

Arch Capital Group: Returning Capital Through a Divided Insurance Market

Internal ID: S&F-STR-064

Topic: Risk Management, Operations Strategy, Pricing Strategy

Industry: Property & Casualty Insurance

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Company: Arch Capital Group Ltd. (NASDAQ: AGL)

Decision setting and information cutoff: July 28, 2026, 11:59 p.m. ET; written sources only

Decision scope: Policy for pacing discretionary share repurchases while maintaining risk-bearing capacity

The assignment

Arch Capital Group (Arch) repurchased 12.4 million common shares for \$1,165.8 million during the second quarter of 2026. The average price was \$94.38 per share. At June 30, \$2,158.2 million remained under its repurchase authorization. Those amounts describe completed purchases and the authorization balance on that date; they do not establish the balance on July 28 or commit Arch to further purchases. [ACGL-4, p. 33, SEC lines 1664-1678]

For this exercise, assume you are advising a **hypothetical** capital-allocation committee. Recommend how Arch should set its repurchase pace while preserving capacity for underwriting opportunities and catastrophe risk. The company has not disclosed a Board debate over these alternatives, an internal contest for a fixed pool of cash, or a new decision as of the cutoff.

Choose a policy to emphasize:

1. **Continue discretionary repurchases:** maintain a high pace when risk-bearing capacity remains adequate and available underwriting opportunities do not clear a student-defined, line-specific risk-adjusted hurdle. Arch has not disclosed numerical hurdles across its lines.
2. **Preserve more capacity:** slow or pause repurchases to retain capital flexibility for catastrophe exposure, reserve uncertainty and opportunities that may emerge across business lines.
3. **Use conditional pacing:** continue repurchases subject to defined capital, catastrophe and underwriting evidence gates, with review triggers that can accelerate, slow or pause purchases.

These are classroom alternatives, not disclosed Arch plans. Your recommendation should say what evidence and decision rights would govern the policy, what the strongest objection is, and what would cause you to change course. Do not treat the authorization as cash set aside for either repurchases or underwriting.

A diversified risk-taking business

Arch operates insurance, reinsurance and mortgage-insurance businesses. Its 2025 Form 10-K describes a diversified specialty platform and management's intent to adjust capacity with underwriting conditions. Management has also said it allocates capital to segments with the best risk-adjusted returns and selectively reduces participation when reinsurance pricing does not meet internal minimum-return thresholds. These are management descriptions of its approach; the company does not disclose the numerical hurdle rates or the line-by-line return ranking. [ACGL-1, Item 1, pp. 3 and 5; Item 7, p. 93; ACGL-2, MD&A, SEC lines 2016-2025]

That flexibility matters because underwriting is not a single product. Insurance, reinsurance and mortgage expose capital to different risks, durations, customer choices and reserve estimates. A segment's underwriting result or combined ratio alone does not measure return on the capital required to support its risk.

Second-quarter results: a mixed picture

For Q2, Arch reported \$1,047 million of GAAP net income available to common shareholders, compared with \$1,227 million a year earlier. Its company-defined after-tax operating income was \$893 million, compared with \$979 million. These are different measures: the company-defined operating measure applies adjustments to GAAP results, so the two should not be conflated. [ACGL-3, lines 9-16 and 34-64]

Consolidated underwriting income was \$657 million, down from \$818 million a year earlier. The reported combined ratio was 83.5%, compared with 81.2%; the company's adjusted ratio excluding catastrophe activity and prior-year development was 82.5%, compared with 80.9%. The quarter included \$201 million of pre-tax current-year catastrophe losses and \$165 million of favorable prior-year reserve development, net of related adjustments. [ACGL-3, lines 9-33; ACGL-4, pp. 9-10 and 22-23]

The segment results differed materially:

Q2 2026 reported measure	Insurance	Reinsurance	Mortgage
Net premiums written	\$1,933m	\$1,844m	\$272m
Underwriting income	\$27m	\$410m	\$220m
Combined ratio	98.5%	77.5%	22.8%
Company-adjusted combined ratio (segment exclusions vary)	91.6%	79.9%	39.8%

The company's adjusted ratios exclude different items by segment (Mortgage excludes prior-year development; Insurance and Reinsurance exclude catastrophe activity and prior-year development) and should not be read as forecast margins or comparable returns. Mortgage's low reported ratio reflected substantial favorable prior-year development. [ACGL-3, Insurance lines 66-96, Reinsurance lines 97-124, Mortgage lines 126-151; ACGL-4, pp. 13-17]

Management said Insurance net premiums written declined 5.1% year over year, or 1.8% excluding nonrenewal of certain programs acquired with the MCE transaction. The Insurance segment table assigns current-year catastrophe activity 8.0 points to the combined ratio; the accompanying narrative separately reports a 7.6-point loss-ratio impact. In Reinsurance, net premiums written declined 10.4%, despite slightly higher gross premiums written; management

cited nonrenewals, reduced shares and targeted increases in retrocessions. The Reinsurance segment table assigns catastrophe activity 2.8 points to the combined ratio, while the narrative reports a 3.0-point loss-ratio impact. Keep the table and narrative measures distinct. Management's account is not an independent causal analysis of pricing or future returns. [ACGL-3 Insurance table lines 104-116 and narrative lines 121-125; Reinsurance table lines 142-154 and narrative lines 156-159]

Mortgage net premiums written increased 7.5%, while the company also reported lower U.S. monthly premium volume and growth in international business. Prior-year reserve development reduced the Mortgage loss ratio by 15.7 points before related adjustments. The segment's reported income therefore does not by itself show how much additional capital should be allocated to it. [ACGL-3, lines 126-151]

