Q1 2013 Earnings Call

Company Participants

- Anne Waleski, VP, CFO, Treasurer
- Mike Crowley, Co-President
- Richie Whitt, Co-President
- Tom Gayner, President, Chief Investment Officer

Other Participants

- Adam Culver, Analyst
- Doug Mewhirter, Analyst
- Jay Cowhen, Analyst
- John Fox, Analyst
- Mark Dwelle, Analyst
- Ray Iradella, Analyst

Presentation

Operator

Greetings. Welcome to the Markel Corporation First Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presence.

(Operator Instructions).

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Tom Gayner, President and Chief Investment Officer. Thank you, sir. You may now begin.

Tom Gayner {BIO 1896932 <GO>}

Good morning, everyone. This is Tom Gayner, and along with my colleagues Anne Waleski, Mike Crowley, and Richie Whitt, we welcome you to the Markel Corporation First Quarter 2013 Conference Call. Before we get started, we are required to remind you of the Safe Harbor Provision, so here it goes.

During our call today, we may make forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions, "Risk Factors", and "Safe

Harbor", and "Cautionary Statement" on our most recent Annual Report; on Form 10-K and Quarterly Report on Form 10-Q.

We may also discuss certain non-GAAP financial measures on the call today. You may find conciliation to GAAP on our website at www.markelcorp.com, and our Quarterly Report on Form 10-Q. Thanks again for joining us this morning.

We are off to a good start in 2013, but that's really only a small part of the story. It's a big, big day around here, as we have, now, closed the Alterra transaction and today marks the first day of a new era at Markel. We welcome our new shareholders and associates. We look forward to discussing our recent results, our plans for the future, and answering your thoughtful questions about your company.

With that, let's get started with Anne's review of the First Quarter results.

Anne Waleski {BIO 16735457 <GO>}

Thank you, Tom. Good morning everyone.

As I will discuss in more detail in just a minute, we are off to I great start in 2013. We've had strong underwriting results, robust investment performance, and increased revenue and profitability from our non-insurance operations, which we refer to as Markel Ventures. Premium buying has benefited from acquisitions and organic growth.

Our favorable underwriting performance for the quarter was driven by a lower expense ratio, more favorable development of prior year loss reserves, and lower attritional losses. Our total operating revenues grew 12% to $820 million in 2013, from $733,000,000 in 2012. The increase is due to a 6% increase in revenues from our insurance operations, and a 67% increase in revenues from Markel Ventures.

Moving into our underwriting results, First Quarter 2013 gross written premiums were $743 million, which is an increase of 15% compared to 2012. The increase in 2013 is primarily due to higher gross premium volumes in the Specialty Admitted segment. As previously announced, effective January 1st, 2013, we acquired Essentia Insurance Company, which underwrites insurance, exclusively, for Hagerty Insurance Agency. Hagerty is the leading insurance provider for classic cars, vintage boats, motorcycles, and automotive collectibles.

Gross premium volume attributable to the new Hagerty business and Thomco, which was acquired in January 2012, contributed $63 million to the Specialty Admitted segment for the First Quarter of 2013. Net written premiums were, approximately, $663 million, up 14% to the prior year. Net retention was down slightly in 2013, at 89%, compared to 90% in 2012. Earned premiums increased 7%. This increase was driven by a 19% increase in earned premium from the Specialty Admitted segment.

Our combined ratio was 91% for the First Quarter of 2013, compared to 100% in 2012. The 2012 combined ratio included, $20 million for four points of expense related to our prospective adoption of the new DAC accounting standards.

Excluding the impact of this adoption of the DAC standard in the First Quarter of 2012, the decrease in the combined ratio in the First Quarter of 2013 is primarily driven by more favorable development of prior-year loss reserves in the excess and surplus line segment, and lower attritional losses in each of our three operating segments, compared to the same period of 2012. Favorable redundancies on prior year's loss reserves increased to $78 million, or 14 point of favorable development, compared to $64 million, or 12 points of favorable development in 2012.

