to the second quarter a year ago. We meaningfully grew premiums in our programs business and in E&S casualty where rates are improving. In a more competitive market, it's important to be able to quickly reallocate capital to the best relative return opportunities as we have done in the past and remain well equipped to do in future quarters. Our international insurance unit continues to benefit from its position as a lead underwriter at Lloyd's, where a disciplined market is providing attractive growth opportunities in specialty lines.

Moving on to P&C and into our mortgage business. At the risk of repeating myself, the consistently excellent underwriting income delivered by our mortgage segment quarter-over-quarter provides significant value for our shareholders by producing a solid base of sustained earnings. MI underwriting has been solid across the industry since 2009, and the current environment is one that rewards the MI companies underwriting the risk. This quarter, the mortgage segment generated $287 million of underwriting income while increasing new insurance written at the U.S. by 12% from the same quarter a year ago. The delinquency rate of U.S. MI remains low compared to historical norms and the credit quality of our portfolio remains high with policyholders and strong equity positions.

We're pleased to have successfully closed our acquisition of RMIC in the second quarter. Although no new business comes with this run-up block is emblematic of our ongoing pursuit of finding profitable opportunities in which we can deploy capital. Primarily due to strong cash flows generated by our underwriting operations, our investments portfolio increased to $37.8 billion, generating $364 million of net investment income in the quarter as higher yields continue to move through our portfolio.

The eyes of the world are focused on Paris this week as the Olympics get into full swing. One of the toughest events is the decathlon an all around athletics test featuring 10 events over a range of disciplines, spread over 2 days. The decathlon is an incredible physical and mental test that requires maximum performance in every event. At the end of the 2 days, points for all 10 events are totaled up and the individual with the most points is the winner.

Similar to a decathlon, in the dynamic insurance market, the ability to perform at a consistently high level across the enterprise is crucial for long-term success, and Arch is built to excel across a multi-disciplined market. Our capital allocation helps ensure that we can focus on the lines that give us the best chance to score points. The first event in the decathlon is 100-meter sprint, and our ability to get out of the gates quickly at the beginning of this hard market position us to score early.

Since then, our P&C and mortgage teams have been racking up lots of points, adding our investments team clearing the bar in the pole vault, and we have an all-around performance that puts us in serious contention for the gold medal, as you would expect from a world-class leadership team.

Before I hand it over to Francois, I need to mention the passing of our friend, Dinos, this past June. Dinos was not only an industry legend, he was also a mentor and tremendous leader who steered this company for over 15 years. Dinos led these earnings calls with his keen insights, principle beliefs and trademark humor. He was truly one of a kind. So tonight, please raise a glass, be it ouzo or retsina or anything of your choosing to Dinos. You are missed, my friend.

Francois?

Francois Morin
Executive VP, CFO & Treasurer

Thank you, Marc, and good morning to all.

As you know by now, we reported excellent second quarter results last night with after-tax operating income of $2.57 per share up 34% from the second quarter of 2023 for an annualized operating return on average common equity of 20.5%. Book value per share was $52.75 as of June 30, up 6.9% for the quarter and 12.4% on a year-to-date basis.

Once again, our 3 business segments delivered outstanding results, highlighted by $762 million in underwriting income and a 78.7% combined ratio, 76.7% on an underlying ex cat accident year basis. We continue to benefit from strong market conditions across our businesses as the pricing environment remains disciplined, giving us confidence in our ability to generate solid returns over the coming quarters.

Our underwriting income reflected $124 million of favorable prior year development on a pretax basis or 3.5 points on the combined ratio across our 3 segments. We recognize favorable development across many lines of business, but primarily in short tail lines in our property and casualty segments and in mortgage due to strong cure activity. Catastrophe loss activity was in line with our expectations as we were impacted by a series of events across the globe, generating current accident year catastrophe losses of $196 million for the group in the quarter.

Approximately 70% of our catastrophe losses this quarter are related to U.S. secondary perils with the rest coming from a series of international events. As of July 1, our peak zone natural cat PML for a single event 1-in-250-year return level on a net basis declined slightly and now stands at 7.9% of tangible shareholders' equity, well below our internal limits.

