Q4 2010 Earnings Call

Company Participants

- Anne Waleski, VP CFO & Treasurer
- Michael Crowley, President & COO
- Richie Whitt, SVP and CFO
- Tom Gayner, EVP and Chief Investment Officer

Other Participants

- Amit Kumar, Analyst
- Beth Malone, Analyst
- Charles Gold, Analyst
- David West, Analyst
- Doug Mewhirter, Analyst
- Jay Cohen, Analyst
- John Neff, Analyst
- Ken Billingsley, Analyst
- Mark Hughes, Analyst
- Meyer Shields, Analyst

Presentation

Operator

At this time all participants are in a listen only mode. (Operator Instructions). Your host is Tom Gayner. Thank you, Mr. Gayner, you may begin.

Tom Gayner {BIO 1896932 <GO>}

Thank you. Good morning. Welcome to the Fourth Quarter conference call to discuss our earnings and the economic progress of the Markel Corporation. My name is Tom Gayner, and it is my privilege to welcome you to the call.

Our format this morning will be extremely familiar to our long-term shareholders. Anne Waleski will kick things off with comments on our financial statements. Mike Crowley will discuss our North American insurance operations. Richie Whitt will cover our international operations, along with any general corporate issues, and then I will cover our investments, as well as the growing industrial and service operations at Markel. Following our statements, we look forward to your questions.

Before we get started, we follow the liturgy of reminding you of the Safe Harbor statement. 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 described under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on form 10-K, and quarterly report on form 10-Q, and on pages five to seven of our press release dated February 3, 2011. Our press release, which may be found on our web site at www.markelcorp.com, also provides a reconciliation to GAAP of certain non-GAAP financial measures we may discuss in the call today.

With that, I turn it over to Ann.

Anne Waleski {BIO 16735457 <GO>}

Thank you, Tom. Good morning everyone.

I will follow the same format as in past quarters. I will focus my comments primarily on year-to-date results. I will start by discussing our underwriting operations, followed by a brief discussion of our investment results, and bring the two together with a discussion of our total results for the 2010 year.

Moving right into the underwriting results, 2010 gross premiums were just under $2 billion, up 4% compared to 2009. The increase in 2010 was due to higher gross premium volume in the specialty admitted and London insurance market segments. For the year ended December 31st, 2010, the specialty admitted segment included $41 million of gross written premiums from our new FirstComp workers compensation operation. The increase in gross written premiums in the London insurance market segment was due in part through our acquisition of Elliott Special Risks in late 2009.

Net written premiums were approximately $1.8 billion, up 3% to the prior year. Retentions were down slightly in 2010 at 89% compared to 90% in 2009. Earned premiums decreased 5% primarily due to lower earned premiums in the excess and surplus line segments, as a result of lower growth premium volume compared to 2009. The decline in consolidated earned premiums was partially offset by the addition of approximately $37 million of earned premiums from FirstComp.

Our combined ratio was 97% for 2010, compared to 95% in 2009. The increase is due to a higher current accident year loss ratio and a higher expense ratio, partially offset by more favorable development of prior years' loss reserves compared to 2009. The combined ratio for 2010 included approximately $75 million, or 4 points of underwriting loss, for two programs that were exposed to losses associated with the adverse conditions in the residential mortgage market in recent years, as compared to approximately $35 million, or two points of underwriting loss, in 2009. The combined ratio also included $33 million, or 2 points of underwriting loss, from the Chilean earthquake and the Deep Water Horizon drilling rig explosion which occurred in February 2010 and April 2010, respectively.

The 2010 current accident year loss ratio was 71%, compared to 68% in 2009. The 2010 current accident year loss ratio includes approximately 3 points of losses on the two programs I just mentioned, that were impacted by the adverse conditions in the residential mortgage market in recent years. These same two programs contributed one point of loss to the 2009 current accident year loss ratio.

Favorable redundancies on prior year loss reserves increased to $278 million, or 16 points of favorable development, compared to $235 million, or 13 points of favorable development, in 2009. The increase was primarily due to more favorable development of prior years' losses in the excess and surplus line segment and the London insurance market segment. Our 2010 expense ratio increased approximately 1.5 points to 42%. The increase in the expense ratio is partially the result of lower earned premiums in the excess and surplus lines segment compared to the same period last year. Costs related to our Atlas systems initiative represent approximately 3 points on the combined ratio in 2010 compared to 2 points in 2009.

Turning to our investment results, investment income was up 5% in 2010 to $273 million, primarily due to having higher invested assets and higher dividend income compared to 2009. Net realized investment gains were $36 million compared to net realized investment losses of $96 million in 2009. Realized gains in 2010 included $12 million of write-downs for other than temporary declines in the estimated fair value of investments, compared to $90 million of write-downs in 2009. Unrealized gains increased $244 million before taxes in 2010, due to increases in fixed income and equities securities. Tom will go into further details in his comments.