Now, we'll talk a little bit about Markel Ventures. In the First Quarter of 2013, revenue from Markel Ventures were $162 million, as compared to $97 million in 2012. Net income to shareholders from Markel Ventures was $4 million in 2013, compared to $200,000 in 2012. EBITDA was $19 million in 2013, as compared to $9 million in 2012. Revenues, net income to shareholders, and EBITDA from Markel Ventures increased in the First Quarter of 2013, compared to the same period of 2012, primarily due to more favorable results at AMF Bakery Systems and our acquisition of Havco in 2012.

Now, taking a look at our investment results. Investment income was down 19% in 2013 to just under $65 million. Net investment income for 2013 included a favorable change in the fair value of our credit of $3 million,as compared to $11 million in 2012.

Net realized investment gains for First Quarter of 2013 were $18 million, compared to $12 million in the First Quarter of 2012. There were no write-downs for other than temporary impairments in either period. Unrealized gains increased $250 million, before taxes in 2013, driven by increases in equity securities. Tom will make further comments and give further details about investments in his comments.

Looking at our total results for the First Quarter, the effective tax rate was 24% in 2013, compared to an effective tax rate of 23% in 2012. The increase is primarily due to anticipating a smaller tax benefit, related to tax-exempt investment income, as a result of projecting higher pre-tax income for 2013 than in 2012. We reported net income to shareholders of $89 million, as compared to $57 million in 2012. Book value per share increased 7% to $431 per share at March 31st, 2013, from $404 per share at year-end.

Finally, I will make a couple of comments about cash flow and the balance sheet. Net cash provided by operating activities in the First Quarter was $56 million. That compares to net cash used by operating activities of $64 million for the First Quarter of 2012. The increase in net cash provided by operating activities during the First Quarter of 2013 was driven by higher cash flows from underwriting activities, as a result of increased premium volume, primarily in the Specialty Admitted segment; and decreased claim settlement activity, as compared to the First Quarter of 2012.

Additionally, the three months ended March 31st, 2013, include higher cash flows from Markel Ventures, partially offset by higher profit sharing payments, compared to the same period of 2012. Invested assets at the Holding Company were $1.6 billion at March 31st, 2013, compared to $1.4 billion at December 31st, 2012. The increase in invested assets is, primarily, the result of our March 2013 debt issuance of $500 million, partially offset by the repayment of $250 million of unsecured senior notes in February 2013.

Finally, as Tom noted, everyone here is very excited about today's closing of the Alterra acquisition and the future possibilities that this transaction provides for both employees and shareholders of the combined company.

With that I will turn it over to Mike for further discuss operation.

Mike Crowley {BIO 6836605 <GO>}

Thanks, Anne. Good morning. The results for the First Quarter of 2013 for North American operations were very good in a number of areas. The gross written premium for North American increased 20.6% year-over-year, and the expense ratio improved in both segments.

The E&S segment had an excellent First Quarter. Gross written premium increased 10% year-over-year; and, once again, all five regions in the E&S segment saw an increase in the gross written premiums. This increase was driven by the growth in a number of product lines, including excess and umbrella, medical, casualty, and environmental. The E&S combined ration for the quarter was 77.5%;the expense ratio improved year-over-year by 5.7%, driven by the accounting change for DAC in 2012 and a reduction incorporate allocations.

Prior year losses were favorable due to higher takedowns across multiple lines in 2013, compared to 2012. Keep in mind that these takedowns are consistent with Markel's historical practices. E&S segment continues to improve efficiency by reducing the number of agent appointments, limiting access to certain products for prior activity, had been unproductive, and better educating agents about what to submit and what not to submit, based on Markel's appetite and success in our target product lines. This improvement efficiency is supported by the fact that binders increased 29% on almost the same number of quotes issued. All-in-all, a super quarter for the E&S segment.

The Specialty segment gross written premium increased 37.2%, as a result of booking more gross written premium for Thomco, compared to the First Quarter of 2012, and the addition of the Hagerty business. We began booking Hagerty premium on January 1st of 2013.

