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Q4 2023 Arch Capital Group Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2024 / 4:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2023 Arch Capital Earnings Conference Call. (Operator Instructions) As a reminder, this conference 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 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 will also 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 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 begin.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Thank you, Gigi. Good morning, and thank you for joining our earnings call. Our fourth quarter results conclude another record year as we continued to lean into broadly favorable underwriting conditions in the property and casualty sectors. Our full year financial performance was excellent with an annual operating return on average common equity of 21.6% and an exceptional 43.9% increase in book value per share, which remains an impressive 34.2% if we exclude the onetime benefit from the deferred tax asset we booked in the fourth quarter.

The $3.2 billion of operating income reported in 2023 made it Arch's most profitable year-to-date. Growth was strong all year as we allocated capital to our property and casualty teams, which wrote over $17 billion of gross premium and over $12.4 billion of net premium. And while most current growth opportunities are in the P&C sector, it's important to recognize a steady quality underwriting performance of our mortgage group. Although mortgage market conditions meant fewer opportunities for top line MI growth, the business unit continued to generate significant profits totaling nearly $1.1 billion of underwriting income for the year. As we have mentioned on previous calls, those earnings have helped fund growth opportunities in the segments with the best risk-adjusted returns,

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demonstrating that a disciplined underwriting approach and active capital allocation are essential throughout the cycle.

Our ability to deploy capital early in the hard market cycle is paying dividends as we own the renewals, a phrase I learned from Paul Ingrey, a personal mentor and foundational leader of Arch. What Paul meant was quite simple. When markets turn hard, you should aggressively write business early in the cycle. This puts your underwriters in a strong position to fully capitalize on the market opportunity. By making decisive early moves you won become (technical difficulty) who then want to do more business with you. In some ways, the growth becomes self-sustaining, which explains part of our success throughout this hard market.

At Arch, our primary focus has always been on rate adequacy regardless of market conditions. Our underwriting culture dictates that we include a meaningful margin of safety in our pricing, especially in softer conditions. And we also take a longer view of inflation and rates. For these reasons, Arch was underweight in casualty premium from 2016 to 2019 when cumulative rates were cut by as much as 50%. I thought I'd borrow a soccer analogy to help explain the current casualty market.

In soccer, players who commit a deliberate foul are often given a yellow card. Two yellow cards mean the player is ejected from the remainder of the match and their team continues with a one-player disadvantage. Today's casualty market feels as though some market participants took to the field with a yellow card from a prior game. They're playing in the match, but cautiously not wanting to make an error that will put their entire team at a disadvantage. So while Arch sometimes plays aggressively, we've remain disciplined and avoided drawing a yellow card.

At a high level, we must remember that casualty lines take longer to remediate than property. So if insurers are being cautious and adding to their margin of safety, we could experience profitable underwriting opportunities in an improving casualty market for the next several years.

Now I'll provide some additional color about the performance of our operating units, starting with reinsurance. The performance of our reinsurance segment last year was nothing short of stellar. For the year, reinsurance net premium written were $6.6 billion, an increase of over $1.6 billion from 2022. Underwriting income of nearly $1.1 billion is a record for the segment and a significant improvement from the cat heavy 2022. Reinsurance underwriting results remained excellent as we ended the year with an 81.4% combined ratio overall and a 77.4% combined ratio ex cat and prior year development, both significant improvements over 2022.

Turning now to our Insurance segment, which continued its growth trajectory by writing nearly $5.9 billion of net premium in 2023, a 17% increase from the prior year. While the business model for primary insurance means that shifts may not appear as dramatic as our reinsurance group, a look at where we've allocated capital year-over-year provides a meaningful insight into our view of the market opportunities.

In 2023, the most notable gains came in from property, marine, construction and national accounts. The $450 million of underwriting income generated by the insurance segment in 2023, doubled our 2022 output as we continue to earn in premium from our deliberate growth during the early years of this hard market. Underwriting results remained solid on the year as the insurance segment delivered a combined ratio of 91.7% and a healthy 89.6%, excluding cat and prior year development.

Now on to mortgage. Our industry-leading mortgage segment continued to deliver profitable results despite a significant industry-wide reduction in mortgage originations last year. The high persistency of our insurance in force portfolio, which carries its own unique version of owning the renewals, enables the segment to consistently serve as an earnings engine for our shareholders. The credit profile of our U.S. primary MI portfolio remains excellent, and the overall MI market continues to be disciplined and return-focused. These conditions should help to ensure that our mortgage segment remains a valuable source of earnings diversification for Arch.

On to investments. Net investment income grew to over $1 billion for the year due to rising interest rates that enhanced earnings from the float generated by our increasing cash flows from underwriting. The significant increases to our asset base provide a tailwind for our creative investment group to further increase its contributions to Arch's earnings. Over the past several years, Arch has leaned into both the hard market and our role as a market leader in the specialty insurance space. We have successfully deployed capital into our diversified operating segments to fuel growth while also making substantial operational enhancements to our platform, including

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entering new lines, expanding into new geographies and making investments into new underwriting teams, technology and data analytics.