For the mortgage segment, since this is the first quarter end since we acquired RMIC Companies Inc. and the subsidiaries that together comprise a runoff mortgage insurance business of Old Republic, there are certain items that I'd like to highlight. First, the acquired book of business represented $3.6 billion or a 1.2% increase to our U.S. primary mortgage insurance in force at the end of the quarter.

Second, given the risk in force is from older vintages and has been in runoff since 2011, its makeup resulted in an incremental 19 basis points to our reported delinquency rate at U.S. MI. Absent this transaction, our reported delinquency rate would have improved slightly since last quarter. On the investment front, we earned a combined $531 million pretax from net investment income and income from funds accounted using the equity method or $1.39 per share.

Total return for the portfolio came in at 1.33% for the quarter. Cash flow from operations remained strong, and a $3.1 billion on a year-to-date basis, we have seen material growth in our investable asset base, which should result in an increasing level of investment income. Our effective tax rate on a pretax operating income was an expense of 9.5% for the second quarter, with our current expected range of 9% to 11% for the full year 2024.

As disclosed last week, we now expect an August 1 close of the transaction to acquire the U.S. MidCorp and Entertainment insurance businesses from Allianz. At this time, we do not have new information to share on the estimated financial impact of the transaction beyond what we provided in early April. Starting next quarter, we expect to update this information to help in developing a forward-looking view of the insurance segment's results, including this new business.

All in, our balance sheet is in excellent health with our common shareholders' equity approaching $20 billion, a net debt plus preferred to capital ratio slightly above 15%. We are well positioned to take advantage of opportunities that may arise as we move forward.

Before I conclude my remarks, I also wanted to take a moment to build on Marc's comments and share a word of sincere appreciation for the impact Dinos had on Arch, its employees and many others across the industry. While he will certainly be remembered for his energetic personality and his ability to captivate an audience, we are truly grateful for his guidance, vision and leadership during his career at Arch. Thank you, Dinos.

Marc?

Marc Grandisson
CEO & Director
No, so we don't keep anyone from their lunch, which we know was very important to Dinos, on to your questions.

Question and Answer

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I guess, is on the Insurance side, right? Marc, I think it's been since probably October -- late October of last year with Q3 earnings, you were kind of leading the industry in terms of talking about this casualty market turn. And it's been slow to evolve, maybe it's in line with your expectations, but it just seems it's been slow to get price through those lines. How do you see that transpiring from here relative to price increases in casualty lines?

Marc Grandisson
CEO & Director

Well, like I said -- well, Elyse, I think the point we made last quarter, the quarter before is that the casualty turn and realizing actually how much well that you're doing in casualty line takes a while. It has a tail to it. It could take 5 or 6 years. So I think we're seeing the -- we start to see the early signs of more recent years being a bit more impacted by the inflation that we saw of late. And I think that it will take a while. People are trying to adjust. We're trying to look at the numbers in the triangles that are actually not as good as they used to be. So there's a lot of uncertainty in the space. And I think it will take us several quarters to come to a more stable or a better view of the industry.

So the last hard market in casualty started to turn in 2000 and it took until about 2004 to really see the impact and sort of have running out of -- having to price and rate increase after that point. So it takes several years. Unlike the property cap right at least 2022 something happened at the bottom in the fall, well, right away that people are adjusting because the cost of goods sold or losses are known. So this is not surprising to me. I'm expecting a bit more. We're expecting a bit more. We're seeing it through our reinsurance submissions. I think people are slowly but surely recognizing some of these bad years, but it takes a while.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then in terms of just on the insurance side, as you think the underlying, I guess, margin, right, kind of low 90s in the quarter, given your views about price and loss trend, does that feel like kind of the run rate level from here?