Excluding Thomco and Hagerty, the Specialty Division premium volume decreased slightly, as a result of our terminating certain accident and health programs, and the transfer of the garage business in the E&S segment. The combined ratio for the specialty segment was 108.5%, which is a 4.9% improvement versus 2012. This decrease was partially due to a decrease in FirstComp loss ratio, which is a result of the pricing increases and a geographical shift to more profitable non-California business. The expense ratio includes the 43.2% from 47.2% in 2012.

This improvement is primarily driven by the accounting change for DAC, which added 4% [ph] to the expense ratio in the First Quarter of 2012. Excluding Hagerty and Thomco, the Specialty Admitted expense ratio is down 4.6 points, in addition to the impact of DAC mentioned above. This is driven by lower headcount, lower profit sharing costs, and lower overhead charges. The expense ratio was negatively impacted by the fact that we front loaded some expenses for Hagerty.

FirstComp and Thomco businesses are still in transition and we continue to build margin of safety and loss reserves in these products lines and on the Hagerty business, consistent with Markel's reserving and pricing philosophy.

We are, currently, conducting a detailed review of all specialty product lines; for those specialty product lines that need improvement, i.e., rates, plans are in place and will be implemented to improve results. It's important to note that we achieved rate increases of, approximately, 4% on North America business, with the largest increase coming in Workers' Compensation and property. These rate increase in the E&S and Specialty segments, along with some economic growth of our customers, is a key factor in our premium growth.

Within our product line Leadership, we made several changes. We withdrew from Railroad third-party and Taxi lines of business earlier this year. These lines have not shown progress on corrective actions and, therefore, we decided to stop writing this business. During the Fourth Quarter call, we mentioned including a number of underwriters from product line group to regional rolls to be closer to our argents and brokers. This has reduced referrals, added to our front line underwriting expertise, and is producing additional premium, as well as adding to the efficiency mentioned earlier in the E&S segment.

All of our product line leaders and managers have been busy with the Alterra transition and our plans have been announced. Richie will speak more to the Alterra deal in his comments. Richie?

Richie Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning, everybody. I will start off with a few about Markel International's First Quarter and, then, give an update on the Alterra integration.

Markel International had a nice start to 2013, gross written premiums increased 7% to $296 million. Areas of growth included our Specialty and Professional Liabilities Division, as well as our Singapore and Netherlands branches. First quarter pricing trends were largely in line with recent quarter's modest price increase. International achieved an overall average price increase of almost 3% in the First Quarter. Despite price increases in certain areas, in many areas of the market, things remain competitive, particularly in the Professional Liability Retail and Decline divisions.

International's combined ratio for the First Quarter of 2013 was a 92%. This compares to 97% in the First Quarter of 2012, and remember that the First Quarter of 2012 included, approximately, 3 points for the adoption of the DAC accounting standards. (Technical difficult). The 2013 results have benefited from a slightly lower current accidents year loss ratio. Very low catastrophe losses in the quarter. And $22 million in the prior year favorable (technical difficulty) development across a variety of programs.

Finally, I would like to recognize the Markel International folks for going live with their multi-year initiative to replace their core underwriting systems. They went live on the new system in April, and while still in the early stages with the system, things are going well. There's still plenty of work to do to fully embed and take advantage of this system, but this is an important milestone and accomplishment for the entire International team.

Moving to Alterra. I'll give an update on our acquisition. Since our initial announcement of the deal on December 19th, this has been a constant area of intense focus for countless Markel and Alterra associates. I want to welcome the Alterra associates to our Markel family. We want to thank you, all Alterra and Markel associates, for their tireless work over the last four months, as we've all prepared for close and made progress on the integration. It really is a testament to the bench strength at Markel and Alterra that we could work as hard as we have on the integration of the past four months and still produce great results in the First Quarter.

The Integration team has done an excellent job getting us ready for the day one close. We've necessarily been focused on day one activities. Just some examples would include large items like defining and communicating new reporting lines, clients communications, website updates, we've been combining certain reinsurance protections and we've been working on our combined branding strategy.

We've also been focused on what you might consider more administrative, but, also, critically important items like email addresses, systems access, bank and trust account access. We arrived at the close date, having made excellent progress in all areas. We're now moving our a attention to longer-term initiatives and making sure we have a smooth transition for our clients and our new associates. Our message, for both clients and our associates, is tail-enhanced [ph] business as usual.