The repurchase decision is not a simple cash comparison

Arch increased its repurchase authorization by \$3.0 billion on April 19. Its Q1 filing reported approximately \$3.0 billion remaining on May 1 after subsequent purchases. By June 30, the Q2 supplement reported \$2,158.2 million remaining after the quarter's \$1,165.8 million of repurchases. The company's July 28 written materials do not establish the authorization balance after any purchases during July 1-28. An authorization permits purchases; it is not a commitment to spend and is not the same thing as cash or regulatory capital available in an insurance subsidiary. [ACGL-2, Note 3, p. 12, SEC lines 638-643; ACGL-4, p. 33, SEC lines 1664-1678]

Arch also reported approximately \$28.3 billion of consolidated capital at June 30 and completed debt issuance and tender actions during June. Consolidated capital does not disclose statutory surplus by insurance subsidiary, catastrophe headroom, rating-agency capital requirements or the marginal capital cost of a new policy. The debt actions are financing facts, not evidence of distress or a free pool for either option. [ACGL-3, lines 173-175]

Arch's July 28 investor presentation says that when excess capital exists, its priority order is to reinvest in the business, reduce financial leverage, then return capital through buybacks or dividends. The presentation does not quantify excess capital or state that a particular action has been selected. [ACGL-5, p. 5]

Market signals and competing interpretations

A broker report from Guy Carpenter described abundant reinsurance capacity and a soft property-catastrophe market at the July 1 renewals. It reported that its global property-catastrophe rate-on-line index moved from -12% at January 1 to -16% at midyear. The index is a broker-produced market indicator, not Arch's realized pricing or underwriting margin. The same report described casualty outcomes as more differentiated by loss experience. [ACGL-M1, lines 77-90; July 2026 Renewal Report, pp. 2-3 and 7-9]

Chubb's CEO also described softness in selected large-account and excess-and-surplus property lines and some casualty and financial lines, while reporting growth in other businesses. That is a competitor's management view, not independent market evidence or a matched comparison with Arch. RenaissanceRe reported \$350 million in Q2 repurchases and another \$82.9 million through July 20. Its portfolio and capital structure differ from Arch's, so its actions do not establish the right pace for Arch. [ACGL-C1, lines 128-144; ACGL-C2, lines 197-209 and 325-351]

Arch's same-quarter results can support more than one interpretation. Lower written premium might reflect disciplined nonrenewals and retrocession, competitive pricing pressure, customer

choices, or a smaller opportunity set. Favorable underwriting results in one segment may represent attractive current business, but do not establish the risk-adjusted return on additional capacity. Catastrophe losses and reserve development make quarter-to-quarter ratios especially difficult to read as a durable trend.

Questions for your recommendation

1. What repurchase policy should Arch follow after July 28: continue, preserve more capacity, or apply conditional pacing?
2. Which facts support your interpretation of the market and segment opportunities? Which are company explanations, accounting measures or competitor views?
3. What capital, catastrophe, reinsurance/retrocession and line-level evidence should be required before purchases accelerate, slow or pause?
4. How would your policy handle the fact that the authorization balance is known only as of June 30, while the July 28 balance is not disclosed in the written information set?
5. What is the strongest argument against your preferred policy, and what evidence would change your recommendation?

Sources

- **[ACGL-1]** Arch Capital Group Ltd., 2025 Form 10-K. **SEC filing**. Targeted locators: Item 1, “Our Company”/“Share Repurchase Program,” p. 3; “Strategy,” p. 5; Item 7, “Capital Management,” p. 93.
- **[ACGL-2]** Arch Capital Group Ltd., Q1 2026 Form 10-Q, filed May 5, 2026. **SEC filing**. Note 3, share repurchases, p. 12 / SEC lines 638-643; MD&A, cycle-management and reinsurance-market discussion, SEC lines 2016-2025.
- **[ACGL-3]** Arch Capital Group Ltd., “Reports 2026 Second Quarter Results,” July 28, 2026. **SEC Exhibit 99.1**. Relevant locators: lines 9-33, 34-64, 66-151, 153-180.
- **[ACGL-4]** Arch Capital Group Ltd., Q2 2026 Financial Supplement, Exhibit 99.2, July 28, 2026. **SEC exhibit**. Relevant locators: segment tables pp. 9-17; catastrophe table pp. 22-23; share-repurchase activity p. 33 / SEC lines 1664-1678.
- **[ACGL-5]** Arch Capital Group Ltd., “Q2 2026 Investor Presentation,” July 28, 2026. **Official IR PDF**. Full 13-page deck read; p. 5, capital-allocation priorities. The Arch Reinsurance Ltd. rating note on p. 3 is dated July 29 and excluded from this case.
- **[ACGL-C1]** Chubb Limited, Q2 2026 results release, July 21, 2026. **SEC Exhibit 99.1**, market commentary lines 128-144.
- **[ACGL-C2]** RenaissanceRe Holdings Ltd., Q2 2026 results release, July 22, 2026. **Official release**, results/repurchases lines 197-209 and 325-351.
- **[ACGL-M1]** Guy Carpenter, June 29, 2026 press release on July 1 renewals. **Release**, lines 77-90; **July 2026 Renewal Report**, pp. 2-3, 7-9.

Information boundary: This case uses written sources available by July 28, 2026, 11:59 p.m. ET. The July 29 earnings call, any transcript, the August 4 Form 10-Q and later disclosures are excluded. The July 28 investor presentation was read; content dated July 29 on slide 3 is excluded. No later outcomes are included.