Marc Grandisson
CEO & Director

Well, as you know, Elyse, we report the numbers as we see it based on the data that we see. That sort of seems to be the emerging sort of rough average over the last couple of years. There's also a mix going on at least. So things are shifting, as you know, from time to time. So it's hard to compare combined ratio. But right now, based on where we are, it's well within expectation of getting the returns and our returns on insurance, we believe are in excess of our long-term target.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then the mortgage releases have held steady, Q2 was above the Q1 level. Can you just provide, Francois, maybe a little bit more color on what's going on there and how we could kind of think about run rate level of potential releases within the MI book?

Francois Morin
Executive VP, CFO & Treasurer

Great question. I think we -- I mean, I and many others have been wrong about taking a forward-looking view of releases on -- or favorable development on mortgage in general. I think, right, stepping back, I'd say that early in '20 -- late '22, early '23, we were more cautious about the state of the economy and took a view about new notices and average reserves that we were attaching to these notices that was a bit more -- that didn't turn out to be the case, right? They turned out to be better than what we had expected at that time. The fact that we just had another quarter of better cure activity, I don't think a lot of these cures this quarter were related to the 2023 accident year.

So we're more positive, I think, I'd say in general about the housing market. So the level of reserving that we're attaching to the new delinquencies is a bit lower than it was a year ago. So maybe directionally, we would not expect to have the same level of reserve releases going forward. But again, not knowing for sure how quickly people are going to cure unemployment, et cetera, I mean, that will be -- that will have an impact on the level of reserve releases.

Operator

Our next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just a question on reserves. You had favorable development overall. But -- and so did many of your peers. But a lot of the competitors had adverse development in casualty for both older and recent years. Doesn't seem like you had that, but maybe you could go into detail a little bit on the development in the second quarter. And then also, why do you feel that you're not as susceptible as some of the competitors to all the casualty issues, either in your book or maybe in the Watford block that you inherited?

Francois Morin
Executive VP, CFO & Treasurer

Yes. Let me take a stab on that. I'm sure Marc will have something to add. I'd say on the part 2 to your question, Jimmy, I'd say the book of business that we have is -- I wouldn't call it a standard commercial general liability book of business that some other competitors have. We don't write a whole lot of commercial autos, for example. So that's another line of business that's been a difficult line to get a good handle on the trends and how inflation has picked up in there. So the books that we have in general liability a, I think, are smaller. We're -- certainly, we think, underweight in those lines of business. Roughly speaking, our insurance book is like, call it, less than 15% what we consider to be of our overall premium, what we consider to be traditional casualty in the GL lines of business. So the mix matters. Certainly, the areas where we write the business matters. I mean we have an international book within that. So it's not only U.S., where I think we've seen more pain.

And then in terms of the favorable -- the movements in the quarter, I think, yes, in aggregate, we were favorable, mostly in the short-tail lines. On the longer tail lines, which is primarily GL, I think we were pretty flat. I think it's something we look at carefully. Some noise here and there. But collectively, in aggregate, we're very comfortable with the level of reserves. And so far, our numbers are holding up pretty well.

Marc Grandisson
CEO & Director

And what I would add to what Francois just said, and as you know, Jimmy, we're a cycle manager. We also didn't write as much in even the year that we're -- that we believe are now still very soft year. So that also prevents you from having to -- having outsized no surprise.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on a different topic, your capital is building up pretty nicely, and I'm assuming it's enough to fund your growth. And you have done a couple of acquisitions. But how do you think about buybacks or potentially instituting a dividend given the capital levels that you have?

Francois Morin
Executive VP, CFO & Treasurer

Yes. I mean that -- the philosophy has not changed, right? I'd say, certainly, we are on track to close the Allianz acquisition tomorrow. So that will certainly be a draw on that capital base that we have. We are also entering the active wind season, so we'll want to take a look at what -- how that develops. But absolutely, going forward, the fact that we historically have been very -- I think, very good stewards of capital, we like to deploy it in the business where we can. But if there are no opportunities beyond what we -- what's in front of us, in the coming months, we will -- we'll do what we've always done is return that capital, and it could be in the form of share buybacks or dividends or any other method.

