Q2 2020 Earnings Call

Company Participants

- Jeremy A. Noble, Senior Vice President and Chief Financial Officer
- Richard R. Whitt, Co-Chief Executive Officer
- Thomas S. Gayner, Co-Chief Executive Officer

Other Participants

- Jeff Schmitt, Analyst
- John Fox, Analyst
- Mark Dwelle, Analyst
- Mark Hughes, Analyst
- Phil Stefano, Analyst

Presentation

Operator

Good morning, and welcome to the Markel Corporation Second Quarter 2020 Conference Call. All participants will be in listen-only mode. (Operator Instructions) During the call we will make forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statement is included under the Captions Risk Factor and Safe Harbor and Cautionary Statements in our most recent Annual Report report on Form 10-K and Quarterly Report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measures and reconciliation to GAAP for these measures in our most recent Form 10-Q, which can be found on our website at www.markel.com in our Investor Relations section. Please note this event is being recorded. I would now like to turn the conference over to Tom Gayner, Co-Chief Executive Officer. Please go ahead.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you so much. Good morning and welcome to the Markel Corporation second quarter conference call. This is Tom Gayner. And I'm joined today as usual by my Co-CEO Richie Whitt, as well as our CFO, Jeremy Noble. That may be the last time we get to use the word usual in this call. There doesn't seem to be much that would fall into the camp of usual these days. In fact I commented for the last several months that there is an unprecedented use of the word unprecedented. So far in 2020, unprecedented strikes me is the right word to use. I look forward to the date it becomes an overused cliche, but I don't think we're there yet.

Despite the unprecedented conditions that we and everyone else face, we've got good news to report to you this morning. Across Markel, in every business and for every customer, our people exhibited unusual and spectacular adaptability and dedication to serve our customers and each other. Our second quarter results with meaningful growth and profitability in each of the three engines of insurance, investments and ventures reflect their efforts. All of the associates of Markel worked unbelievably hard and with great dedication and creativity to find a way forward. Speaking for Richie and Jeremy, I want to extend our thanks to our dedicated associates and the way in which the people of Markel have adapted and persisted to serve our customers amidst the unprecedented conditions triggered by the coronavirus.

Now while much of today's call will focus on financial measurements and the effects of COVID-19, I want to take a moment to also address another virus we're facing in the society, namely the virus of racism. Let me be clear. We explicitly reject racism and discrimination. We are fully committed to the dignity and worth of each and every individual. During the last few months, Richie and I had the opportunity to listen to many of our associates and hear their voices and stories in new ways. We are listening and learning. I think the difficult conversations are having a very positive effect. We're confronting issues and problems that we haven't faced before in such a head-on way. The honesty and openness is refreshing, and I think it gives us all a chance to learn in a new way and to make real progress.

We mean the words of the Markel style. Those words include fairness in all our dealings and providing an atmosphere which people can reach their personal potential. We cite those core beliefs because they are the crucial components behind another statement in the style, namely, the quest to find a better way to do things, count on our consistent commitment to these ideas.

At this point, let me return to the financial reports of the second quarter. Jeremy will provide you with an update on the numbers and then Richie will update you on our insurance and insurance and securities operations. I will then follow with comments on our investments and ventures operations. After that, we look forward to answering your questions. Jeremy?

Jeremy A. Noble {BIO 20687803 <GO>}

Thank you, Tom, and good morning, everyone. Our underwriting investing and Markel Ventures results for the first half of 2020 were meaningfully impacted by the effects of the COVID-19 pandemic. But encouragingly we saw positive contributions from each of our three engines during the second quarter. While COVID-19 has and likely will continue to influence both the asset and liability sides of our balance sheet, our financial condition was strong at the end of the second quarter and we are well positioned to take advantage of opportunities that are being presented in the specialty insurance marketplace.

Looking at our underwriting results, gross written premiums were $3.7 billion for the first half of 2020 compared to $3.3 billion in 2019, an increase of 12%. This increase was due almost entirely to our Insurance segment, which reported gross written premiums of $3 billion, an increase of 16% compared to 2019. This growth related primarily to increase writings within our professional liability, general liability, marine and energy and personal lines product lines.

Gross written premium within our Reinsurance segment was consistent in 2019 at roughly $740 million. Year-to-date retention of gross written premiums held constant at 84% in both 2020 and 2019. Earned premiums increased 12% to $2.7 billion in 2020, primarily due to higher written premium volume in our Insurance segment.

Our consolidated combined ratio for the first six months of 2020 was 103% compared to a 95% in 2019. For the second quarter of 2020, we reported an 88% combined ratio compared to a 95% a year ago. As we discussed a quarter ago, we recognized $325 million of pretax net losses and loss adjustment expenses during the first quarter for those policies and contracts with COVID-19 was identified as approximate cause of loss. There were no changes in our loss estimates during the second quarter. These COVID-19 losses increased our consolidated combined ratio for the first six months of 2020 by 12 points.