Looking at our total results for 2010, we reported net income to shareholders of $267 million, compared to $202 million in 2009. Book value per share increased 16%, to approximately $326 per share at December 31, 2010, an all-time high for the Markel Corporation.

The effective tax rate was 9% in 2010, compared to an ETR benefit of 2% in 2009. In both years our effective tax rate differs from the statutory tax rate of 35%, primarily as a result of tax exempt investment income and tax benefits associated with foreign operations. For the year ended 2010, the effective tax rate includes an 11% income tax benefit related to foreign operations as a result of a change in our plans regarding the amount of earnings considered permanently reinvested in foreign subsidiaries.

Turning to cash flow and the balance sheet, operating cash flow was $223 million in 2010 compared to operating cash flows of 282 million in 2009. In 2009, net cash provided by operating activities included the receipt of $34 million related to our 2008 federal income tax refund. Investments in cash held at the holding company were just under $900 million at December 31st, 2010 as compared to slightly more than $1 billion at the end of 2009. The decrease is primarily due to the holding company funding the acquisition of Aspen Holdings, Inc., stock re-purchases and interest payments on debt.

At this point I will turn it over to Mike to further discuss operations.

Michael Crowley {BIO 7345383 <GO>}

Thanks, Ann. Good morning. This morning my comments will be brief.

I know that all of you are as tired of the soft market as we are. But it's the world we live in and we will continue to manage our business accordingly.

North American operations performed adequately during the quarter. Clearly, there is continued room for improvement, and we remain focused on our key objectives as we enter the new fiscal year. As a reminder, those objectives include continued process improvement, control and reduction of operating expenses, and pursuit of new business through intelligent research and persistence, and the attraction of top talent to fill open positions.

In support of these goals during the Fourth Quarter, the E&S segment continued efforts to leverage the one Markel strategy in several ways; by increasing the commitment to our corporate account executive program designed to enhance our national relationships, by centralizing broker assignments, coordinating all interactions for consistency and establishing strategic plans for each of our national relationships, by introducing a new product, Markel Priority, as a market alternative for smaller transactional accounts seeking property, casualty, D&O, or professional liability coverages. This offering includes a streamlined automated process which has been well received, and we began binding business on this product in November.

They also launched a formal technology project for an overhaul of our wholesale broker portal. Phase one should be completed by April. This new broker portal will provide improvements in context, functionality and ease of use for online transactions with our wholesale brokers. And they also re-assigned 88 underwriting support professionals in the role of working directly with regional underwriting staff to improve the speed of our quote, find and issue times.

Our specialty admitted division was significantly expanded, as you know, with the completion of the acquisition of Aspen FirstComp in October. FirstComp is a workers' compensation underwriting company for small, carefully selected risks. We are confident that the additional management and support talent joining Markel, and the sales and marketing discipline that they bring to our company, along with their knowledge and use of metrics, will significantly broaden the growth opportunities for all of Markel specialty.

In addition to the Aspen FirstComp acquisition, we continued our technology and process improvement initiatives, designed to improve efficiency in our property and casualty operations. And we launched several new initiatives. Examples include the exclusive new winery program; an advertising agreement to promote independent insurance with David's Bridal, which is the largest distributor of wedding gowns in North America; a new data breach coverage opportunity with one of our carrier alliance partners; and a new garage admitted dealer product in several states.

Also, our product line leadership group, headed by Gerry Albanese, our Executive Vice President and Senior Underwriting Officer, added new talent in the Fourth Quarter. Glenn Mangold joined Markel as Product Line Leader and Managing Director of our architects & engineers, lawyers, and agents & brokers professional liability. Glenn has 24 years experience and was most recently with CAN.

With the addition of Glenn, over the last 12 to 18 months we have strengthened our product development and product line management, with new leadership for architects & engineers, transportation, management liability, D&O, crisis management and property. All of these leaders are fine-tuning and refreshing our offerings, making them more attractive and competitive from a coverage standpoint without jeopardizing our underwriting discipline.

The product line group also launched four new high-profile product lines in the quarter. I've already mentioned Markel Priority. In addition to Markel Priority, they launched railroad protective, primary auto and excess auto.

We are also pleased to report that Scott Charmineaux [ph] joined Markel last quarter as Managing Director, Markel Actuarial. Scott has over 25 years actuarial experience in casualty rate-making and re-insurance, with special expertise in workers' compensation. Scott reports to Brad Kiscaden, our Chief Actuarial Officer.

The number of new opportunities we have for generating business in both the E&S and specialty segments is exciting. However, as we all know turning those opportunities into premium dollars remains the same challenge, due to the soft market, that it has been throughout 2010, and we expect market conditions to remain soft in 2011.