Over the next several quarters, we'll continue to more tightly integrate the two newly created divisions of Global Insurance and Global Reinsurance, as well as the business lines that are going to be merged into our Excess and Surplus and Markel International Divisions. Similar activities are, obviously, taking place across all support areas. As of today's close, I would sum up, our progress is very good, but with lots of heavy lifting to do to achieve our goals for the combined operations of the new Markel. Now, I would like to turn it over to Tom.

Tom Gayner {BIO 1896932 <GO>}

Thank you, Richie. Good morning, again. My goal this morning is to cover three items.

Item one, the First Quarter investment results and our public securities portfolio. Item two, the start of the year for our Markel Ventures operations; and item three, our perspective plans for our newly-expanded investment portfolio we now manage, as a result of the Alterra acquisition. As to item one, the year is off to a fine start. In our equity and fixed income portfolios, we are in total return of 13.1% and a half a percent, respectively.

The total return for the portfolio was 3.5%. I am very happy with those results. While any one quarter is essentially meaningless, the way in which those returns were earned means a great deal. And our equity portfolio, we continue to own a set of high-quality global accessible company. In many cases, the dividend yield comfortably exceed what we can earn on appropriate fixed income alternatives.

We also continue our long-standing process of step-by-step measured and selective additions to the equity portfolio. In our fixed income operations, which continue to maintain a portfolio of the highest credit quality that we can find, and we continue to let the duration roll in. In a repeat statement from previous quarters (inaudible), we believe that interest rates are too low and the risks of longer-term fixed income commitments outweigh the rewards. As such, we continue to build a portfolio that increasingly resembles cash. Stay tuned for our plan on what we will do with the cash.

On March 31, equities represented 65% of our shareholders' equity, up from 62% at year-end. It's worth pointing out to our new and longstanding shareholders that our approach in managing our equity portfolio remains quite tax efficient, with low turnover and stocks that go up over time, we now sit on and unrealized gain of $1.3 billion. We've provided for the taxes in our financial statement, but those taxes remain deferred until such time as we actually sell the securities and realize the gains. It's worth remembering that at a 35% tax rate, the deferred tax associated with this gain would be, roughly, $450 million.

I know that you all love hearing about accounting just as much as I love talking about it, but I think it's worth taking a minute to engage in a little thought experiment on this topic. Imagine if our balance sheet was only comprised of the unrealized gains in the equity investment portfolio. In that case, we would have and access of $1.3 billion on the left-hand side of the balance sheet, and a liability of $450 million for future taxes, and equity capital of $850 million on the right-hand side. The net effect of this dynamic is that we've got the entire $1.3 billion working for us as shareholders on a reported equity capital base of $850 million. This is incredibly tax efficient and helps our reported return on equity over time.

Over the decades, this component of our balance sheet and capital has grown larger and larger. It is a meaningful contributor to total shareholder returns at Markel and not a common feature in the insurance world. I'm glad to report that those balances continue to grow during the First Quarter, by following the same disciplines we've used to build it for decades.

Onto item two. Markel Ventures Operations also performed very well during the First Quarter of 2013. Our Other revenues of $172 million, that you see in the income statement, are largely those of the Ventures Company. Those revenues rose 55%, compared to last year. Other expenses $552 million [ph] up 52% from a year ago.

Back to accounting again, those expenses include noncash amortization and purchase accounting entries that are separate and distinct from the ongoing operational performance of the Markel Ventures Company. As such, we use EBITDA and our internal review and management of those operations. As Anne noted earlier, EBITDA more than doubled to $19.4 million in the First Quarter, compared to $9.4 million in the previous year. A reconciliation of EBITDA to GAAP net income is available on our website (inaudible).

Item three. The biggest, single challenge, and opportunity, on the access side of the balance sheet at this time is the future investment and capital allocation decisions that we will make with our growing cash balances, which are now augmented by the addition of the investment balances from Alterra. We'll invest the money in the same way we've invested the access of Markel over the year. Specifically, on the fixed income side, we will continue to focus on high credit quality and maintaining the duration that is shorter than our natural position of matching the duration of the insurance liabilities to our bond portfolio. We will continue to do this until interest rates are higher than they are today and that we feel we are being paid appropriately to accept the risk of longer-term commitment. While this penalizes current investment income, it doesn't penalize very much at today's low rates of interest across the curve.