Finally, as we bid adieu to 2023, I want to take a moment to thank our more than 6,500 employees around the world who help deliver so much value to our customers and shareholders. Our people are our competitive advantage. And without their creativity, dedication and integrity, none of this will be possible. So thank you to Team Arch. Francois?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Thank you, Marc, and good morning to all. Thanks for joining us today. As Marc mentioned, we closed the year on a high note with after-tax operating income of $2.49 per share for the quarter for an annualized operating return on average common equity of 23.7%. Book value per share was $46.94 as of December 31, and up 21.5% for the quarter and 43.9% for the year, aided by the establishment of a net deferred tax asset related to the recently introduced Bermuda corporate income tax which I will expand on in a moment. Our excellent performance resulted from an outstanding quarter across our three business segments, highlighted by $715 million in underwriting income.

We delivered strong net premium written growth across our insurance and reinsurance segments, a 22% increase over the fourth quarter of 2022 and after adjusting for a large nonrecurring reinsurance transactions we discussed last year and an excellent combined ratio of 78.9% for the group. Our underwriting income reflected $135 million of favorable prior year development on a pretax basis or 4.1 points on the combined ratio across our three segments. We observed favorable development across many units, but primarily in short tail lines in our Property and Casualty segments and in mortgage due to strong cure activity.

While there were no major catastrophe industry events this quarter, a series of smaller events that occurred across the globe throughout the year resulted in current accident year catastrophe losses of $137 million for the group in the quarter. Overall, the catastrophe losses we recognized were below our expected catastrophe load.

As of January 1, our peak zone natural cat PML for a single event, 1-in-250-year return level on a net basis, increased 11% from October 1 but has declined relative to our capital and now stands at 9.2% of tangible shareholders' equity well below our internal limits. On the investment front, we earned $415 million combined from net investment income and income from funds accounted using the equity method, up 27% from last quarter. This amount represents $1.09 per share with an investable asset base approaching $35 billion supported by a record $5.7 billion of cash flow from operating activities in 2023 and new money rates near 5%, we should see continued positive momentum in our investment returns.

Our capital base grew to $21.1 billion with a low leverage ratio of 16.9% represented as debt plus preferred shares to total capital. Overall, our balance sheet remains extremely strong, and we retain significant financial flexibility to pursue any opportunities that arise.

Moving to the recently introduced corporate -- Bermuda corporate income tax. As mentioned in our earnings release and in connection with the law change, we recognized a net deferred tax asset of $1.18 billion this quarter, which we have excluded from operating income due to its nonrecurring nature. This asset will amortize mostly over a 10-year period in our financials, reducing our cash tax payments in those years. All things equal, we expect our effective tax rate to be in the 9% to 11% range for 2024 with a higher expected rate starting in 2025.

As regards to our income from operating affiliates, it's worth mentioning that approximately 40% of this quarter's income is attributable to nonrecurring items such as Coface adoption of IFRS 17 and the establishment of a deferred tax asset at Somers in connection with the Bermuda corporate income tax.

With these introductory comments, we are now prepared to take your questions.

QUESTIONS AND ANSWERS

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Operator

(Operator Instructions) Our first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

My first question, I wanted to expand on some of your introductory comments, just on the casualty side, right? We've started to see some reserve additions this quarter. And I think you alluded to that last quarter as being what was going to drive the market turn. So how do you see it playing out from here? I know you said it should play out over the next several years. Could you just give us a little bit of a road map and how you think about this opportunity emerging for Arch?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. Great question. I think that we're observing our own book of business. We also look at all the information you're seeing. I think from an actuaries' perspective, both Francois and I have maybe been dusting off our actuarial diplomas. You know, you rely on data that's historically stable or at least has some kind of predictability. And I think what we've seen over the last 2, 3 years, as a result of the pandemic, largely with the courts being closed and everything else in between all the uncertainty and then the path of inflation, there's a lot of data that's really hard to pin down and get comfortable with to make your prediction for how you should be pricing the business.

As we all know, reserving leads to the pricing by virtue of reserving and having the right number for the reserving, you then feed that into your pricing. So we're in a situation where people have lesser visibility or about what the reserving will ultimately develop to. So I can totally understand our clients and our competitors having to adjust on the fly. We're having to adjust a little bit progressively. The issue with casualty, Elyse, as you know, is even if you had that information and you made some corrective actions, it still takes a while to evaluate whether what you did was enough or what you needed to do.

So I think right now, we have -- we already had a couple of rate increases in casualty starting in 2020. But I think that now we're realizing that maybe it's a little bit worse collectively as an industry than we thought. And there's a lot more uncertainty, a lot more inflation, certainly, as we all know, is a big factor. So what I would expect right now is people will start refining their book of business. They will try to re-underwrite away from the source and inflation-impacted lines.