In summary, we have our heads up, our eyes on the ball. We are realistic about the hurdles ahead, but we're also very confident that we're positioned for success in 2011.

I'll turn it over to Richie Whitt. Richie?

Richie Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning, everyone.

The international operations had a good year despite the difficult operating conditions that Mike mentioned. Premium volume was up about 11% for the year. This is primarily due to the 2009 acquisition of Elliott Special Risk that we mentioned previously, and due to conditions in the marine energy and liability market, opposed to the Deep Water Horizon loss earlier this year.

International finished the year with a 95 combined, which is a good result considering the Deep Water Horizon loss, and Chilean earthquake from earlier. 2010 was an extremely busy catastrophe year on the international front. Our team did a really nice job controlling their catastrophe exposures, and producing an underwriting profit for the year.

As Mike said, the markets remain competitive and it's certainly no different on the international side. The January 1 renewals in London were flat to slightly down in most lines of business. On the positive side, marine, energy and liability continued to see increases in the 10% to 20% range. However, on the other side, US property cat rates were down 5% to 10% on average. It appears that underwriters have forgotten that catastrophes can and will occur in the United States. All of the international underwriting divisions continue to work extremely hard to grow the business profitably, but it's a tough market, and we know that our first priority is always going to be underwriting profitability.

Anticipating the questions, we do have exposure to the recent floods in Australia. We currently estimate that our exposure to the January floods are in the range of $10 million to $15 million. This remains a developing situation and the numbers could change. Also, as most of you know, a Category 4 cyclone has hit Australia in the last 24 hours. We obviously will be assessing our exposure to this event over the coming weeks. Obviously, our best go to the folks in Australia. They've had a real tough time of it the last couple of months. Hopefully it will get better soon.

To sum it up, despite difficult market conditions and an incredibly busy catastrophe year, William Stovin and our international team had another solid year. We are off to a good start in 2011 and we're optimistic, despite market conditions, that we can continue to grow our international franchise profitably.

At this point, I will turn it over to Tom to discuss investments and Markel Ventures.

Tom Gayner {BIO 1896932 <GO>}

Thank you, Richard. Good morning.

In our guiding statement at Markel, known as the Markel Style, there is one sentence that states our pledge to our shareholders is that we will build the financial value of our company. In today's Markel, we've strapped on a third engine compared to the previous two, to power the growth of the financial value of your company.

I am delighted to report to you that all three engines were working in 2010, as you can see from the 16% growth in the book value per share this year, to its new record high of $326. We are also optimistic that all three will continue to do so going forward.

The first and main engine is insurance. Ann, Mike and Richie all gave you some data and some comments that describe what is going on in the insurance engine at Markel these days, and I won't repeat their remarks. Suffice it to say that insurance markets remain challenging. But through constant re-tooling and adaptation, geographic expansions, acquisitions, and creativity, we are doing pretty well in the fundamentals of insurance. We continue to achieve underwriting profits and that is no small statement in today's world.

The second engine is the investment operation that connects directly to insurance. I'm pleased to report that we enjoyed a wonderful year in our investment operations. The total portfolio return in local currencies was 8.1%, or 7.9% after conversion of all results to

US dollars. As always, let me remind you that we run a matched book to the best of our ability, and whatever foreign exchange factor affects our investments is offset by an equal and opposite effect on our underwriting operations.

In the fixed income department, we earned 5.4% in total return, which essentially matches the coupon from the portfolio and aggregate. That is exactly what should happen over time. We work diligently to avoid credit losses and we do not aggressively trade the portfolio in the negative sum game of trying to be a superior guesser of the future direction of interest rates or relative credit spreads. We simply look at our liabilities from the insurance side and match them up against a portfolio of high-quality fixed income securities.

As always, we temper that match with some common sense, which continues to suggest to me that rates are headed higher, not lower. As a result, we continue to maintain bond maturity at a lower level than our insurance bond. That means we accept lower current income in exchange for protecting our balance sheet against the risk of rising interest rates and lower bond prices. During the Fourth Quarter and so far in 2011, this strategy of shorter maturities has helped us, as rates now seem to indeed be rising somewhat from their recent ultra-low levels.

On the equity side, we enjoyed a fantastic year. We were up 20%, as compared to the return of 15.1% for the S&P 500. More importantly, over longer periods of time, we've earned 6.2% for the last five years, and 7.6% over the last 10 years, as compared to 2.1% and 1.1% for the S&P over the same five; and 10-year periods. This is simply massive out-performance.

While it's wonderful to celebrate and enjoy the backwards-looking view of the last five and 10 years, the key now is what happens next. I think that the evidence suggests our investment discipline works over time. I remain confident that our current focus on high-quality global leaders in our equity portfolio is the right emphasis for our holdings.