Our initial estimates of losses directly attributable to COVID-19 at the end of March reflected limited claims reporting. However, after considering the additional data gathered through increased claims reporting activity in the second quarter and while continuing to monitor actual levels of disruption caused by the pandemic, there were no significant changes in our assumptions during the second quarter. As a reminder, our losses from COVID-19 are primarily attributed to the business written within our international insurance operations and are primarily associated with coverages for event cancellation and business interruption losses and policies where no specific pandemic exclusions exist.

Due to the inherent uncertainty associated with our assumptions surrounding COVID-19, which among other things, included assumptions related to coverages, liability, reinsurance protection, duration and loss mitigation factors, as well as the fact that the economic impacts of the pandemic continue to evolve, our estimates may be subject to a wide range of variability.

As the overall effects of the pandemic continue to evolve, we expect losses indirectly related to COVID-19 pandemic and associate with a broader range of coverages are likely to emerge within our professional liability, trade credit and workers compensation product lines among others, including our reinsurance product lines. To date we have not seen significant evidence of incurred losses increasing for these secondary exposures and no explicit provision that was made for indirect COVID-19 losses in the second quarter. It's worth noting that any increase in exposure associated with indirect COVID-19 losses will at least be partially offset by the benefits of an improving pricing environment.

With regards to prior year loss reserve development consistent with our reserving philosophy, prior-year loss reserves developed favorably by $268 million in the first half of 2020 compared to a favorable prior year development of $189 million in 2019.

Turning to our investment results. As I've mentioned in prior calls given our long-term focus variability in the timing of investment gains and losses is to be expected, we continue to see volatility in the equity markets in the second quarter related to the economic uncertainty associated with the COVID-19 pandemic. Following the significant declines in the fair value of our equity portfolio during the first quarter, we saw meaningful recoveries in the second quarter. Net investment losses for the first half of 2020 were $770 million compared to net investment gains of $1 billion last year, a year-over-year decline of $1.8 billion.

With regards to net investment income, we reported $184 million in the first half of 2020 compared to $226 million in the first half of 2019. The decline is largely due to lower short-term interest rates and lower holdings on fixed maturity securities in 2020. Net unrealized investment gains increased $237 million net of taxes during 2020 reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines in interest rates during the first half of the year.

Now I'll cover the results of the Markel Ventures segment. Revenues from Markel Ventures increased to $1.2 billion for the first half of 2020 compared to $1.1 billion last year. Higher revenues from our services businesses were partially offset by lower revenues within our products businesses. Revenues within our services businesses reflected contributions of revenues from our acquisition of Lansing Building Products, which we completed in late April, and acquisition of VSC Fire & Security, which closed during the fourth quarter of 2019. Within our products businesses, the economic and social disruption caused by COVID-19, resulted in decreased demand in many of our businesses during the second quarter. EBITDA from Markel Ventures was $173 million for the first half of 2020 compared to $160 million last year, reflecting the contributions of Lansing and VSC, partially offset by the impact of lower operating revenues in certain of our businesses.

Looking at our consolidated results for the year, our effective tax rate was a 21% for the first half of 2020 compared to 22% in 2019. We reported a net loss of common shareholders of $484 million for the first half of 2020 compared to net income to common shareholders of $1.1 billion a year ago. Driven by the net loss comprehensive loss to shareholders for the first half of 2020 was $260 million compared to comprehensive income of $1.4 billion in 2019.

Finally, I'll make a few comments on cash flows capital on our balance sheet. Net cash provided by operating activities was $489 million for the first half of 2020 compared to $249 million for 2019. Operating cash flows for 2020 reflected the effects of lower claims settlement activity in both our Insurance and Reinsurance segments and higher premium collections as we've seen strong growth in our Insurance segment over the past several quarters. Invested assets at the holding company were $3.7 billion at June 30 compared to $4 billion at the end of 2019. The decrease in holding company invested assets was due to fund used to acquire Lansing, as well as the decrease in the fair value of our equity portfolio, again related to the impacts COVID-19. All of which was partially offset by the proceeds from our preferred shares offering.

We recognized the importance of liquidity and a strong balance sheet in the times of uncertainty. We intend to ensure Markel is resilient for the long term. In addition to the steps we began taking in early March to maintain our ongoing capital and liquidity needs to manage against volatility, in May 2020, we issued $600 million, a 6% fixed rate reset non-cumulative Series A preferred shares with no par value in a liquidation preference of $1,000 per share for an aggregate net proceeds after expenses of $592 million.

We continue to maintain a fixed maturity portfolio provides the high credit quality investment grade securities with an average rating of AA, our debt to total capital ratio at the end of June was 24%, unchanged from the end of 2019, we have no unsecured senior notes maturing until July of 2022. We believe we are well positioned to meet the ongoing capital liquidity needs, including supporting growth in our insurance operations should we continue to see attractive opportunities in the specialty marketplace.

Total shareholders' equity stood at $11.4 billion as of the end of June compared to $11.1 billion at year-end. Much as I said a quarter ago, the unprecedented events surrounding COVID-19 certainly impacted our year-to-date results. However the actions we've taken over the years to build a diverse and resilient organization will help us navigate through the current uncertainty arising from this pandemic. We are well positioned to continue our efforts to build one of the world's great companies.