On the equity side, we have a vibrant and profitable insurance business. We have a strong balance sheet and plenty of cash. Our constraint is finding appropriate ideas and protecting and preserving the balance sheet. For now, we will continue to methodically invest in many of the same securities we already own [ph]. Prices are still reasonable, in many cases, and we will pick up investment yield from the dividends as we go.

Given our new circumstances, we will have a lot of dry powder and we will look to deploy that more aggressively as opportunities present themselves. I cannot predict when the general environment will produce an opportunity, but I'm confident that it will. As many people say about the weather, wherever they live, "If you don't like it, wait five minutes and it'll change." We're in a unique and, what I think, is a fantastic position in that we have capital to deploy in what can be a rapidly-changing environment. Rest assured that the same disciplines and thought processes that were used for decades to make those decisions remain in place.

I'm optimistic about our opportunities to make positive capital allocation decisions in the coming years, as well as the ultimate results from our shareholders. As we begin this new era at Markel, I took a moment this morning to look at our first Annual Report, and to remind myself of what this Team has accomplished for you in the years since we went public in 1986. Immediately following the public offering, we had shareholders' equity of about $16 million, and a total investment portfolio of, approximately, $30 million [ph]. We've scaled back the process of reinvesting our earnings and making sound capital allocation decisions for a long time, and I think it's fair to say that the results should speak for themselves.

To add one more note on the sense of perspective, the comprehensive income in the First Quarter of 2013 of $257 million exceeded our entire cumulative earnings during our first decade as a public company. I know that analysts' reports on Markel rarely address comprehensive income in their estimates and their discussions about us, but the comprehensive income is what we, as shareholders, ultimately receive as owners of this business. As such, it's what we focus on as the stewards of this Company.

It's undeniable that we face the challenge as we begin to integrate the Alterra operations into Markel and reinvest our new, larger base of capital. The good news is that we have done this sort of thing before, and we are excited and optimistic about doing it again, now and into the future.

With that, we would like to go ahead and open up the floor for your questions. So, Jeff, if you would be so kind as to open up the floor.

Operator

Thank you.

Questions And Answers

Operator

(Operator Instructions). Our first question comes from the line of John Fox with Fenimore Asset Management. Please proceed with your questions.

Q - John Fox {BIO 18976738 <GO>}

Okay. Thank you. Good morning, everyone.

A - Mike Crowley {BIO 6836605 <GO>}

Morning, John.

Q - John Fox {BIO 18976738 <GO>}

I have a few questions. First for Tom Gayner. You mentioned the Alterra portfolio. Do you have a sense of how long it will take to make that look more like a Markel portfolio?

A - Tom Gayner {BIO 1896932 <GO>}

Yes. A lot of that, really, is going to be opportunistically-driven, John, so in the pricing environments that we're operating in today, it's going to be pretty methodical and just step-by-step. It market opportunities presents themselves, we will act expeditiously, but I don't have a (inaudible) prediction for you.

Q - John Fox {BIO 18976738 <GO>}

Okay. And, Tom, where will you take the equities, that's the stock portfolio, as a percentage of Markel as shareholder equity?

Q - Jay Cowhen

Well, we, for instance, at the end of the quarter we were at 65%.

Q - John Fox {BIO 18976738 <GO>}

Right.

A - Tom Gayner {BIO 1896932 <GO>}

That, obviously, goes down as you add in a bunch of cash from the Alterra Capital. My goal would be to get that back to that sort of ratio and, in fact, go beyond that as we see good opportunities to do so; but, we will let it about down before we start to rebuild it.

Q - John Fox {BIO 18976738 <GO>}

Okay. And, then, I think these other two questions are for Mike.

A - Tom Gayner {BIO 1896932 <GO>}

By the way, before you start asking Mike questions, if you have any really good ideas call me later.