Commodities and more trading-oriented strategies may well out-pace us over the next year or two, but I do not think that chasing those trends is a wise decision for Markel.

At year end, equities represented 54% of our shareholder's equity account, as opposed to 48% at year-end 2009. That change comes from the steady ongoing investments made during the year, as well as the delightful appreciation we enjoyed.

The third engine for value creation at Markel now is the Markel Ventures Group. Our other revenues in 2010 were about $185 million, and this stems largely, but not exclusively, from the Markel Ventures Group.

We also enjoyed a productive Fourth Quarter with the acquisition of controlling interest in Retail Data and Diamond Healthcare just before year end.

Retail Data, founded and led by Christy and David Cottrell, serves the grocery, general merchandise, convenience store, and consumer product industries. They collect and gather pricing, product, and placement data for their customers -- the retailers -- and enjoy a 20-year record of growth and financial performance.

With the backing and partnership now in place with Markel, the company should be able to fully develop its international activities and consumer product initiatives. Christy and David remain with the company.

Diamond Healthcare, founded and led by George White, is a leading provider of behavioral health services throughout the United States. They work primarily through hospitals, and currently serve over 85 hospitals across the country. They bring specialized knowledge and skills to this field and enjoy a 25 year record of success. George and his leadership team remain with the company just as has been the case at all of the Markel Ventures companies.

The Markel Ventures Group, now includes these two recent additions, as well as the AMF Bakery equipment group, Parkland Ventures, PSI and Ellicott Dredge. To date, all of these operations have performed as we have expected at the time of acquisition.

We are not in the business of providing guidance or steering you towards earning investments. As fellow shareholders though, we want you to have some sense of the growing size and scope of this group. Currently we expect total revenues in excess of $250 million at Markel Ventures in 2011, and we expect to convert double-digit percentages of each dollar to cash. This is now a third engine which works to create value for Markel shareholders.

We are pleased to be able to report the comprehensive results of 2010 to you, and we now look forward to answering your questions. Operator, if you would be so kind as to open the floor for questions.

Questions And Answers

Operator

Thank you, we will now be conducting the question-and-answer session.

(Operator Instructions).

One moment please, while we poll for questions. Thank you. Our first question is coming from the line of Beth Malone of Wunderlich Securities. Please state your question.

Q - Beth Malone {BIO 1497932 <GO>}

Okay. Thank you. Good morning, and congratulations on the quarter.

A - Tom Gayner {BIO 1896932 <GO>}

Hello, Beth.

Q - Beth Malone {BIO 1497932 <GO>}

I have a couple of questions. Could you, please, explain a little bit more about the tax credit? And does it indicate that you recorded in the Fourth Quarter? And, does that suggest that there's going to be a different tax rate in 2011 than what we saw in the first three quarters of 2010?

A - Richie Whitt {BIO 7084125 <GO>}

Beth, it's Richie. How are you doing?

Q - Beth Malone {BIO 1497932 <GO>}

Good.

A - Richie Whitt {BIO 7084125 <GO>}

Typically, the biggest difference between the 35% rate for us and what we end up reporting, is municipal securities. For the last two years, that's not been the case, because we've had, sort of, two foreign tax-oriented items go through. Last year, the UK government made some tax changes to their regime that produced a benefit for us, and we recorded that last year. So, we got the benefit for the full year.

This year, in the Fourth Quarter, we made the assessment that we would not have to -- we would not be repatriating, or bringing back capital to the US that we earned in our foreign operations, and what we had been doing for the last couple of years, obviously, establishing a tax liability on those earnings for US tax. When we looked at things this year, and the opportunities we have to re-invest in foreign operations, as well as some restructuring -- legal restructuring we did of our foreign operations -- we no longer believe we'll be bringing those earnings back. And, as a result, we no longer needed that tax liability on our books.

So, that was recorded in the Fourth Quarter. And for the last two years, as I said, we've had two slightly different foreign tax issues that affected the tax rate. Going into 2011, all things being equal, we would expect the primary driver of our tax rate, difference between what it is, and 35%, to be municipal bonds. And, so we would expect today to be in the low 20's in terms of an effective tax rate for 2011.

Q - Beth Malone {BIO 1497932 <GO>}

Okay. Great. Thank you. And, speaking of municipal bonds, Tom. Could you -- what is your -- there's a lot of controversy surrounding the municipal bond market. What is Markel's position? Are you going to de-emphasize muni bonds due to the concerns about the credit quality, or what?