With that, I will turn it over to Richie to talk more about our insurance businesses.

Richard R. Whitt {BIO 7084125 <GO>}

Thanks, Jeremy, and good morning, everyone. The first half of 2020 has been more eventful and volatile than most full years. We had a fantastic plan and building momentum as we entered 2020. We were executing well until COVID-19 hit with its unprecedented cat light fury on a global scale impacting every industry, geography and community. Thanks to our dedicated employees. We took that first quarter hit. We quickly adapted and we staged a furious comeback in the second quarter. While we recognized there are still significant uncertainties, the 2020 underwriting year is far from lost. We believe to a person that we can make up significant ground over the next six months. This will require staying focused on what we can control and preparing as best possible for those things not in our control. As Jeremy mentioned related to the COVID -- the direct COVID-19 loss reserves, we did not adjust our original $325 million provision for direct COVID-19 losses in the second quarter. This is largely due to the fact that we have not seen evidence either positive or negative that would require us to change our estimate. Claims are materializing largely as we estimated and are being reserved and settled in line with our original assumptions. Despite the fact that we made no changes to our original estimate, the ongoing nature and the uniqueness of the COVID -19 pandemic means the range of potential outcomes is wider than any catastrophe we have ever seen.

Now I'll discuss our insurance businesses, which include our underwriting operations, our State National program services operations and our insurance linked securities operations. So starting with the Insurance segment, gross written premiums for the quarter were up $185 million or 14% compared to the second quarter of 2019. For the first six months, premiums are up $407 million or 16%. Premium growth for both the quarter and first six months was driven by continued organic new business growth and rate increases in our professional liability and general liability products along with growth this quarter in our marine and energy products. The combined ratio for the Insurance segment was 88% for the second quarter of 2020 compared to 95% last year. The 7-point improvement in the combined ratio was driven by more favorable development on prior accident years loss reserves, a lower expense ratio and a lower current accident year loss ratio. This is a rare insurance trifecta.

The increase in favorable development on prior accident years losses was primarily driven by our property and general liability lines. The combined ratio for the first six months for the Insurance segment was 103%r versus 95% for the same period a year ago. The 8-point increase in the combined ratio was driven primarily by $293 million or 13 points of losses attributed to direct in COVID-19 exposures recorded in the first quarter. The impact from COVID losses was partially offset by an increase in favorable development on prior accident year losses, primarily in our professional liability and property product lines. Higher earned premiums for both the quarter and six months within our Insurance segment had a favorable impact on our expense ratios and an unfavorable impact on the prior year's loss ratio.

Turning to our Reinsurance segment, gross written premiums for both the quarter and the year are flat compared to the same periods in 2019. In this quarter, we saw higher gross written premiums in our professional liability line due to favorable timing differences and favorable premium adjustments offset by lower premiums in our product line -- and our property line. And that is aligned with our strategy to reduce natural catastrophe volatility.

For the year, we saw higher gross premiums and workers compensation, driven by a large relationship, offset by lower premiums in our credit surety line largely due to the timing of renewals. As we mentioned in each quarter, significant volatility in gross premium volume can be expected in our Reinsurance segment due to individually significant deals in the timing of renewals. The combined ratio for the Reinsurance segment was 90% for the second quarter of 2020 compared to 96% last year. The 6-point decrease was primarily driven by both a lower loss ratio and expense ratio. The decrease in the loss ratio was primarily driven by improved results on our property product lines. The decrease in the expense ratio was driven by the benefit of higher earned premiums along with lower profit sharing expense. The combined ratio for the first six months for the Reinsurance segment was 102% versus 97% for the same period a year ago. The 5-point increase was driven by higher current accident year loss ratio due to $32 million or seven points of direct COVID-19 losses recorded in the first quarter. That was partially offset by a lower expense ratio due to lower acquisition costs.

Next, I'll touch on our program services and ILS operations. And as a reminder amounts for our program services and ILS operations are reported within services and other revenue expenses within our operating results. Starting with State National, gross written premium volume for State National program services operation was down on both the quarter and year-to-date basis, driven by the runoff of one large program and the in-force cancellation of another large program, which resulted in a one-time unfavorable premium adjustment. As a reminder, almost all of State National's gross written premium is ceded. Ceding fee revenue was flat for the quarter and the year. We saw improvement in our operating expenses for the quarter as a result of lower profit sharing expenses.

Turning to our ILS operations. Our combined ILS operations have roughly $11.6 billion in net assets under management as of June 30, 2020. Our Markel CATCo operations are continuing the orderly wind down process and have been successful at returning approximately $900 million of investor capital during the first six months of the year. Revenues from our ILS operations increased 9% from the prior year's quarter and are up 4% for the year-to-date period, which is being driven by growth from our Nephila MGA operations. That growth is being partially offset by a reduction in management fees coming from both CATCo and Nephila as a result of layer lower AUM and a reduction in management fees charged on side pockets.

Operating expenses from ILS decreased compared to the prior year, which is primarily due to fewer professional fees, is associated with the internal review at Markel CATCo, partially offset by continued start-up costs associated with our retro ILS Fund manager, Lodgepine. The Nephila expenses were in line with the prior year. I'll finish up with some market commentary.