Q - John Fox {BIO 18976738 <GO>}

Okay. I will. Mike, a number of insurance companies have kind of talked about organic price increases in the First Quarter. I wanted a persecutive on your business, do you see kind of a natural increase in prices, and what that number might be?

A - Mike Crowley {BIO 6836605 <GO>}

Well, as we said, we're seeing something in the range of 4% in North America now, with a little more in Workers' Comp and Property, and right now I see that just continuing. I don't see it going up a lot from here. I don't see it going down, but right now we're just kind of planning on the same kinds of trends.

Q - John Fox {BIO 18976738 <GO>}

Okay. Richie, you mentioned three international, so kind of low single-digits?

A - Richie Whitt {BIO 7084125 <GO>}

Yes. I think it's amazing we talk about the different markets, but there tends to be a lot of similarity in terms of how they move, so 3% over there, 4% here; pretty consistent.

Q - John Fox {BIO 18976738 <GO>}

Right. Okay. Then, these are terrific results for the First Quarter, but especially Admitted Line is not terrific, and I'm just wondering your thoughts on that?Are you looking at taking different actions or -- it seems to be and outlier of the three segments, at this point.

A - Mike Crowley {BIO 6836605 <GO>}

A couple of things are going on there, John. One, in the quarter, about 66% of the revenue was Specialty, is coming from three new businesses, FirstComp, Thomco, and the Hagerty business. And all of these businesses are being subjected to our conservative, reserving practices for a period of time, and, in addition, the expense ratio for Thomco and for Hagerty, in the First Quarter, is high because of things that are going on there.

We front loaded a lot of expenses for Hagerty. We wrote $30-something [ph] million of business, but we only earned about $4 million; and we've got some booking of contingencies and other things that drive that expense ratio way up in the First Quarter, and that will trends down during the course of the year. The expense ratio for the Specialty, excluding that, is 38.6%.

So everybody else is moving in the right direction and FirstComp has made great strides in their expense ratio and in their launch ratio. They followed the plan that we set in place for them when we acquired them in late 2010. So, there are a couple of lines of business in the Specialty segment that are not performing the way we would like them to do and we're taking action on those.

Q - John Fox {BIO 18976738 <GO>}

Okay. Thank you.

Operator

Thank you. The next question comes from the line of Jay Cowen with Bank of America Merrill Lynch. Please proceed with your question.

Q - Jay Cowhen

Yes. Thank you. Are you going to be putting out any, I guess, pro forma information, as far as working the Alterra numbers into new presentation? It's hard to update the model when we don't know where all the numbers are going, I guess.

A - Anne Waleski {BIO 16735457 <GO>}

Yes, Jay. We'll be filing an 8-K, but it will probably be ten weeks from now.

Q - Jay Cowhen

Okay. That's fine. Thank you, very much.

A - Anne Waleski {BIO 16735457 <GO>}

Thanks.

Operator

Thank you. The next question comes from the line of Mark Dwelle with RBC Capital Markets. Please proceed with your question.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yes. Good morning. A couple of numbers' questions to start out with. You had provided the split of the portion of the Markel Ventures revenues, were in the Other revenues. Could you give us the portion of the expenses that are in the Other expenses line, that kinds marries up with that?

A - Tom Gayner {BIO 1896932 <GO>}

Yes. While Anne looks for those numbers, I will give you the total Other revenues off the sheet. She has the exact Markel figures.

A - Anne Waleski {BIO 16735457 <GO>}

Right. So, Markel Ventures related revenues were $162 million, the associated expenses about $145 million.

Q - Mark Dwelle {BIO 4211726 <GO>}

$145 million. Thank you. Same question.

A - Tom Gayner {BIO 1896932 <GO>}

By the way, Mark, that includes the non-tax expenses.

Q - Mark Dwelle {BIO 4211726 <GO>}

Right. Of course.

A - Tom Gayner {BIO 1896932 <GO>}

EBITDA on that.

Q - Mark Dwelle {BIO 4211726 <GO>}

Right. The same question. Did you have any particular amount of catastrophe losses in the quarter? I didn't see any references, and I couldn't think of any. I thought if there were any, you could highlight them.