A - Tom Gayner {BIO 1896932 <GO>}

Well, let me walk you through the steps of how we would think about the municipal bond portfolio. So, in rough order of magnitude, we would expect to have about half of the fixed income portfolio in munis. So, in rough, rough terms, that's $3 billion, and that's roughly the same as what the shareholders' equity account is. The first thing we would do is, we would have the highest quality, and be at the top of the food chain in terms of what we own in that portfolio. So, we're GOs, and essential products and services. That's step number one.

Step number two is we would have a 10% rule that we would not have any more than 10% in any one state. So, for instance, California, or Illinois, New York, or whatever story you want to talk about, remember that there would be a 10% limit of that $3 billion, or $300 million, that would be exposed to any one of those states. Within each of those states, we don't buy one bond for $300 million that says "California" on it. We buy some bonds that say "LAX Airport," and some that say "City of Los Angeles," or some that say "City of San Francisco," and some that say "GO of the state of California." So, that further disburses and spreads the risk, and is a prudent way of managing things.

And, then the last and final point, if you want to imagine nightmare scenarios, my personal belief is that, if there were a severe problem in one of those entities, you would not be looking at a zero. You would be looking at a restructuring. So, if it was a 5% bond that was due in 10 years, my guess is those would be restructured and become 3% bonds due in 15 years, or something like that. So, it's a very high cents-on-the-dollar recovery or mark-to-market. And, net, net, net, net, net -- I think that municipalities and states, while they all face the crisis that you read about in the headlines. Also, there is a growing sense of reality within the world of government that they have to live within the means that they have, the credit markets.

In so many ways, we are kind of back to "That '70s Show" in a lot of dimensions. And, one phrase from that era was the bond vigilantes. The bond vigilantes are restless, and they're looking at municipal credit, and they're enforcing market discipline. So, between that and the specific concrete risk management steps that we have, I'm comfortable with the exposure that we have.

Q - Beth Malone {BIO 1497932 <GO>}

Okay, thank you. And, one last question for Mike. You mentioned that you've added some talent to your -- to the operations, as well as expanded into new markets. How do you -- it seems difficult to contrast that with the obvious pricing pressure that is taking place in all the markets?

A - Michael Crowley {BIO 7345383 <GO>}

Well, Beth, almost all of that talent that I mentioned were filling open positions and replacements. For example, Glenn Mangold, who I mentioned on the call, replaced Mark Henderson, who retired earlier in the year. So, we are absolutely being disciplined with regards to our head count. We -- I think I've mentioned before we have an organized process where Richie and Pam Perrott, our head of HR, and I get together on a monthly basis to look at all open positions, look at all requests for hire, and we are not expanding our head count. A lot of these are replacements, upgrades or changes in talent, filling those positions.

A - Richie Whitt {BIO 7084125 <GO>}

And, Beth, I want to add to Mike's comment, one of the good things about going through a soft market or a tough time, is there's a lot of talent around. And, this is a people business. And, the great thing about the last couple of years is that we have, because of our consistent performance and long-term record and culture of Markel -- really been a bright shining light that has attracted a lot of people. So, there are a lot of people that would like to be part of Markel, and more so than would be the case in a normal environment. And, we're trying to take advantage of that and make sure that we have the best possible team on the field.

A - Tom Gayner {BIO 1896932 <GO>}

A couple of people are new but when we look at these situations where we have an opportunity to bring a particular expertise or team on board, you can be assured there is a number attached to that, and we're doing some pro formas long before we agree to do it.

Q - Beth Malone {BIO 1497932 <GO>}

Okay, and just one clarification. So, where you are adding people or expanding margins, I guess, in order for you to maintain the conservatism you've already demonstrated in the past, that means you're -- are people sitting idle because you're not going to write business in this particular market? Or, are you entering markets where you do believe you can price the product profitably?

A - Tom Gayner {BIO 1896932 <GO>}

We are entering markets where we believe we can price the product profitably. And, keep in mind that all of these people -- Gerry Albanese has been with the company a long time, who is our Senior Underwriting Officer, oversees all of this, and he's the key player in making the decisions on whether this talent comes on board or not. We do not have people sitting idle. Our submission counts that we mentioned in the Third Quarter, as well, are up. So, people are busy. The challenge we have is converting those submissions into premium dollars in this marketplace.

Q - Beth Malone {BIO 1497932 <GO>}

Okay. All right, thank you.

Operator

Thank you. Our next question is from the line of Amit Kumar with Macquarie. Please go ahead with your question.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Just going back to your comments on Australia. Can you just expand on that a bit more? Is that property or is that business interruption? What sort of losses should we expect?

A - Richie Whitt {BIO 7084125 <GO>}

It's going to be primarily property. I mean, and, we don't -- I mean, we certainly write in Australia. We're not a huge writer in Australia. So, you've seen some releases out there, people putting out estimates of their numbers. We're not going to see numbers like some of those. But, clearly we do write in Australia. We have an open market property book and, so, we'll pick up some losses there. We also write some treaty property re-insurance so we will pick up some losses there.