It's very clear, we've entered a hard market from most Insurance and Reinsurance lines. Some of the factors driving the hard market are concerns around social inflation, historically low interest rates, recent financial market volatility, elevated recent natural catastrophe activity and significant uncertainties caused by the COVID-19 pandemic. And those include the potential for regulatory action or litigation that would expand the insurance industry's loss exposure. Areas most impacted in rare rates are increasing the most and fastest are general liability, professional liability and property lines. However, with the exception of workers comp, all lines are seeing some form of rate increase and or improvement in terms. With those lines that saw strengthening this time last year compounding rate increases currently. Most of our largest lines are now seeing double-digit rate increases and that momentum appears sustainable. These rate increases are more than offsetting lower premium volume in classes hardest hit by the pandemic. As an example, our workers compensation business and really any business focused on small businesses, which have been hard hit by the economic closures and disruptions, those are under pressure. Despite continued unprecedented uncertainty, we entered the second half of the year with optimism.

Thank you for your time today. And now I'd like to turn it over to Tom.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Richie. I'm pleased to report to you that we experienced a meaningful rebound in our investment portfolio during the second quarter. Equities rebounded 18% during the quarter following the 22% loss in the first quarter, and now stand at negative 8.4% for the year-to-date. We continue to earn positive mark-to-market returns on our fixed income portfolio from lower levels of overall interest rates and essentially no credit losses given our long-standing commitment to very high credit quality. The total investment return for the portfolio after all expenses in foreign exchange effects was negative 0.3% for 2020 year-to-date.

Investments always operate within the overall context of the Markel Corporation. Our investments to support the capital base, we need to operate our insurance businesses as well as to produce attractive total returns. We think that the current highest and best capital allocation decision we can make right now is to support the growth of our insurance operations. As witnessed in the second quarter results, insurance prices are going up and we are being paid more per unit of risk. First and foremost writing more and better priced insurance business looks to us like the best use of capital of Markel right now. Given the current opportunity to grow our insurance premiums and the tough combination we experienced during the first quarter of negative returns on our equity portfolio and our underwriting operations as well as the effects on tangible capital from the early days of our acquisitions and ventures and insurance linked securities businesses, we decided to reduce our exposure to publicly traded equities during the market rally of the second quarter. Those sales along with the addition of the $600 million of preferred equity we raised put us in excellent condition to take full advantage of current opportunities to grow our insurance operations and manage levels of uncertainty.

Our individual equity purchase and sale decisions continue to be driven by our longstanding four-step process of looking for businesses with good returns on capital and not too much debt, run by managers for the equal measures of talent and integrity, with reinvestment opportunities and capital discipline and fair prices. While the world is changing at a rapid pace, we believe those principles remain relevant and durable. We believe that the COVID-19 circumstances of 2020, in many cases, reduced the long-term profitability of several companies. We also think that the infusion of liquidity into financial markets by governments around the world altered the ability to invest at prices that compensate us for the risks involved. In many cases, we concluded that we'd rather write insurance at current prices and we acted accordingly.

At June 30, following net sales of approximately $1.2 billion, equity stood at $5.7 billion of market cap, which is 50% of our shareholders' equity of $11.4 billion. Our cash, short-term and longer-term fixed maturities stand at $16.6 billion. We expect to continue to build the cash and fixed income balances to reflect the increased inflows of insurance premiums during this period of growth in insurance. That stance should serve to increase our investment options going forward. While uncertainty and volatility will likely continue to dominate the landscape, well priced insurance risks generate capital and future opportunities for all of Markel, as the expected profitability gets recognized over time. We will revisit our allocation as our view of the risk reward balance changes in insurance, investments or ventures. For right now, look for us to continue to build our cash and fixed income balances until conditions change.

On ventures, I'm extremely proud of the businesses and the way that they have adapted to the unprecedented swift and dramatic changes in the last few months. As Jeremy mentioned earlier, revenues totaled $1.2 billion during the first six months of 2020 compared to $1.1 billion in 2019. EBITDA totaled $173 million compared to $160 million in the previous year. Those results benefited from the inclusion of the VSC Fire & Security last year and one month of results from Lansing Building Products. Even without those additions, I'm deeply encouraged by the results from Markel Ventures. In many cases, the ventures managers faced extreme conditions as a result of COVID-19 shutdowns and unprecedented changes in customer behavior and ordering patterns. Additionally, keeping our workforce safe in manufacturing and field service operations continues to require new procedures and challenges.

I'm incredibly proud of how the people of ventures companies adapted to serve their customers and each other throughout this time. Those challenges all continue, and we are by no means out of the woods, but I think the performance of the businesses in 2020 stands as a testament to the value they bring to their customers. We do not anticipate any acquisitions in the ventures group in the near term. We continue to think that the best for our capital allocation decision is to support the growth and opportunity in our insurance business. We continue to believe that Markel continues to be served well by our diversified three-engine strategy of building export insurance, investment and ventures operations. While COVID-19 created a boiling negative cluster that illuminated the normal benefits of diversification during the first quarter, we're pleased to report revamps and improvement here this quarter. We look forward to future years when we get to use the word usual and abandon the word unprecedented and we appreciate your long-term support and partnership as we get from here to there.