They'll probably push for rates. Some of them might kick some business [back] to the E&S [markets] (added by company after the call) until such time as we have more stability in the reserving and how the loss emerges as it relates to what your initial pricing assumptions was. And in casualty, that's why it takes several years. And if history has any indication, if you look back at the -- even the '83 through '87 market and then the 1999 or 2000 to 2003, it took 3 to 4 years from the start of that, even the middle of it to really get clarity and the market got much harder, in fact, in '04-'05 than it was in 2002. So because you have to do the action and then see if the actions did what you thought. And I think that's what we're going to see collectively as an industry are going through, and we're seeing it with our clients, and that's really what's happening.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And then my second question For the second quarter in a row, right, we've seen the underlying loss ratio within your reinsurance business come in sub-50. And you guys are obviously earning in right cat business within its strong rates last year. How should we think about the sustainability of a sub-50 underlying loss ratio within your reinsurance book?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Well, I mean, sustainability is a great question. I think you're absolutely right that we have more property premium that is more short tail and should have a lower loss ratio ex cat than not, right, compared to other lines. It's a good market. So obviously, profitability embedded in the business should be strong. But we send you back to quarterly volatility where sometimes we have a better than, call it, normal quarter, or even as a function of the book and sometimes not. There's going to be volatility. We said it before, the 12-month kind of rolling average is to us a better way to look at it. And that's how we see it. But certainly, we like the profitability in the book and it should remain strong.

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Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. One thing I will tell you, Elyse, probably heard on the other calls is the reinsurance market is continuing to improve somewhat into the 1/1 renewal. So it is still a very, very good marketplace. So what it means for the loss ratio, I don't know, but certainly, we're seeing improvement.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

And then just one last one on capital, right? I believe there were some pushes and pulls from the S&P capital changes on your capital, but it should be positive relative to your mortgage business? Can you just help us think through your capital position relative to just organic growth opportunities you see at hand over the next year?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Well, certainly, I mean, S&P is one thing that we look at. We look at [capital] (added by company after the call) many different ways -- I mean, we have different looks at capital adequacy. We have our own internal view, which drives really how we make our decisions. Rating agencies are an important factor, but I think more importantly is how we think about it. But you're right. I mean, no question that from the S&P point of view, we did -- I mean, the change in the model was a net benefit and that's reduced, given us, I'd say, a bit more excess capital.

But -- we look at it very carefully. We want to make sure that we're able to seize the opportunities that will be in front of us, and we see plenty for 2024. So right now, we're very -- our main focus is growing the business and kind of deploying that capital into what's in front of us. And then we'll see how the rest of the year plays out.

Operator

Our next question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Kligerman ***TD Cowen, Research Division - MD***

First question would be around M&A. We've seen a lot in the media about other specialty players that could be acquired. Arch has been mentioned along with other companies. And I know you can't comment on specific transactions and that you've talked a lot about 15% return on capital over time. But when you do transactions, could you give us a little color and what the parameters might be. What's really important to Arch when you do deals?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. On the M&A front, we're very prudent and careful when we do -- if we do anything. And I think historically, our historical track record is probably the best way to look at this. We'll look for something where there are opportunities to earn a return with the proper margin of safety, is fairly healthy. We're not -- there's no desire to grow for growth's sake in this company. It really has to do with the return on capital. And as Francois mentioned, the fact that we have opportunities to above 15% opportunities in this marketplace certainly makes it a little bit more hard.

Having said all this, we might be --, we might make exceptions or there might be some other considerations, as it relates to maybe a strategic, maybe a different kind of product, maybe a geography or maybe -- and we prefer that maybe a new team that can really bring the expertise on an underwriting basis. So it's a very, very disciplined approach to M&A that we take. And we have the luxury because we're -- we have plenty of organic growth available to usso something has to be very compelling for us to engage in those and also other risks, as you all know, that we don't want to take on unnecessarily. The number one is the culture. And we are very, very adamant about keeping our culture the way it is, and that's really something that quite often times, the thing [culture] (added by company after the call) that probably the one that makes the most difference in whether or not we'll entertain an M&A or not.

Andrew Kligerman ***TD Cowen, Research Division - MD***

That makes a lot of sense. You mentioned on the favorable developments that short tail property was a big driver. So looking at insurance at $21 million favorable, reinsurance is $7 million favorable. Just trying to understand were there any large casualty offset that might have played in, and if so, what would they be?

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Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Yes. There are no, I'd say, offsets. I mean we look at each line on its own; there are always going to be pluses and minuses in every single quarter. We look at the data, we react to the data. As you can imagine, I mean, it's very much a function of the type of business that we've written in the last few years. In reinsurance, in particular, we've grown a lot in property. We've taken our usual [reserving] (added by company after the call) methodology, same approach to reserving and that generated a little bit of redundancies or releases this quarter on the short tail side.

There's always a little bit of noise on any line of business. Yes, we have a couple of sub-lines or cells in casualty lines, they've had. We had a little bit of adverse absolutely. But it's not -- I wouldn't call it an offset. I mean, we book every single line on its own. We react to the data and then when numbers come up is what we end up with.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

One thing I would add to this is our reserving approach at a high level is to typically recognize bad news quickly and good news over time. So again, our philosophy hasn't changed at all in all those years.