Operator

Our next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

So, Marc, sometime in the past, I think one thing you said to me was that the big surprise was from the hard market of 2000, 2004 that pricing stayed good for a lot longer than we thought it would, and we pulled back too early. I mean clearly, you're not pulling back here, but the growth has decelerated a great deal. Given that you have that 20/20 hindsight, how are you looking at this market opportunity and how long it might last compared with what you knew from the past?

Marc Grandisson
CEO & Director

Yes. Well, first, Josh, is I'd probably erased from my memory what we did rolling in 2004 and '05, but thanks for reminding me. What I would tell you, Josh, is we talk about this at underwriting meetings. Our underwriters and our underwriting executives are acutely aware of that phenomenon. We also want to remind ourselves that pricing is going up as we talked about specifically non-casualty, which seems to be the more acute area. I think it will take a longer time to go down or it takes longer to take down, right. It goes up an elevator and goes down an escalator. So that's probably why we would expect the market to be.

I think we're aware of this. Now we have more data, have more experience, we have an existing platform, underwriters, many of them have been there through those years. So very confident that we will be more judicious, if you will, in terms of holding the line when the market gets a little bit softer.

In terms of growth, we still have like close to 11% growth in P&C, which is a big feat. It's still -- it's a very, very good growth. But as I said in my comments, and you probably heard already, Josh, the market is a little bit more reaching equilibrium in terms of supply and demand for the risk. So the question that we have to ask ourselves all the time is, if we push too hard, we might dilute the broader margin and return expectations in the marketplace. So we take this. And not only us, by the way, I think the market is broadly very, very widely behaving the same way. People want to make sure that they get it right and nobody wants to be the first one running out and doing something that will probably jeopardize or not jeopardize, but maybe take down the returns expectations.

So it's just that kind of market, Josh. The equilibrium on the supply and demand for capacity is just coming back more to a more normal level. It's still on the side of the underwriters, but it's clearly moving in a more equilibrium state.

Joshua David Shanker
BofA Securities, Research Division

And then continuing on the thought that Jimmy asked. I have a very crude capital model, and I wouldn't recommend anyone else use it. But it does seem like at the pace that the premium is decelerating, you're going to be sitting on some sizable excess capital in a fairly short order. Can you, I guess, talk a little bit about how the Allianz transaction uses capital that might be incorrect my assumption that it may be -- that may be a source that's really causing a capital plug there. Or additionally, am I correct that you have at the trajectory, a real capital buildup that's going to -- need to be utilized in short order?

Francois Morin
Executive VP, CFO & Treasurer

Well, I mean, first, on the Allianz transaction, we disclosed that we were -- the rough numbers of capital that we were going to deploy in that transaction is $1.8 billion, which is the premium we're paying to acquire the asset and also the capital that we need to deploy to support the LPT that's coming our way immediately and then the ramp-up of the new business or the renewals that will end up on our balance sheet. So sizable number, and that is so far, I mean, as far as we know, I mean, there's -- things are on track to be kind of at that level.

To your point, yes, we -- I mean, returns have been excellent, and we're very -- we're proud of that. And -- but we're not going to accumulate capital just that we can't deploy forever. So the reality is it will give us another couple of quarters maybe, but I mean, we'll definitely have a better view of where things stand by later this year. And then Marc has been talking about the casualty kind of pick up potentially. So that accelerates in the third and fourth quarters and early next year, then we want to have the capital ready to deploy there. So that's certainly how we think about a big picture, but it's an ongoing discussion we have here.

Operator

Our next question comes from Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I'll keep with the theme on casualty and social inflation, especially since we do value your thoughts on this. I guess, can you remind us, two part, I believe you've said in the past that Arch's casualty reserve reviews are more geared towards the summer months. And related, now that you've been studying your book and the industry a little bit more, I recall last year, not just -- and Marc, you had said, but others have said too that they thought that the casualty pressures would be more large accounts kind of than small account, but the data we see so far appears to be that the small account players have really added to the reserves more so. So I don't know if there's any thoughts there.