With that, thank you very much. And we'd now like to answer your questions. Operator, if you can so probably just open the line for questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question is from Mark Hughes from SunTrust. Go ahead.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you very much. Good morning. The ILS business, could you give us a sense of your outlook there in terms of assets and just overall activity?

A - Richard R. Whitt {BIO 7084125 <GO>}

Yes, Mark. Richie here. I think the outlook is positive. I think we commented on the call, last quarter that as the COVID-19 situation was unfolding as markets were becoming incredibly volatile, I think the people's decisions on asset allocation, I think they were basically frozen. As things had rebounded as there has been a little more calm in the markets, we have definitely seen an uptick in terms of conversations. People are getting more comfortable with doing their due diligence virtually as opposed to onsite. And so we are very hopeful that we will see additional mandates in terms of AUM, in the second half of the year. So very -- feels very different today than it did back in March, April.

Q - Mark Hughes {BIO 1506147 <GO>}

And then in the Insurance operation, the GL, you described that is a very good growth opportunity. There has been, I think you've expressed concerns about the social inflation, but you seem to be writing a lot of business and you had favorable development in the quarter. Is social inflation as much of an issue now in the GL line?

A - Richard R. Whitt {BIO 7084125 <GO>}

Again, COVID-19 has changed just about every aspect of life. And I think we still have to give some time to see how COVID-19 impacts social inflation. But there is no doubt we were seeing social inflation before COVID started, I think there probably is some aspect of social inflation going on. How that plays out? I don't know. But given the level of rate increase -- given where our portfolio was and given the level of rate increases, we are now seeing, I feel pretty comfortable that is running ahead of whatever we would be seeing in terms of social inflation.

Q - Mark Hughes {BIO 1506147 <GO>}

And then, finally on the workers comp. There has been some discussion of maybe that stabilizing at some point in the near future here. How do you see that?

A - Richard R. Whitt {BIO 7084125 <GO>}

Well, we were seeing some green shoots in May and June, but obviously we've had hotspots developing, we've had some states considering and in some cases going backwards in terms of opening up. So I think we have to see what impact that has on the workers comp line. What we have seen so far in terms of workers comp is the impact of COVID-19 on the top line, i.e. premium and people either canceling policies are premium being returned. That impact is looking much bigger than the impact on the loss line, i.e, paying for COVID-19 claims. So our workers comp has held up reasonably well, but I think it's going to face headwinds until the COVID-19 situation is better under control.

Q - Mark Hughes {BIO 1506147 <GO>}

How about pricing there in comp?

A - Richard R. Whitt {BIO 7084125 <GO>}

Pricing has been down for several quarters because just the results have been so good in workers' comp. I think the pressure on pricing is moderating. It is probably still negative at this point. But I would say that pressure is moderating. But that's being offset to some extent by -- there's just less business out there. And we, in particular, we focus on small business. And obviously small businesses have been hit pretty hard by COVID-19.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you.

Operator

Our next question is from Jeff Schmitt from William Blair. Go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, thanks, good morning. You had mentioned the rate environment, obviously, really good, seen double-digit rate increases in quite a few lines. Could you maybe just provide some more details of numbers behind that, some of the highest growth volumes?

A - Richard R. Whitt {BIO 7084125 <GO>}

Well, some of the areas we're seeing the highest rates are -- and I think this is fairly consistent with what you've probably heard on other calls, general liability, casualty and professional liability are probably leading the pack. And we're seeing sort of solid mid-teens in those two areas. Obviously, property -- that's approaching 20% sorts of rates. We have been -- We're pretty flat in property, which means we've been getting rate increase, but we've actually been reducing exposure and that's been part of our plan is so to reduce that our nat cat volatility. We have always been big drivers of professional and casualty. And that is where we're seeing the biggest rating -- rate increases. And I think that that's why you're seeing us growing at the rate we're growing in the first half of the year.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And then the E&S environment, I mean it seems like Lloyds, in particular could be hit more by the pandemic, and they had already -- they had been pulling back, AIG had been pulling back. Are you seeing even more dislocation there from the pandemic, more opportunities to grow?

A - Richard R. Whitt {BIO 7084125 <GO>}

Yes, I think there is clearly dislocation and -- in those three areas, probably are the areas, the prices are the highest there. So that would suggest that's the areas of highest level of dislocation casualty, professional and property. It is, obviously, COVID-19 is part of it, but keep in mind, things were moving in this direction even before COVID-19 as a result of social inflation in those other items that I talked about. But without a doubt, I mean we are pretty big players over in London, we're obviously a very big player in E&S, and we are seeing significant business increases in both of those areas.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. It -- were there any catastrophe losses in the quarter?

A - Richard R. Whitt {BIO 7084125 <GO>}

Absolutely. We had catastrophe losses, but we would have termed those sort of an attritional nature, not big enough to call out. But we certainly did have some catastrophe losses. We also had -- and I'm just anticipating the question, riot, civil commotion losses, yes, we had some of those as well. At this point, again, we see there is more an attritional sort of nature and not big enough to call out, specifically in our results.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. Thank you.