But, at the same time, for example, the national flood program, we don't write that. A lot of people obviously are picking up some losses on that program. We're not on that. So, certainly we're going to have losses but we don't see it as a huge mover for our First Quarter results.

Q - Amit Kumar {BIO 15025799 <GO>}

And, did Q4 have any impact or no?

A - Richie Whitt {BIO 7084125 <GO>}

Small, certainly, yes. The flooding, as you know, started before the end of the year. So, we did have some losses come in as a result of the flooding that occurred before the end of the year, but it was fairly immaterial.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And can you sort of expand on that discussion a bit? There's been a lot of chatter about exposure to Middle East and Egypt. And, can you remind us if you write any political risk and covers of those type, and would you have any exposure?

A - Richie Whitt {BIO 7084125 <GO>}

We do write some war exposure. That tends to finds its way into London into the marine market. So, we could pick up some exposure in that account. But, we're not -- I'll just say at this point we're not aware of anything. But, it is possible. We don't expect anything significant from it. But, certainly, it is possible.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Just moving on, quickly -- on to the reserve releases. I was a bit surprised by the level of releases, and I go back to your discussion on London market segment. And, previously you had talked about releases coming from 2004 to 2008 accident years. I'm wondering if this quarter's releases were also from the same time frame? And, then, maybe can you remind us what are the carriage reserves for this book, as a percentage of your, I guess it's $5.4 billion total reserves.

A - Tom Gayner {BIO 1896932 <GO>}

Well, in terms of the years involved, certainly 2004 through 2008, there were releases in that area. In addition, we had some releases from years prior to that. We had some releases in the 2002 and prior areas of the book. And, one thing I might say, and I think if you were to go back and look at our results over the years, we do, obviously, our hardest -- we have an IBNR review every quarter. But, we obviously do the most work leading up to our year-end results. And, just as a result of that, and the conservatism that we exercise, in the first couple of quarters we tend to be very conservative, and, as the picture for the year develops throughout the year, the third and Fourth Quarter tend to be a little bit heavier in terms of releases.

And, I think this year was similar to last year in terms of the theme, but maybe a little more released as just a result of things we saw. About -- Markel international is about 40% of our loss reserves, so that gives you an idea of the magnitude. But, that's sort of a theme, and did have some releases from earlier accident years. The 2002 and prior buckets, where we went back and we did some reviews of those reserves, and realized that we had some redundancy there that needed to flow through the P&L.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it, that's very helpful. And, just final question on Aspen. Previously, we talked about Aspen's business plan for 2011 and there had been some discussion on retaining $140 million out of $300 million. Can you just sort of refresh us where you stand on the thought process, and how we should think about this going forward? Thanks.

A - Tom Gayner {BIO 1896932 <GO>}

Well, in terms of 2011, our best estimate right now is that we would be retaining roughly $200 million of FirstComp's business this year. That's highly subject to change, because the workers' comp market is -- as competitive as the overall property casualty market is -- the workers' comp market is even more competitive. And, we've talked about it, I don't know how many times. It's going to be underwriting profit first, and that is exactly the philosophy at FirstComp, as well.

So, those guys -- they're going to be very careful given where the workers' comp market is today. But, we think we could retain probably around $200 million this year of that business, all -- if everything happens as we expect. It's probably also worth pointing out, this is a year of transition for FirstComp. Obviously, they've had a hybrid MGA and risk-bearing model in the past, and we going to be moving to primarily a risk-bearing model. So, we've got that change occurring this year. Also, our conservatism in loss reserves, something we've been very proud of over time at Markel, we're moving them, obviously, to our reserving philosophy.

As a result of that, it's -- we expect that FirstComp will be at an underwriting loss for 2011, as we work through these things. That underwriting loss, just to give you a sense of it, that could be on the order of $30 million for 2011, as we work through the transition process. And, I'll just tell you that is not a surprise to anyone. That's been on the table as an expectation since we did the acquisition.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay, very helpful. Thanks so much.

Operator

Thank you. Our next question is from Mark Hughes of SunTrust. Please state your question.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you. Good morning. Any comments you'd care to make on where the reserves stand today? There's some discussion of a lot of the favorable release trends having kind of run their course in 2011 -- there's not as much quite lined up -- I'm sorry, in 2010, not as much lined up for 2011. Any comments you'd care to make on that?

A - Richie Whitt {BIO 7084125 <GO>}

Mark, I guess what I'd say there is clearly the peak of the market was 2006 or 2007, depending on the line of business. And, so, the pricing just has not been as strong for the past several years. We always attempt to establish a consistent and conservative margin of safety in the reserves. And, I guess the one -- the way I would answer that is to tell you that at the end of 2010, we believe the margin of safety in our loss reserves is consistent with 2009. So, we believe it is roughly similar.