Andrew Kligerman ***TD Cowen, Research Division - MD***

Got it. And maybe if I could sneak one quick one in. You mentioned during the call that one of the growth areas in insurance with national accounts, what type of limits do you write on national accounts?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Well, it's statutory, right? So -- and it's on an excess of loss basis. And these are -- there's a lot of sharing of experience pluses or minuses with clients. They tend to be larger clients. The national accounts is 95%-plus workers' comp. It's really a self-insured sort of structure of sorts. We provide the paper and actually the document to allow people to operate in their state because you need the required things to be able to demonstrate that you have worker's comp insurance as a protection, this is statutory. So it's unlimited, by definition. And then we have some reinsurance that protect some of the capping. That's really what it is.

Operator

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

Jimmy Bhullar ***JPMorgan Chase & Co, Research Division - Senior Analyst***

So first, just a question on the casualty business. We've seen significant growth in your property exposures with the hard -- since the hardening of the market or significant hardening in the market since early last year. What are your views on just overall market trends on the casualty side? And are you comfortable enough with pricing in terms to increase volumes in that area?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. I think a great question on our comfort on the casualty, on liability in general, or general liability, right? I exclude professional lines. I think where the market is turning or has more pressure is on the primary side. So I think that our focus right now is on the primary side. As you can see on the reinsurance, what we did in reinsurance for the last year. We think the reinsurance market is a little bit delayed in reacting to what's happening, in some of the development that we see and some of the increase in inflation is of course real.

So I think that we'll probably see first an insurance market that really takes it to heart. Like I mentioned, all the remediation that they need to do. And I think the reinsurance market will probably follow suit. With their own -- possibly their own way to look at this, if prior hard markets are any indication.

On the reinsurance side, one thing that's a little bit beneficial at this point in time. And there's a reason why reinsurers are not reacting possibly as abruptly as they probably should, in regards to ceding commission, is that we collectively understand as an industry that our clients are trying to make those changes. So we're trying to go along with them and help them and support them in their efforts. We'll see whether that's enough. Our team is waiting to see whether that develops, but I do expect this [reinsurance sector] (added by company after the call) to also come around and also provide another opportunity for us to grow.

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Jimmy Bhullar ***JPMorgan Chase & Co, Research Division - Senior Analyst***

And then on mortgage insurance, I would have assumed that reserve releases would moderate over time, and they've actually become even more favorable. And I think there's a shift in what's driving that. It used to be COVID reserves last year and now it's stuff written post COVID. As you think about -- I just want to get an idea on what are you assuming in your reserves that you're putting on the books right now? Are you assuming experience commensurate with what you're seeing in the market or is it reasonable to assume that if the environment stays the way it is, there's more room to go in terms of reserve releases?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Great question. I'd say the reserve releases this year in general were somewhat driven by our -- the views we had on the housing market at the start of the year, right? So if you roll back the tape a year, we were more concerned about home prices dropping fairly rapidly, recession, no soft landing, et cetera. So the reserves we set, call it, a year ago, were very much a function of those assumptions and they just didn't materialize throughout the year. So throughout the year, we saw a very strong -- or very well-performing housing market. People are curing their delinquencies much higher than we'd actually forecasted. Home prices are holding up and unemployment remains relatively low. So you put it all together, I mean, it's really what transpired in '23 is very much a function of -- the reserve releases would reflect kind of how things -- how much better they played out relative to what we thought a year ago.

Where we are today at the start of '24 is certainly a bit more, I wouldn't call it, I mean, optimistic in the sense that we see good home prices and a solid housing market for '24. So on a relative basis, the reserves that we're holding today are not as high as they were a year ago. So if you extrapolate from that, is there room for as much in reserve releases going forward? Probably not, but we just don't know. I mean the data will again play out as it does and we'll react to it. But hopefully, that helps you kind of compare and understand how -- where we sit today versus a year ago.

Jimmy Bhullar ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Okay. And just lastly, your comfort with your -- reserves in your casualty book -- despite all the industry-wide issues. Does that apply to the business that came over from Watford as well? Because that company obviously had a decent amount of exposure to casualty.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Well, that is an easy one. Watford, the underwriting is managed by our team here. So the reserving and approach... (technical difficulty).

Operator

One moment for our next question. Our next question comes from the line of Michael Zaremski from BMO.

Michael Zaremski ***BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst***

Okay. First question for Francois on capital in regards to mortgage specifically. So my understanding of the mortgage reserving rules is that after a decade or so, you can start releasing a material amount of reserves, mortgage obviously isn't growing now. So it's -- I know, but you also have a Bermuda, I think some captives there, too. So just curious, is there a material amount of capital coming or expected to come from releasing from the legacy mortgage or old mortgage business?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Well, I'd say the short answer is yes in the sense that the contingency reserves, you're right, we'll start releasing a bit more progressively starting in '24 and '25. That will be -- and we already have some of that in the fourth quarter this year. So if you look at our PMIERs ratio, why it dropped in the quarter -- in the fourth quarter was very much a function of a dividend that we were able to extract from our regulated US MI company to the group. So that we think -- the plan and it's scheduled to keep -- we should keep having dividends in '24 and beyond.

But the one point I want to touch on is, and we touched on it in the past is that while on a regulatory basis, yes, it's released, we would argue that capital is already somewhat being deployed in the business. So it's not that it's just sitting there not being deployed in the business. It's already being used to other sources because the regulators and the rating agencies look at the aggregate Arch Cap Group kind of level of capital. So yes, on a statutory basis, the goal here is to put the capital in a better location, but overall, it's not as big an impact as you might imagine.