Operator

Our next question is from John Fox from Fenimore Asset Management. Go ahead.

Q - John Fox {BIO 18976738 <GO>}

Good morning, everyone. Richie, I was just going to ask you why you didn't have any protest or weather losses in the quarter? But I'll move on. What's the threshold on that, the materiality, when you disclosed it?

A - Richard R. Whitt {BIO 7084125 <GO>}

I mean we don't have any specific number, John.

Q - John Fox {BIO 18976738 <GO>}

Okay.

A - Richard R. Whitt {BIO 7084125 <GO>}

But $10 million to $20 million, I mean, we would want to see an even being larger than that before we would break it out in the numbers.

A - Thomas S. Gayner {BIO 1896932 <GO>}

I might interrupt Richie and say we would actually not want to see an event larger than this.

A - Richard R. Whitt {BIO 7084125 <GO>}

Yes. Good point of record. Good point. Yes, $10 million to $20 million, it would need to get to that sort of level before we'd call it out in the results.

Q - John Fox {BIO 18976738 <GO>}

Right. So your accident year numbers include those losses and that's just kind of being in the insurance business. So, you didn't break it out?

A - Richard R. Whitt {BIO 7084125 <GO>}

Exactly. If it hasn't been those things that would have been something else.

Q - John Fox {BIO 18976738 <GO>}

All the surprises for insurance are negative why someone wants that?

A - Richard R. Whitt {BIO 7084125 <GO>}

Yes.

Q - John Fox {BIO 18976738 <GO>}

Tom, I'm remembering that Markel Ventures reports on a one quarter lag. Is that correct?

A - Thomas S. Gayner {BIO 1896932 <GO>}

One month lag. One month.

Q - John Fox {BIO 18976738 <GO>}

One month lag. Okay.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Right.

Q - John Fox {BIO 18976738 <GO>}

So I was not correct. And so the economic environment of April and May, is in the June quarter?

A - Richard R. Whitt {BIO 7084125 <GO>}

That's exactly right. And that's why I'm hearing to convey some of those businesses are day one of stoppages. So that's a myocardial infarction.

Q - John Fox {BIO 18976738 <GO>}

Right.

A - Richard R. Whitt {BIO 7084125 <GO>}

And their ability to adjust and adapt and recapture some business and get things rolling. I just stand at amazement of what some of these managers have done.

Q - John Fox {BIO 18976738 <GO>}

Well, that's great. Thank you.

A - Richard R. Whitt {BIO 7084125 <GO>}

Thanks John

Q - John Fox {BIO 18976738 <GO>}

And -- you can extend my thanks.

A - Richard R. Whitt {BIO 7084125 <GO>}

Okay.

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Q - John Fox {BIO 18976738 <GO>}

I have a bigger picture question, I mean I noticed what you did in the equity portfolio reading the Q last night, and I noticed in an environment of very strong reinsurance pricing that you're not writing a lot more premium. So I just had the observation. It looks like they're de-risking the company. And I'd like you to comment on that. And are you doing that because the great opportunities of insurance, because over the last few years, the results have been quite volatile, and you're trying to reduce that, the overall general environment with the virus. Can you just take all those things and maybe other things you're thinking about and comment on my observation?

A - Richard R. Whitt {BIO 7084125 <GO>}

Sure. Well, to the large extent, I think you've answered your own question. All of those factors play into exactly what's going on. So first off and as we're reporting, you just take the second quarter numbers on a standalone basis. We reported an 88. So given the ability to write insurance premium and get an 88 combined ratio, we want to do as much of that as we possibly can. And cash and fixed income types of investments are the kind -- are just the flavor of capital that rating agencies and regulators like the most when you're backing that sort of opportunity. So if we can right insurance at 88, we are spectacularly inclined to do so to the fullest extent possible. Secondly, in terms of the rate per unit of risk, which Richie used that phrase, and I would use the exact same thing, when we look at the landscape of things we can do, again, the rate per unit of risk, right now, is best in the insurance world. So when we take the microscope and examine everything that we own, whether it's an equity or fixed income securities, we do have to compare it against the opportunity costs and the comparison of the other things we can do. And our acting -- we think logically as we follow that analysis. And then your point about sort of the results of the last years and some volatility, within the insurance book itself there are some lines, which tend to be more volatile and some that tend to be less volatile. And if you're able to get an 88 on something that's less volatile rather than more volatile and more cat exposed. Well, you want to do the stuff that's less volatile. So I think our roles were reversed, John. You would go through the same sort of logic chain and make the same sort of decisions that we're making.

Q - John Fox {BIO 18976738 <GO>}

All right. Great. And on $7 billion of tangible capital, including the preferred, I mean you're writing at $0.50 on the dollar in terms of premium. And then what's the potential for that to increase how much premium leverage do you think you could add?