How that will come through earnings in the future will completely depend on how those most recent accident years behave, and, given that pricing was moving, and given that the market was moving, we just don't know. But, in terms of the balance sheet, and that's what we think about here at Markel, there was a consistent margin of safety in our minds at the end of December, 2010 to 2009.

A - Tom Gayner {BIO 1896932 <GO>}

I want to add to Richie's comment where he emphasized the balance sheet. Because, whether it gets recognized in income this year or not, those dollars are on the balance sheet, and in the investment portfolio the whole time, and generating investment income. And, it can't be emphasized enough how much of a balance sheet orientation we have. Every financial company earnings report is a wrestling match between the income statement and the balance sheet. And, the balance sheet is undefeated in those wrestling matches at Markel.

Q - Mark Hughes {BIO 1506147 <GO>}

Any more -- thank you for that. Any more granularity you can provide in terms of pricing, or kind of exposure units, economic activity among your policy holders, as you look at 4Q relative to 3Q, as you progress through the quarter? Any more nuance there?

A - Michael Crowley {BIO 7345383 <GO>}

This is Mike. No new nuances. I mean we see things are still soft, they're still very competitive. And, looking out in 2011, we expect more of the same. Hopefully, economic activity will continue to pick up some. And, that would have an effect. But, we can't quantify that sitting here today. We're watching our expenses and watching the way we run the business, keeping in mind that 2011 will look like 2010 with regards to rates and exposure base.

Q - Mark Hughes {BIO 1506147 <GO>}

And, then final question on -- Tom, your current outlook about the risk for inflation. Obviously, rates are starting to move up. Where do you see it now versus three months ago?

A - Tom Gayner {BIO 1896932 <GO>}

Well, I mean I have the same concern I had three months ago, and frankly, I've had it for a couple of years now. Driving home last night, I stopped and actually bought the groceries for dinner and cried. Inflation's going up.

Q - Mark Hughes {BIO 1506147 <GO>}

Very good, thank you.

Operator

Thank you, our next question is from Doug Mewhirter from RBC Capital Markets. Please state your question.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Hi. Good morning.

A - Tom Gayner {BIO 1896932 <GO>}

Hello, Doug.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Most of my questions have been answered, I guess. The first question would probably be posed to Tom. I realize that you are definitely much more of a bottom-up investor and you definitely don't do a lot of top-down asset allocation. But, given where your opportunities are at, regardless of the opportunities you may see with Markel Ventures, because they are more opportunistic, where are you sort of shading your new money, new cash flow, these days?

A - Tom Gayner {BIO 1896932 <GO>}

Well, fortunately it's pretty much in the same place it's been the last couple of years -- is the list of what you would call just blue chips, the brand names that you would recognize, not only in the US, but increasingly every single place around the world. While we had a really good year, it's almost -- that year was almost too good. And, it surprises me a little bit. Because last year, coming out of 2008, the risk on, and riskier assets, are the things that have sprinted ahead the most. And, if you look at some of the smaller indices, the Russell 3000 or something compared to the S&P 500, the smaller, let's say, for purposes of argument, more riskier asset classes are moving ahead faster.

We had a good year while remaining very high quality. And, as I think about sort of what might we be talking about a year from now, I would not be surprised, again, given what we're talking about inflation, if sort of commodity-oriented things might sprint ahead of us this year. But, we're not sprinters, we're marathoners. And, as long as I can put new money in the same sorts of companies that we've been doing for the last couple of years, where I've got the best franchises in the world at reasonable prices, that's where the bulk of the money goes.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Thanks, that's helpful. My second and last question is maybe for Michael or perhaps Richie. We've heard a lot of pretty down-beat commentary on workers' comp. And, I realize that when you went to buy Aspen, you had a much longer time frame in mind. But, does Aspen have -- does its book have any particular characteristics that may -- that was attractive to you because it may not be, to use a delicate term -- hammered -- by the current conditions as much, where the maybe the loss costs aren't -- inflation isn't quite as bad, or you have a better way of controlling frequency, or medical costs, or something like that?

A - Michael Crowley {BIO 7345383 <GO>}

I tell you, the best way I can answer that, there were -- this is Mike. There were two things that were really -- actually several things that were really attractive to us about Aspen. Along the lines of your question, one of the things that has impressed us is their knowledge of their business and their use of metrics and their analysis of the business. And, as luck would have it, they actually are having a strategic planning meeting here in Richmond as we sit. And, I went out and attended that meeting yesterday and came away even more impressed with their knowledge of the business.