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Michael Zaremski ***BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst***

Okay. That's helpful. And sticking with capital did -- when Elyse asked about you mentioned the S&P capital model, but I don't think you actually gave any quantitative answers on the benefits. Because when we -- on paper, we see that appears to be one of, if not the most diversified. Any help there on how much of a benefit or how to think about how much of a benefit the model offers Arch?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Yes, you're right. I didn't quote a number, and we're not going to start putting a number, but it's a net positive. No question that, yes, mortgage charges, diversification benefit, were reductions in capital requirements. But we also -- the final ruling on debt was not as favorable, right? So the S&P and their new rules, they no longer treat $1.75 billion of our debt as being capital. So that's a significant offset. But all things considered - all in it's a positive. But again, what I want to remind everyone is it's not the only thing we look at. It's just one thing among many and other rating agencies matter. And more importantly, again, is how we think about the capital we need during the business.

Michael Zaremski ***BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst***

Okay. And lastly, since everyone else is sneaking in a lot more questions. Based on the remarks you've made, unless I'm understanding it incorrectly, it sounds like the growth might be you're more excited about the primary insurance segment. Can primary insurance potentially grow just as much in '24 as it did in '23?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

It's a great question. I mean, again, we don't provide guidance because I don't know -- we don't know what the market conditions will be this year. But in terms of capabilities and capital and talent and everything else in between, absolutely we have and we could do more. Yes, we could. If the opportunities are there, we'll do more, both on insurance and reinsurance for that matter.

Operator

One moment for our next question. Our next question comes from the line of Josh Shanker from Bank of America.

Joshua Shanker ***BofA Securities, Research Division - MD***

Everyone, I think there might be a problem with the phone. We heard Jimmy and Mike just fine, but we couldn't hear your answers to their questions.

I don't know if -- so -- and I hear you I don't know if anyone can hear me. Let me ask my team.

Can you guys hear me on the phone?

They hear me. So somehow it's been corrected. Okay. So I don't know what -- maybe I'm the only one maybe...

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes, Josh, we can hear you. Hopefully, it's being recorded. I don't know if it's been recorded.

Joshua Shanker ***BofA Securities, Research Division - MD***

Okay. Very good. So yes, I got a couple of quick ones. So the lowest quarter of new insurance written in the mortgage insurance business since acquiring UGC. And yet it looks like the capital utilization went up, at least the risk to capital in the PMIERs capital ratio went up. Can you sort of talk about the moving pieces that are driving that?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Well, our PMIERS is, very much a function of the Bellemeade transactions that we called. Josh, I think there's significant amounts of capital protection that we exercised on and no longer give us capital credit.

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Joshua Shanker ***BofA Securities, Research Division - MD***

That's obviously what it is. Yes. Definitely, that makes sense. And another easy one. It looks to me from quarter end September 30 to year-end, Coface stock was about flat although it round trip through the quarter and yet you had very strong other income in the quarter. Obviously, there's some Somers in that. There's other things in there. Can you talk a little about the moving pieces?

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Coface, I mean the stock price is one thing, but obviously, for us, we booked the income, right? And they've declared pretty much a -- I don't the exact numbers, but their dividend, their annual dividend has been close to their full net income, 100% kind of payout ratio. So that ends up being what we book in our financials. So yes, the stock price is going to move up and down over the year, but it doesn't directly, I'd say, factor in or end up in their financials.

Joshua Shanker ***BofA Securities, Research Division - MD***

Okay. And just so you know, I'm getting a lot of inbound call volume or e-mails from people right now. Nobody can hear these answers that you're giving me. It may be being recorded. They hear me, but they don't hear you.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Hold on one second, Josh. Are we recording?

Let us work a little bit through this quickly. Maybe we can fix it.

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

And we can get on what's happening.

Joshua Shanker ***BofA Securities, Research Division - MD***

Okay. And so I'm just -- I don't know. Anyway, they're addressing it. People can't hear the Arch team but for people who are e-mailing right now saying we can't hear the Arch team. They're working on addressing it.

Operator

Please note everyone that this call has been recorded, and it will be available after the call is over.

Our next question comes from the line of Yaron Kinar from Jeffries.

Yaron Kinar ***Jefferies LLC, Research Division - Equity Analyst***

Should I ask the questions or should we wait until this issue is fixed.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

I think we should continue on. Just ask your question, it's recorded, hopefully people can...

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

There'll be a replay.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes, there'll be a replay for everyone, hopefully, really apologize said this, but we're trying to figure it out afterwards. Let's go forward.

Yaron Kinar ***Jefferies LLC, Research Division - Equity Analyst***

Okay. Yes. No problem. So I guess first question, when you set loss picks in a year, do you update those other than for bad news or frequency? And what I'm trying to get at here is when we look at the reinsurance loss ratios, are they already incorporating the step change in the reinsurance market that we saw in '23 or were those losses or the loss ratio essentially a reflection of your expectations heading into '23, and we should, therefore, see another step-up in margins over the course of '24.