A - Richard R. Whitt {BIO 7084125 <GO>}

I think we can continue to grow. I mean the market opportunity is there, and I don't think we're restricted in terms of our capital base. So I think, I said in my comments, we think this hard -- what we're seeing in terms of the market is sustainable. And our goal is to write as much of it as we possibly can. Bob Cox, who is on the call, who runs our insurance operations, he likes to say every day that goes by has one day closer to the end of the hard market and we want to make sure we take advantage of every day.

Q - John Fox {BIO 18976738 <GO>}

Right. Well $6 billion of earned at a 8% underwriting profit would be fairly nice.

A - Richard R. Whitt {BIO 7084125 <GO>}

So we're shooting for work.

Q - John Fox {BIO 18976738 <GO>}

Okay. And Richie, in ILS, are they expenses there at the level, is at the run rate or there are still legal expenses in there or how should we think about that?

A - Richard R. Whitt {BIO 7084125 <GO>}

Yes. The picture is still a bit muddied with the legal expenses from CATCo.

Q - John Fox {BIO 18976738 <GO>}

Okay.

A - Richard R. Whitt {BIO 7084125 <GO>}

But I can tell you, we are very optimistic in terms of our opportunity to raise capital into the second half of the year and even more so into '21, and that there is tremendous leverage in that business as we are able to add AUM. The expense base really does not have to move a lot. The great majority of that should drop to the bottom line. And that's what we're hoping for over the next 18 or so months.

Q - John Fox {BIO 18976738 <GO>}

Okay, great. Thank you.

Operator

Our next question is from Mark Dwelle from RBC. Go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Hi, good morning. I have -- I guess I have three questions. First, Richie, you had talked about the COVID-19 charge that you took last quarter and that is it held up well and so forth in terms of the reserving practice. Could you -- I guess, the question I'm going to ask is, are you still writing business in areas like event cancellation and some of the other lines that you've referred to that were generating charges? And if so, what you might have done as far as terms and conditions et cetera in order to stay in those markets?

A - Richard R. Whitt {BIO 7084125 <GO>}

We are writing very little event cancellation today. We put a moratorium on writing this when the COVID-19 situation broke. To the extent, we write it going forward. It would have to have a communicable disease exclusion. But the likelihood is we will write considerably less of that business going forward. It was a fairly small line for us, but it had an outsized loss in this event. And we're trying to avoid those sorts of businesses -- small businesses that create big losses. That's not what we want. In terms of property, we have always had, for the most part, virus exclusions and, of course, the way property policies are constructed, physical damage is required first. We have been reducing our property exposure, not so much because of COVID, but certainly COVID is in the mix. We've been reducing our property exposure to reduce the natural cat volatility that it brings. So of the lines that have been heavily exposed to COVID, we're writing less of those today.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That's helpful. The second question is for Tom. It mainly relates to ventures. They obviously had a very, very strong quarter. And so I'm going to ask for kind of an unprecedented piece of information from you. Could you share what portion of the revenues in the quarter came from recent acquisitions? I'm trying to triangulate kind of what the underlying run rate was on the ongoing businesses, and that's the reason I was asking.

A - Richard R. Whitt {BIO 7084125 <GO>}

I'm looking at Jeremy as I answer the question. I think on a same store basis, so without Lansing or VSC, and their revenues were down about 14% --

A - Jeremy A. Noble {BIO 20687803 <GO>}

In the quarter.

A - Richard R. Whitt {BIO 7084125 <GO>}

In the quarter, year-over-year. And EBITDA was down about 7%, if I recall.

A - Jeremy A. Noble {BIO 20687803 <GO>}

I don't have any number to tell you.

A - Richard R. Whitt {BIO 7084125 <GO>}

Anyway, so that's the rough just of things.

Q - Mark Dwelle {BIO 4211726 <GO>}

That's helpful. Thank you. And then the last question that I had, I mean you just commented to the last gentlemen about the strong capital position and the ability to grow. But then you did a preferred offering in the quarter, fairly substantial. And I guess I was curious to just talk through why you chose a preferred offering? And why you felt you needed a capital at this particular point in time?

A - Jeremy A. Noble {BIO 20687803 <GO>}

Hey, Mark. It's Jeremy. A couple of thoughts there. So you know certainly to some extent that was to improve liquidity and capital position in the short term and adequately respond to some of the uncertainties that were existing in May relative to the COVID-19 also there, and we saw this kind of playing out in the second quarter. We thought we'd be able to deploy capital into our insurance operations to take advantage of improving market conditions and opportunities that we are beginning to see in the specialty insurance marketplace. And some of that kind of played out in the second quarter and, obviously, Richie was commenting on that a little bit earlier. With regards to the structure, I mean, we've looked at hybrid capital in the past, we felt that in May, that was a good time to kind of add preferred stock to our capital structure. We recognized a number of peers across our industry had done similar in their capital structure. And we like the fact that is treating its capital for rating agency purposes and accounting purposes. We were comfortable increasing the overall financial leverage, but we were focused on not kind of increasing our debt leverage at the time.