A - Anne Waleski {BIO 16735457 <GO>}

No. Nothing. Nothing.

A - Mike Crowley {BIO 6836605 <GO>}

Nothing of significance, Mark, and also, obviously, and it's in the queue,we had some takedowns, actually, on Sandy in the quarter. So, in a sense we had a negative.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yes. I say those, okay. Alright. And, then, you had mentioned -- somebody had mentioned in their opening remarks, I think it was you, Richie, the integration of the kind of combined reinsurance platform, to cover the combined entities. Is there anything you can share with respect to that, in terms of how that's going to affect the ratio of gross-to-net premiums? Usually, it's my job to figure out how many dollars of premiums you're going to add in, but I would like to at least take a stab at the ratio, if we could?

A - Mike Crowley {BIO 6836605 <GO>}

Sure. Mark, what I think I would tell you this year is, we are starting to look to programs and how we can combine them. I think the first step, quite honestly, is actually to bring them together, and we're not so much focused on moving retentions as we are just kind of getting to fewer programs right now.

So, I would tell you that for 2013, if you sort of took the mix of our retention and Alterra's retention, that's probably where we will end up, whatever that is in the middle. And I don't have that number to hand.

And after we kind of get through this initial phase during 2013, next year we'll start looking critically at those retention levels, and my assumption would be we would start bringing those up some; but, this year is do no harm right now. We just want to start putting things together.

Q - Mark Dwelle {BIO 4211726 <GO>}

That's very helpful. Thanks. I'll let everybody else have a go. Thanks.

Operator

Thank you. The next question comes from the line of Adam Culver with William Blair. Please proceed with your question.

Q - Adam Culver

Thanks. Good morning.

A - Tom Gayner {BIO 1896932 <GO>}

Good morning, Adam.

Q - Adam Culver

How is the general E&S environment? Are you seeing much flow over from the standard markets?

A - Tom Gayner {BIO 1896932 <GO>}

I think we're seeing some, Adam. It's hard to measure.

A - Mike Crowley {BIO 6836605 <GO>}

You know, I think that we like to think that a lot of our growth is coming from the fact that we have done a much better job articulating to our producers exactly what we want. It's also a result of the last couple of years of upgrading our coverages and our forms.

We're being a lot more active with our brokers, in terms of being out knocking on doors, asking for the business, and so I think that's driving a lot of it as well. It's hard to put a number on what we're seeing rollover from the standard market. I think we're seeing some of that.

Q - Adam Culver

Okay. And, then, as far as for the overall Company, your accident to your loss ratio excluding, CAT was down by, roughly, 200 basis points. Howmuch of that is due to white weather?

A - Anne Waleski {BIO 16735457 <GO>}

Due to? Sorry. Can you repeat that?

Q - Adam Culver

How much of that is due to just weather being pretty light during the winter?

A - Richie Whitt {BIO 7084125 <GO>}

It's going to be a little bit of that, there's no question. First quarter was a very light quarter for weather. But, also, we're seeing the impact of modest price increases that we've gotten over the last couple of years. That's starting to help the loss ratio as well. It's probably a mix of the two.

Q - Adam Culver

Okay. And, then, as far as what you are seeing on the loss [ph] trends in Workers' Comp? And I guess if you can distinguish California versus non-California, would be helpful.

A - Mike Crowley {BIO 6836605 <GO>}

Well the (inaudible) is obviously included in FirstComp, but, keep in mind, as we have said on other calls, FirstComp has been restructuring their business and moving a lot more towards non-California business and more attractive states. I don't have the numbers right in front of me, but their California comp business is down substantially from a couple ever years ago. The trends, not only their loss trends, but their expense trends are moving absolutely in the right direction. They're managing their business just as we asked them to.

A - Tom Gayner {BIO 1896932 <GO>}

The only thing I would add to that, as you can expect, the trends in work comp [ph] sort of mirror what's going on in medical, so it's higher than the overall economy, and California, has always been, is higher than the rest of the country. But I don't think we're seeing anything crazy there.

A - Anne Waleski {BIO 16735457 <GO>}

No.