Marc Grandisson
CEO & Director

I'll start with the second part of your question. You're exactly right. I think that I said that the large accounts, there are ground zero for pressure points on the losses because they're deeper pockets, right? They are larger limits, bigger enterprises, more complex cases and more attractive to the plaintiff lawyers. But you're right, we've seen as well as everyone else, pressure building -- the commercial auto as well, even of all sizes also going through a similar process. And it impacts, obviously, the umbrella portfolio.

But you're quite right. We're sort of a second round the sort of the rippling effect starting in ground zero, which is always a larger account, and it's sort of slowly, but surely ripples through the market, and we're starting to see this impact on the smaller packages as well. Smaller policies as well have lower limits. So it's probably easier -- well, it seems to be currently in the space, you heard this too, I'm sure, the $1 million limit is not what it used to be. So there's probably more of a pressure to pay the full limit as opposed to before maybe the industry was more willing to fight or push back. But again, the $1 million because of all the inflation has changed.

In terms of reserve review, I'll say it, but we do a quarterly review of our reserving of every line of business that we do. Our actuaries review it every single time. And we have a change of loss ratio that we get reported on every line of business and sub-line quarterly for all the units that we look at. The one thing that we have as an added benefit at Arch is we have also -- we have the insurance group and the reinsurance company, so we're able to compare at the high level of the holding company, Francois and I, as to what the trends are developing and what they're looking like.

So it's a constant -- I think what we used -- what we may have said to you is we used to do an annual trend analysis. Now it's becoming a twice-a-year analysis and it might accelerate as well. And I would assume that most people are using the same frequency because as we talk about all the time, reserving feed into to pricing.

Francois Morin
Executive VP, CFO & Treasurer

Yes. The one quick thing just to add on reserving, we monitor actual versus expected experience quarterly. That's a big part of the process. And not only do we do it against our own expectations, but we monitor against our external actuaries expectations. So we got 2 views of how independent groups of actuaries think business or the reserves should develop over time. And that certainly informs the actions we take every quarter. And to Marc's point, that's done in all the business units regularly.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. Understood. And just last quickly on catastrophe levels. I think you guys are more open than others on "normal." The reinsurance segment cat ratio, the loss ratio this quarter, is that kind of normal-ish since you guys have grown into property over the years?

Marc Grandisson
CEO & Director

I think -- yes, yes. No, I think -- no, again, repeating what we said before, and it's always hard to appreciate from your perspective, I'm sure, is that the reinsurance has more volatility into it. So we tend to look at this on a longer-term average. So sometimes, we have a quarter. I remind everyone here, sometimes we have a quarter where the combined -- the current accident year, ex cap combined ratio and reinsurance goes up a little bit. and people say it's a trend, but it's very hard to see this in reinsurance. Sometimes it's above, sometimes it's below. I think this quarter, frankly, we had no lower attritional losses across the Reinsurance portfolio. And this is what -- this what explains that. But if you look on a 12-month basis, it's not as drastic of a move.

Francois Morin
Executive VP, CFO & Treasurer

Yes. I'd add to that also, the cat load that we reported or kind of quoted earlier this year, I mean, we have a view on seasonality when these losses may or may not hit. I mean it's imprecise. Does it happen second quarter? Does it happen third quarter? It's a little bit of a -- there's historical data to support that. But big picture, again, what we experienced this quarter was not unexpected. Was not -- it was very much within what we thought was reasonable given the growth in the size of the book, the fact that it's broader, it's not only U.S., a lot of international and the different types of exposures that we reinsure primarily, yes.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And I'll sneak one last quickly on mortgage just on a macro perspective. Would -- if home price appreciation continues at a healthy pace or I guess, resumes at healthy pace with that, is that any factor in kind of the reserve release as maybe it was unexpected? Is there anything there from a very high level we can think about?

Marc Grandisson
CEO & Director

Yes, it would, right? Because by virtue of having house price appreciation, you therefore increase your equity in your home. And the equity in the home is by far the lack thereof is a leading indicator as to whether you're going to have a foreclosure or a loss in your policy. And most of the policies, even if you had another 3% to 4%, whatever we're expecting, next year maybe 4.5% of HPA appreciation, the equity were built.