A - Richard R. Whitt {BIO 7084125 <GO>}

And I might add to Jeremy's point, use the price we've looked at hybrid capital, in fact, we've used hybrid forms of capital several times, over the course of the last 30 years. And the guiding principle there is, oftentimes, there are some distinctions between GAAP financial capital and what regulators look at, what rating agencies look at, and we always want to take care of the shareholders and protect that common equity to the extent possible. So you sort of have to respond to the situation, look at what specific kind of securities are available that meet the need, and give you the opportunity to refinance that or pay that back in some sort of identifiable timeframe that keeps the common equity and playing shareholders in the best possible position.

Q - Mark Dwelle {BIO 4211726 <GO>}

I appreciate all the answers. Thank you.

Operator

Our next question is from Phil Stefano from Deutsche Bank. Go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes, thanks and good morning. I guess just following up on the prior question about the unprecedented information on the acquisition and ventures. Is there a way we can think about the potential forward impact of these acquisitions and to help us kind of lay out what the expectations are for the underlying businesses versus benefit that we have from these acquisitions coming online?

A - Richard R. Whitt {BIO 7084125 <GO>}

Sure. Well, in economic sense, as we always think that we're going to make double-digit returns on capital, we lay out a dollar of capital in the form of an acquisition. So that's the way we underwrite them and that would be -- what I would lay out there is the longer term. In the short term, there could be all kind of volatility around that. I would report to you that. So far, again I'm just very impressive, very grateful in the way that the managers of those businesses continue to operate them in wildly fluctuating circumstances. So, and I think that the reports of the first six months where those companies are operating in the black producing cash flows -- who knows when we wake up to any given day. But they're doing pretty well. I would not want to put too fine a point or have a model of what kind of number for the next, this quarter to expectations or forward guidance in that sense.

Q - Phil Stefano {BIO 18965951 <GO>}

Look for other shot. Looking at the underwriting businesses, it feels like there is a growing expectation and maybe at this point even our frustration in some respect that we're getting this headline pricing increases. But it feels like loss cost expectations are increasing as well and we're just -- we're not getting underlying or attritional loss ratio improvements that I think people had been hoping for. How can we think about loss cost trends versus pricing over a period of time and the dynamics we have today versus the dynamics of five years ago? And what that could mean for attritional underwriting margins as we look over the next couple of quarters or years?

A - Richard R. Whitt {BIO 7084125 <GO>}

That's an interesting one. Let me, I'll try it Phil. I said that it's a little difficult to put your finger on what social inflation is doing right now because of all the COVID issues and what's happened in the economy. I think that that has muddied the waters there. I do believe in terms of pricing that is happening right now. I believe we're starting to create a margin against any sort of reasonable expectation of social inflation. When we start hitting mid-teens in terms of price increases and that's coming on, and we're now to a point where that's compounding on some price increases that we received in 2019, I have to believe just based on what we've seen in terms of social inflation in the past because it's nothing new, but that is creating some margin against that. So my hope would be as -- if this is a sustainable market for a while, I think we should be able to create some additional margin against social inflation and hopefully see there is attritional loss ratios bumped down a bit. Tom likes to say, hey, this quarter where that's one quarter in a row. So we've got one quarter in a row. We're going to see if we can make it two quarters in a row, next quarter.

Q - Phil Stefano {BIO 18965951 <GO>}

Got it. And then the last one for me and I apologize if I missed it earlier. Any updates on large time and how will be the fundraising is going there?

A - Richard R. Whitt {BIO 7084125 <GO>}

Again, we got a lot of -- I kind of said, in the first quarter up through about May, I think most investors were pretty frozen trying to kind of assess would it happen to their portfolios. We have seen a significant change in tone and the amount of conversations and the amount of due diligence that's going on is picking up. That book is a one-one book largely. It's a January 1st book. And so, quite honestly, people aren't going to make their decisions into -- probably, into the fall as to whether they want to invest. We're having some great conversations. But I think just the way the calendar works we're not going to have signed commitments until sometime in the fall.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. Got it. Thank you.

Operator

Our next question is from Mark Hughes from SunTrust. Go ahead.

Q - Mark Hughes {BIO 1506147 <GO>}

Yes. Thank you. Just a couple of quick ones. Any comments on the medical, professional liability lines?

A - Richard R. Whitt {BIO 7084125 <GO>}

Mark, we used to be -- they used to be a really big part of what we did. And just that market has been challenged for a number of years. And so it's become a much smaller part of what we do. But as I said, most lines are improving. And there is certainly improvement in the health lines, the broader health lines, and we're taking advantage of that. But the base we're starting with is much smaller than it was several years ago because of that challenged environment.

Q - Mark Hughes {BIO 1506147 <GO>}

And then, when we think about your new business through the quarter, you are up 14% in insurance and written premium. Was that more weighted to the back part of the quarter? And is that more of a better run rate on a go-forward basis?

A - Richard R. Whitt {BIO 7084125 <GO>}

You know, it's been relatively consistent in sort of that mid-teens, first and second quarter. Whether we've seen all of the impact of COVID-19, your guess is as good as mine. It certainly hurt our smaller businesses, but that's been more than made up for by price increases and more business coming in both E&S and London. So that's sort of mid-teens is -- that seems to be the run rate through the first six months.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Tom Gayner for closing remarks.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thank you very much for joining us. Thank you for your support. We look forward to talking with you again next quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.