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Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. I think our tendency when we do loss ratio picks Yaron, especially on the long tail lines, remember, Francois mentioned earlier, we're much more of a short-tail player than we were in proportion, right? So property is a bit easier to understand, right? It is what it is. You get the loss, [or] you don't get the loss. So you pick loss ratio at the end of the year for what you think the attrition will be and there's no cap, then you can't really book the cap, but there's a couple of things you need to address and then we'll see over the next 12 months how it develops and there are cadences of releasing or decreasing the IBNR. On property, because it has a shorter tail as you can appreciate. On the liability side, our tendency as an insurer or reinsurer on both sides of the equation of the aisle is to actually pick a loss ratio that has a little bit of a margin of safety at the beginning, not 100% recognizing all the potential benefits that we've seen, and we let it season for a while before we go in and make a change to them.

And what we look at is, obviously, how the emergence, which I mentioned about -- you may not have heard this one, but I mentioned about the emergence of the losses, how they are emerging versus what we expected. And you do this throughout the life cycle of the deal, but that's a longer-term phenomenon.

Yaron Kinar ***Jefferies LLC, Research Division - Equity Analyst***

Got it. And then my second question, Marc, I think in your prepared comments, you said that casualty may be collectively worse than expected for the industry. And I'm curious that comment, is that really referencing kind of the soft market years of '13 through '18 or '19? Or do you think there could also be some of that emerging for the more recent accident years where market conditions were clearly good, but maybe the expectations of inflationary trends were still a bit lower than what they ended up being.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

It's a really good question, Yaron. Our -- we look at the actual vs. expected, and we see it much more in the softer years, to be honest with you. The recent ones, it's here or there, plus or minuses that Francois mentioned. But it's all well -- as far as we can tell, our portfolio is well within a range of reasonable expectations. It's nothing really that's surprising because, Yaron, as you remember, starting in '19, there were improvements in the marketplace. There were price increases already. That's why I think that those years are not as soft, clearly not as soft as '16 to '19 were.

Yaron Kinar ***Jefferies LLC, Research Division - Equity Analyst***

Right. But I guess the question would be, even if they weren't as soft and you were getting a lot of -- the industry was getting a lot of rate at that point if the expectation was for an inflationary trend of 5 and end up being at 7 so you could still see some deterioration of very profitable years nonetheless.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

You could. But we do reserving with the rate level in mind. So when we were writing the business in 2021, we tend to look at a longer-term loss ratio and not the more recent years before the soft market, for instance. So when you factor all that in, we will tend to take higher loss ratio -- initial loss ratio pick ourselves on the liability side. So you don't have a similar...-- One of the things that happened in '16, '19, and it was mentioned before that people probably were more aggressive than they should have been on the loss ratio pick that they did in those years. I think by the time we get to 2021, I think already there was a recognition, and we saw it through the rate increases that the market was trying to get to. And I think the loss ratios lifted up a little bit. And I don't think we have a similar kind of deviation from initial loss ratio in those years.

Yaron Kinar ***Jefferies LLC, Research Division - Equity Analyst***

Got it. I'll just end by saying, I think you disappoint a lot of Swiftie fans, including my daughter by referencing Rest of World Football instead of a U.S. football this quarter. Anyway, best of luck.

Operator

Our next question. Our next question comes from the line of Bob Jian Huang from Morgan Stanley.

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Jian Huang ***Morgan Stanley, Research Division - Research Associate***

Just two quick ones. First, I think 2 quarters ago on the earnings call, you said when we look at the insurance underwriting cycle, we were at about 11:00, that's kind of where we were implying improved rates and also loss trend stabilization. Just curious, in your view, what time is it right now? Is it 11:30 or is it 11:59, 2:00 p.m.? Just kind of curious as to where you think.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

It's the longest 11:00 I've ever seen in my life is what I'm going to tell you. So I think we're still roughly around the 11:00, which, again, that clock is never like a 1 year after the other, right? You can stay at 11:00 and unfortunately, you can stay into the 3:00 and 4:00 for way longer than you would want. So I think that it's still roughly around that level, the 11:00, 11:30 perhaps in some cases, but roughly in that range.

Jian Huang ***Morgan Stanley, Research Division - Research Associate***

Okay. That's helpful. 11:00 to 11:30. That's very helpful. My second question, regarding MGA and capacity in general, there has been some concern that MGAs have been increasingly aggressive. Is this something you're seeing? Is this concern rightfully placed? Does it have any impact on how you think about your underwriting cycle management? Are you becoming more cautious, especially within your reinsurance? Not sure if you answered that before. So apologies.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

That's a great question. I think -- I mean, the MGAs emerge, as we all know, when there's a dislocation which is need for capacity. And I think we see it more acutely in the professional lines and some of them in property. But again, between the supply and demand on the professional lines, I think now that the capacity is probably more plentiful than it was, if not more probably, it is more plentiful than it was -- so I think it has some impact at the margin. Of course, it does.

I think to answer the second part of the question, which is how do we react? Well, we do it the same way we always do it, which is if the pricing is going down and the returns are not as good, we will tend to deemphasize or pick or select the better clients that we have in our portfolio and still react the same way we would do in cycle management.