And what happens -- and it's very simple, right? The reason why equity matters is because, well, if you're running into trouble, the divorce, you're losing your job, you don't want to lose the equity in the home, you can just turn around and sell it to somebody else and then recapture at least a portion, if not all of the equity that you've built into it. That's something that people will do and then the healthy market supply and demand market is such that you'll be able to sell your home with -- and capture that equity even after some expenses.

So that's what happens on HPA. If it goes too wild like it did in '07, '08, but it got into trouble for different reasons altogether. I think the credit space and the weighted mortgages have been originated over the last several years. HPA going up right now would be helpful. It's definitely helpful for us as MI provider.

Operator

Our next question comes from David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question on the underlying loss ratio in the insurance business. It was up a little bit year-over-year. That's despite having a higher mix of short tail business within the earned premium mix. Could you maybe talk about what was driving the loss ratio up year-on-year? And was that conservatism you guys are baking in on the casualty lines? Or a little bit of color there would be helpful.

Marc Grandisson
CEO & Director

Yes. It's a pretty small increase. And this is -- we don't want to ascribe any more precision to those numbers. They're judgment call quite often times. I think it's just a reflection of the mix and perhaps one on the business, the actuaries may take a little bit more of a conservative or a prudent stance and put a bit more -- increase the loss ratio for a certain year or certain line of business or product line. That's really all there is to it. I think the variability around this even on an insurance level, we're a specialty writer. So there's a lot of things going on all at once in our portfolio. It's not very -- it's not as predicted, I guess, as we wish we could be. But this is also why we believe we can attract higher returns because there's a lot more uncertainty in selecting the loss ratio pick. I would just attribute it to noise that happens from time to time as well as mix.

Francois, anything to add?

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Great. And then Francois, you had mentioned the actual to expected. Wondering if we could just get a little bit more color on that for the quarter? And then if you guys have changed your view of expected losses, just given it appears like claims payment patterns have been extending. So I'm wondering if that's been reflected as well in your expected -- expectations?

Francois Morin
Executive VP, CFO & Treasurer

Yes. I think the A versus E work, it's done by line, by year. So yes, there's pockets where -- I mean, it's puts and takes, right. There's some that we run favorable, some that there could be a year for when claim shows up and it's going to show adverse. But both quarter-to-date and year-to-date, in aggregate, both by segment, we are running ahead of expectations, which we didn't take the full credit for that. Some of that favorable experience is showing up in their actually favorable prior year development. But the indications are giving us a lot of comfort that our reserve base and our reserve levels are adequate to pay the claims.

Absolutely, your question on patterns, that is -- I mean, there's a good attempt -- good-faith attempt to adjust the patterns with the experience that we have. Again, both internally and the advice or the opinions we get from external actuaries. So that's factored into the expectations that claims may be -- may take longer to develop. And we understand that it's an evolving situation. I mean that seems that the patterns are changing over time, but that is fully kind of considered in those numbers.

Operator

Our next question comes from Charlie Lederer with Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

Definitely, I heard Marc's comments on the reasons for the flattening out of property cat growth. Would you say the weather forecast had an impact on that? And could you -- could we see you reverse course and reaccelerate if pricing is still good in 1/1 and you have a better view of how much of the MidCorp business you're keeping?

Marc Grandisson
CEO & Director

I'm going to say this is one of the easiest answer, yes and yes to both of your questions, yes and yes. Yes, yes, we believe we took a conviction that there was a heightened -- higher likelihood of frequency of events. And you're right, and it could change. This will be a short-term perspective, and this will help inform whatever new vision or new projection and new belief we have will help us make a decision as we get into 1/1 '25 after the wind season is over. Mind you, the business is still very good even with our increased frequency. So it's still a very, very good book of business. We just wanted to have the right balance.

Charles William Lederer
Citigroup Inc., Research Division

Got it. And then, I guess, I'm wondering if you guys have your arms wrapped around the CrowdStrike cyber event yet. And if you can help us frame what the losses might be? And if you see any impact on the cyber pricing environment coming out of it?