A - Tom Gayner {BIO 1896932 <GO>}

It's sort of a continuation of what's been the theme.

Q - Adam Culver

Okay. And, then, finally, with the E&S, you had a pretty good size release, and I know releases are going to jump around, but was there any one or two items driving that release?

A - Anne Waleski {BIO 16735457 <GO>}

The release was predominantly on casualty lines, but was spread across several years.

Q - Adam Culver

Okay. Thank you, very much.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Doug Mewhirter with SunTrust. Please proceed with your question.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Hi. Good morning. First, Richie, just a little numbers' question. I noticed the expense ratio in the London market division had quite an improvement below 40%, first time in a while. Were there any particular credits or just more (inaudible) better scale?

A - Richie Whitt {BIO 7084125 <GO>}

Well, obviously, we have the DAC adjustment in the First Quarter of last year, and so it's probably not as dramatic as maybe it appears on the surface. I think you're right, though, the underlying trend is down some and I think it's primarily more volume. We are getting more volume and we're able to spread our fixed costs a little further, so good news.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Yes. Definitely. And, Tom, you had a pretty comprehensive overview of how you're going to bring Alterra's portfolio around.

Is there going to be any particular, I guess, for lack ever a better term, liquidation events in advance of that? Where you definitely overweight Alterra's cash, just because you would rather get something more stable to bring over to Markel? Or would it be more, you would take their portfolio and move, I guess, as you find opportunities to up your investments on the Markel side, you will liquidate the Alterra's investments on a case-by-case basis.?

A - Tom Gayner {BIO 1896932 <GO>}

Yes. The good news is that the vast majority of the Alterra investment portfolio is just fine. It's high-quality, fixed income investments, and those will obviously remain in place, and that's a pretty smooth integration process. They did pursue things in the realm of alternative investments. They have been very cooperative and helpful in terms of liquidating some of that ahead of the closing. That process will continue and it will take some time. There's a half life associated with that and, frankly, this time next year, there will still be some of that, but that is largely an independent process compared to where we're deploying capital and cash.

I'm hard pressed to imagine a scenario where we want to invest more than we can right now, so we can go about whatever changes we're making in Alterra in a very methodical and orderly way. We've got plenty of cash to fund investment ideas as they happen and they're two distinct things.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Okay. Thanks a lot. That's all my questions.

Operator

Thank you. Our next question comes from the line of Ray Iradella with Macquarie. Please proceed with your question.

Q - Ray Iradella

Yes. Thanks. Good morning, everyone. Just a quick question, Tom, you spent a lot of time on the Alterra portfolio asset side, but, maybe, can you give us an update on how you're thinking about reserves for Alterra? And now that, I guess, you have a little bit more time to take a look at them and, maybe, if that's any need to bring them up to the Markel standards, given sort of the way you guys approach reserving?

A - Tom Gayner {BIO 1896932 <GO>}

Yes. What I would say there is, when we did our due diligence at Alterra, we felt comfortable with the reserve levels, that there was a redundancy, probably not at the same level as our reserving standards, but solid reserving. That was very reassuring when got through the due diligence.

Obviously,we've been spending a lot of time with the Alterra folks over the last four months, and we haven't seen anything that would change our opinion of what we saw in due diligence. Similar to other acquisitions that we've done in the past, it will be a, Tom talks about a methodical process,it will be a methodical process to bring them into line with Markel's reserving standards as we go forward. And, probably the best thing would tell you in terms of purchase adjustments, if you will, is to look at the proformas that were part of our debt issuance back in March. That would give you an idea of what we're talking about, or thinking about doing, and I think that's pretty much in line with where our thinking is today.

Q - Ray Iradella

Okay. Thanks again. I'll take a look at those documents. Thanks.

A - Tom Gayner {BIO 1896932 <GO>}

Thank you.

Operator

Mr. Gayner, it appears that there are no further questions at this time. I would like to turn the floor back over to you for any concluding remarks.

A - Tom Gayner {BIO 1896932 <GO>}

All right. Thank you, very much. Thank you for joining us. We look forward to seeing you all soon. Take care.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.