On the property side, we also have similar MGAs and MGUs right? But I think these guys, there's an acute need for property coverage and capacity. And I think this sort of feels that we need all the capacity we can get our hands on in property at this point in time. So we're not seeing that much of an impact. The property market is still

very strong.

Jian Huang ***Morgan Stanley, Research Division - Research Associate***

Okay. So property side, not enough capacity, professional lines, plentiful capacity? That's the way we should think about it.

Operator

Our next question comes from the line of Meyer Shields from Keefe, Bruyette & Woods.

Meyer Shields ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

I think we're in the same situation where people can only hear the answers to their specific questions. So I'm hoping that comes through here as well.

Similar question to Bob. We've seen, obviously, a number of companies report some reserve problems in the fourth quarter. And I'm wondering, when you look at the book you are seeing, that you have within reinsurance, if what we're seeing in the public companies is a good representation of overall trends? Or is there something different in the nonpublic world?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Well, I think when you price -- Meyer, good question. And for the record, this will be recorded, right? So we'll be able to-- this will be recorded so we'll be able to share, you'll be able to hear the other questions and the other answers. Sorry, is that okay?

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Meyer Shields ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Yes. that's perfect.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

So I think the issue with casualty reserving, and you're an actuary as well as I am, the actual number is in the eye of whoever is doing the work. So I think it's like everything else. Our teams may have different views about a loss ratio pick for some of the things that we're looking at than they would have themselves. So I wouldn't say that it's a one-to-one. Some of them will not renew, or some of them we may not be able to participate on because we have a different view of the ultimate loss ratio. So, I think it's really -- each individual underwriter and each individual company is seeing companies come up with their own number, and you have to make your own decision and your own opinion as to where it is.

Meyer Shields ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

A similar question, I guess. Obviously, what we've seen here is a lot of domestic concerns over liability lines. On the international casualty side, is that concern worsening as well or should we think that as just a domestic concern?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

It's a similar issue. It's not to the same acuteness and same kind of level, but the world has similarly closed down in the courts. It's not as litigious internationally, as you would expect. But we're still seeing some hardening in international casualty as well. We saw this for the last 2, 3 years. So it's a very similar hardening of the market.

May not be as acute in terms of reserving potential issues. And I'm not talking now to the globals that are internationally, underwriting internationally, that's a different story, right? If they write in the U.S., they will have a similar issue. But there is similar issues all around, but it's not at the same level internationally that we see in the U.S.

Operator

Our next question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

I will say, I think you have a lot of folks wondering who's writing the E&O coverage for your conference call provider. But my follow-up is on casualty insurance. Can you give us a sense of the loss trend that you're booking your casualty insurance book to and what rate you're getting in casualty insurance as well?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Well, it depends on the business, Elyse, but I think the numbers you hear around 7%, 8%, 9%, 10%, sometimes it's 5%. It depends on line of business, depends on the attachment point. It depends on the limit that you provide, depends on the size of risk. But the numbers you hear -- the numbers that are heard around the marketplaces, we see the similar phenomenon.

I think we tend -- we said it historically. It's coming -- it's happening as we speak that the insurance trend in liabilities generally will outpace the CPI increase, and we're seeing this coming back. So with 200 or 300 basis points above. So we're largely consistent with those kinds of upticks.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

So loss trends, you said 7%, 8%, 9%, 10%, but can vary by line and sometimes be 5%. Where would you put the price increase?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Again, depending on the line of business, but we're low to mid-teens, I would say, right now.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

Okay, low to mid-teens. I'm just also repeating, so folks listening can hear the answer, so low to mid-teens.

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Yes, I think that's one, I guess, on your one last one, your cat you said your PML went a little bit higher, right? But the percent of equity is lower, given the equity rise in the quarter, where would you put your cat load at the start of '24.

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

Well, it's certainly up from '23, right? I'd say for the year, we're looking at somewhere in loss ratio points, right, call it, 7% or so of like, call it, 6% to 8% of like our premium would be kind of like the cat load.

Elyse Greenspan ***Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst***

Okay, 6% to 8% cat load.

Operator

Our next question comes from the line of Cave Montazeri from Deutsche Bank.

Cave Montazeri ***Deutsche Bank AG, Research Division - Research Analyst***

It's Cave. I have a question on reinsurance terms and conditions and attachment points. Does it feel like overall the industry probably took on more high frequency, low severity risk than they should have over the past couple of years? And now maybe on aggregate, reinsurers are probably more willing to negotiate on price than on attachment points or terms and conditions. Just tell me what your view is on that topic?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Are you talking about property excluding cat?

Cave Montazeri ***Deutsche Bank AG, Research Division - Research Analyst***

Yes.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. I think what we've seen is we continue to see is that a lot of lower layers historically for the last 4 or 5 years, turn out to be just swapping money, trading dollars back and forth. And there was a lot more activity, perhaps of frequency, as you mentioned, than the reinsurance market was willing to take on. So there was a natural tendency to try to increase the premium at those levels. But then at some point, it breaks down in the sense that the client is buying reinsurance protection and spending more for things that they actually realize they should be retaining. That's why you've seen retentions go up. Now in a sense, by virtue of having a higher retention, then they have to turn on to their own portfolios and try to manage and make it better and improving the aggregate loss they have [audible noise] -- I'm sorry about this. I think that what we're seeing on the Cat excess of loss right now is that people are buying more on top because they also are appreciating and evaluating the total level of exposure in PML. So I think what people -- what we're seeing is people trading away the bottom layers and buying more on top. And I think we're going to see that a bit more as we go into '24, which totally makes sense.