Marc Grandisson
CEO & Director

Yes, well, on the CrowdStrike, I mean we're still gathering information on our units, want to figure out what's out there and it's not only the -- necessarily the cyber, but there might be some other lines of business. So we're just going through it as we speak. It's still kind of hard to disentangle. I mean some people are claiming some losses. They're not insured. So there's a lot of things going on. I think we tend to agree broadly with the market view that 6 -- $500 million, $600 million to $1.2 billion. That's sort of -- it's still a wide range at this point in time. It's going to take a while to know how it develops.

I think I would want to -- I mean it's not a big number in terms of loss ratio points for all the premium worldwide for cyber, but it's certainly a reminder that there's risk in the portfolio. And it's early now, we haven't seen them any renewals, but I would expect rates could still go down a little bit, but probably not as fast as they were going down. And people are going to probably take a bit of a more of a pause, if you will, to evaluate what it looks like. It can go either way, right? If CrowdStrike does not create a big loss, that might reinforce to believe that it's not as risky. Although, having that event, which was not malicious, happened out of nowhere, and we were all like out of -- unable to work for a day, I think it's a good reminder of people that there's still uncertainty and there's some loss potential there.

Operator

Our next question comes from Andrew Kligerman from TD Securities.

Andrew Scott Kligerman
TD Cowen, Research Division

So I was interested in the net written premium there in professional lines. It looked like you were pretty much flattish this quarter year-over-year at $345 million. Could you share some of the puts and takes? Was public D&O awful lot? Did you see a pickup or a decrease in cyber? What were some of the big lines? And how do they move?

Marc Grandisson
CEO & Director

Yes, there's a lot of things in the professional lines. It's kind of hard to disentangle from your perspective. But at a high level, D&O, we're reacting to what's out there. We're still maintaining our positioning. Cyber, we're still making exposure. Rates still go down, so that would go the other way. Health care, we like a lot. So we've grown that book of business. This is within the professional lines. And there's been some re-underwriting of some areas, if you will, at a high level that were not performing as well.

So there's a lot of things going on all at once. I think what you're seeing, it was not the 300 -- the flattish number is really a sum total of many decisions that were independent from one another. That's really what you can read into this.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And along the same lines in reinsurance, property ex catastrophe, it was up quite a bit at $585 million versus $457 million last year. What did you like in the property area in reinsurance?

Marc Grandisson
CEO & Director

We -- well, it's -- in there, there's a lot of different lines, but there's a lot of quota share, some risk excess. We also have a facultative book in there as well. And all these units are taking advantage of the hard market still to this day and picking their spots. And we think the return expectations is not as cat exposed within -- there is some cat exposure there, obviously. But we believe the returns are just very, very accretive and very, very favorable.

Some of them are opportunistic by nature, right? We might be doing a specific deal in some specific payroll because we think the market is hard as we speak. So some of that was also factored in our writing. So it's a really broad line of business. As you can see, we love that line. We love the opportunities there. It's a little bit more complicated, I would say, to underwrite than a property cat -- pure property cat book of business, but we've had the expertise and the knowledge and the willingness to do this for a long time, and we're -- we really like to -- we'd like to be exposed and do more of that line of business in that current return expectations.

Francois Morin
Executive VP, CFO & Treasurer

Yes. And I'll add to that quickly. Just on the accounting side, it's important to remember that the property cat line of business is mostly on an XOL basis where we write all the premium on day 1 versus this property other than property cat line where the component that is on a quarter share basis, the premium is written evenly throughout the exposure period. So they could very well be -- there's accounts that we wrote at 1/1, for example, that the ramp-up of that premium is taking place over the 4 quarters of '24 as we write the premium.

So a little bit of a different kind of accounting policy on those types of reinsurance agreements, and that certainly has an impact on how it shows up in the quarterly numbers.

Andrew Scott Kligerman

TD Cowen, Research Division

Got it. And if I could just sneak one quick one in on the insurance line, the expense ratio picked up by 70 basis points. Should we be thinking about the expense ratio being slightly more elevated as you take on the Allianz book and invest there?