Cave Montazeri ***Deutsche Bank AG, Research Division - Research Analyst***

Okay. My follow-up is on mortgage insurance. Now you had been kind of pulling back even before activity came to a halt. But if the Fed rate cuts, if they do come, lead to a pickup in the U.S. activity in the housing market. Would you be happy to grow in line with the market? Or should we expect you to kind of grow maybe less fast in the market?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes, mortgage, absolutely, we would be. I think that -- yes, the answer is we would be more than happy. We have the capacity and capital to be able to deploy. And I think we would be very, very pleased to do more. Absolutely.

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

And it's been -- as you know, we it's been a very good market, very rational market. So obviously, the rates we're able to charge for the risk will matter and where we -- how we position the book. But in terms of our ability to grow, when originations go up, we're absolutely capable and willing to do that.

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Operator

Our next question comes from the line of David Motemaden from Evercore.

David Motemaden ***Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst***

Apologies, I haven't been hearing the answers, so I'm not sure if you've answered any of these already. But just Marc, you spoke a little bit at the beginning of the call about the need or the strategy to lean in at the early part of a hard market. I guess, how do you manage that with potential false starts? It sounds like the casualty market on the reinsurance side hasn't hardened as quickly as you've expected. But how do you manage that just internally between writing business that might be hardening, but not totally to where you think it should go and the potential for false starts.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

It's a very, very good question. And I think this is where the art comes into play, right. In experience and knowing some of the markings of the hardening market. A lot of it is also has to do with things you want to hear, right, is our underwriting team sitting down with clients, potential clients and try to understand, how they think about the risk? I'm talking about reinsurance now specifically, And we also have a very healthy database like everyone else, but we also have our own, and we have our own view of claims and they develop. And we have, again, experience over 20 years of data and information. And this is what we use to hopefully get the compass in the right order. But I = can't be sitting here and tell you and pretend that we're going to get everything right 100%. It's a little bit more art than science. And I would think that, as I'm getting older, the psychology of the market is becoming way more important, it feels to me, than even the numbers. And it's probably what compelled me or what made me ask the team to lean into 2019. And you don't know for a fact until it's done, but there are markings or signs in the overall market that help you and support your decision to lean into it heavily. That's all I can tell you, because it's really not a one-for-one -- there's no like one number or one spreadsheet I can point to that will get me the answer.

Francois Morin ***Arch Capital Group Ltd. - Executive VP, CFO & Treasurer***

And the only thing I'll add quickly, David, is the reverse is true as well. When the market goes soft, sometimes you pull back and you might go back too early. But that's the game we play. That's the business we're in, and we do our best. Again, we're never going to time it perfectly, but what matters more is the direction of it And then over the cycle, we think we should come out ahead.

David Motemaden ***Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst***

Yes. No, understood. That makes sense. And then, Marc, you had mentioned that at 1/1, the property market continued to improve, property cat reinsurance market. I guess as we sit here today and sort of looking forward at the sustainability of that as we move through 2024, what's your view now on that and the growth opportunities in property cat.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

First, we have no growth constraints per se. We can grow, as you know, Francois mentioned the size of our PML is 9.2%. So we have room to grow there. I think the question about where it's going to go is so difficult to answer because it's dependent on what happens and what kind of activity we see this year. But if I -- I would probably point to you to the 2006 turn of the market and it was '07, that's probably a better way to think about it. Probably '06 or '07, '07 was a better year than '06. And '08, '09 and '10 were really, really good years in property because the market, as we all know, goes up very, very quickly, but does not go down in one fell swoop. You've got a lot of sustainability in the returns for a little while. It takes a while before things get too close to the line or below the line of what we would want to adjust. So we have some runway in front of us.

David Motemaden ***Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst***

Got it. Understood. And I know in the past you've said alternative capital, or ILS can -- has the ability to swing the market one way or the other. What exactly are you seeing there?

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

What we hear is there's still a very high demand for returns and still some level of skepticism that might change. But we will see where that goes. But clearly, right now, at the margin, we saw some increases in [capacity] (added by company after the call), but it's not the wave that we saw probably in '14, '15 and '16, nowhere near that.

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Operator

Thank you. Arch Capital Group answers have been captured and will be available in the replay. I would now like to turn the conference over to Mr. Marc Grandisson for closing remarks.

Marc Grandisson ***Arch Capital Group Ltd. - CEO & Director***

Yes. First of all, I want to apologize thoroughly for the call quality and the dropping in and out. There will be a recording available for replay. And, you know, to our esteemed colleagues, Don and Vinay will be available to follow up, obviously.

I want to thank you for listening to our call, and I'm looking forward to speak to you again in April. Thank you very much.

Operator

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

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