Francois Morin
Executive VP, CFO & Treasurer

Well, the investments that we made through this quarter are not related to that, right? So they are other opportunities, other efforts that we have underway that were predictive analytics, some tech companies that we've invested in. So we feel it's the right time for us to make those investments given how strong the returns are. And we'll see how those develop over time, maybe they slow down the road. But for now, we're very comfortable with the level of investments we're making.

In terms of Allianz, just we'll give you more information as we move forward, but there will certainly be some integration expenses that will come through in the insurance segment, specifically going forward. Some of those expenses that will be kind of onetime, and we'll probably report those as part of a transaction cost and others. So that will clarify that for everybody once we close and after we have a time to -- some time to digest it. But yes, the investments so far this quarter are for other initiatives.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them for you guys. The first, I'm just curious, do you all still stand by the 3-year payback period for share buyback when it comes to book value dilution?

Francois Morin
Executive VP, CFO & Treasurer

That has been our practice. It's not a hard and fast rule. I think it's been the practice historically. But again, that's part of the framework of how we evaluate kind of various alternatives. Could we think about extending the payback at some point? And the answer is maybe.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. That's helpful. And then, I guess, my next question, thinking about M&A here, it looks like you probably have the financial capacity to still do a reasonable amount of M&A. But do you have the kind of, call it, management and strategic -- or call it, management capacity at this point as you're integrating the Allianz business or Fireman's Fun business over the next, call it, 6 to 12 months to do anything? You're going to kind of take a pause here for a while?

Marc Grandisson
CEO & Director

Well, I think, Brian, it's also dependent on the opportunity that we have ahead of us, and we can certainly attract people to help us do any other integration. We have a team between us leading the effort on Allianz also were instrumental in integrating guaranteed way back in 2017, '18. So we have already some good experience there. So I think we have enough bandwidth for what we're doing now quickly. And if something were to happen right, Francois, was really accretive and interesting, we would find a way to do this. I think that we're not there to work at the time. If something is very favorable to us, we'll expand the effort and the work that needs to get this done.

Francois Morin
Executive VP, CFO & Treasurer

I mean these opportunities were -- I mean, actually geography-specific and segment specific. So the Allianz acquisition is purely insurance North America. So that absolutely has taken center stage. But if we were to do some other M&A in other parts of the world in the reinsurance segment, that could be a different team most likely that would contribute.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then one other just quick one. I know you don't give us some numbers on the Allianz thing. But is there any color you can give us with respect to how does it add to your PMLs as we think about it going forward? Just looking at the map you provided us, it looks like there's a decent amount of business in kind of cat-exposed areas?

Francois Morin
Executive VP, CFO & Treasurer

Not materially because it's not as much in our peak zone. The book is more diversified, more Midwest, more California, less Florida, which is our peak zone. So in terms of the 1-in-250, marginal impact.

Operator

Our next question comes from Meyer Shields from KBW.

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

Two quick questions. First, Marc, I think you and Francois both mentioned the elevated frequency predictions for not growing cat premium. Was there any reshaping of the portfolio to move further away from frequency events?

Marc Grandisson
CEO & Director

No, I think that if you look at a high level, I think our exposure was -- is more stable. It may have grown a little bit even on a gross basis, but what happened is we just shaped it through retrocession purchases. That's really what we did. And that's how we got back to a more reasonable and more acceptable level of PML.

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

Okay. That's helpful. And second, just sort of for the most recent or up-to-date events, as we've seen more capital markets activity comes back -- come back and we've seen that being blamed for pressure on public D&O pricing. Are you seeing any inflection that coincides with recovering activity?

Marc Grandisson
CEO & Director

Not really. I mean the third-party capital that we hear -- again, even those third parties, there's a healthy level of rationality in the behavior. So we haven't seen, like I said before, crazy players or mavericks in the marketplace. It's a pretty well-behaved marketplace.

Operator

I'm not showing any further questions. Would you like to proceed with any further remarks?

Marc Grandisson
CEO & Director

Thank you very much, everyone. We'll talk to you again in October.

Operator

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