Clearly, that doesn't take away from the risk. It doesn't take away from the challenges. But, their management team knows that business. They stick to their knitting. They don't do things that they don't understand. And, the other thing -- another thing that was attractive to us -- was the opportunity, as we've discussed before, to cross-sell our products to their customers, and their product to some of our customers, and we are actively working on that strategy right now, and identifying how we're going to go about it. But, we think there is an up-side opportunity there.

And, lastly, we are more impressed today with their management and their leadership. They've got a terrific leadership team. So, with their experience in the business, their use of metrics that is very impressive, and the cross sale opportunities, we feel as good about that acquisition today as we did when we first looked at it -- actually better. The market -- the workers' comp market is tough. But, we think we've got a team here that really understands, that sticks to their knitting on the small accounts and the small towns, and, over time, they will perform well for us.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Okay, thanks. That's all my questions.

Operator

Thank you. Our next question is from the line of Meyer Shields of Stifel Nicolaus. Please state your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning, everyone.

A - Tom Gayner {BIO 1896932 <GO>}

Hello, Meyer

Q - Meyer Shields {BIO 4281064 <GO>}

I guess, let me start with Richie. Do you think -- can you contrast the amount of the reserve development this year that was from settling claims at lower than reserve amounts to just actual actuarial adjustments?

A - Richie Whitt {BIO 7084125 <GO>}

Settling claims versus actuarial adjustments? And, I want to make sure I understand that question. I mean, how do you differentiate from the two?

Q - Meyer Shields {BIO 4281064 <GO>}

Well, in one case, you have liabilities. You just have a more optimistic expectation for what you're going to pay.

A - Richie Whitt {BIO 7084125 <GO>}

Right.

Q - Meyer Shields {BIO 4281064 <GO>}

In the other case, you've actually paid it, so the claim is closed.

A - Richie Whitt {BIO 7084125 <GO>}

Yes. Well, let me try it this way. I wouldn't say that things are settling faster or that we settled out any sort of enormous claims in the Fourth Quarter, or in the Third Quarter, where we were -- there was a big range around it in terms of volatility, and so we were holding a lot of IBNR. I think, quite honestly, it was just; really just more of the same.

But, probably the addition was, as I said in a previous answer, we did release some in the 2002 and prior sort of bucket, if you will, at Markel international, where we probably haven't looked at those years in a while. We've just -- not, not looked at them, but probably not as hard, because we just sort of have been letting them sit there. And, it was clear there was redundancies in that bucket. And, so we made releases there. But, there was -- really, nothing stood out as unusual in terms of -- did a big claim settle, anything like that. It was a very consistent process to what we have done in the past. Nothing unusual.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. When you look at accident year 2010, did your expectations for that change at all over the course of the year?

A - Richie Whitt {BIO 7084125 <GO>}

I don't think so. The one thing I will say, the expense ratio in the Fourth Quarter, it was up a good bit. And, I think you've got to be a little careful about that expense ratio because, obviously, we had some nice redundancies from prior accident years throughout 2010. And, when that happens, obviously, we increase bonus accruals related to those prior accident years.

So, we've got the loss reserve coming down as a result of prior accident years. We've got our current year expense ratio going up because we're putting up additional bonus accrual on for those prior accident years. So, in the Fourth Quarter, I don't know what the numbers would be. But, if you looked at the accident year combined ratio, it would look high. And, part of that is because the expense ratio is getting hit for prior accident years developing favorably and the bonus accruals we're putting up.

But, I think in terms of 2010 we know the pricing is thinner because we've had to -- as hard as we held on to it, we've had to give up some price over the past few years. So we know it's not going to be as -- it's not going to be as good as 2009, it's not going to be as good as 2008, but, at this point, no surprises in terms of what it looks like.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's quite thorough. One quick question for Mike, if I can. Obviously, the continuing rate competition that we're seeing now does not involve decreases that were as big as they were, let's say, two or three years ago. Should that pattern continue where we get smaller and smaller decreases into modest increases just because of back momentum? Is that the hard market we should be anticipating whenever?

A - Michael Crowley {BIO 7345383 <GO>}

That's a hard one to answer, Meyer. But, no, I don't think you can model that the decreases will get smaller, smaller, smaller and then start climbing a little bit, and then get larger, and larger, and larger. I don't think -- that's just not the way the business works.

I think -- everything that I've seen and everything that I've read, and it's hard to predict, but I think what we will see in 2011 -- a market that is similar to what we saw in the third and Fourth Quarter of 2010. The decreases weren't as bad as they were further back, but they were still decreases. And, so I think -- I would simply look at the Third Quarter and the Fourth Quarter, and look at 2011 as more of the same.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks very much.

Operator

Thank you. Our next question is from the line of Jay Cohen of Bank of America. Please state your question.

Q - Jay Cohen {BIO 1498813 <GO>}

Yes. Thank you. Let's see, a couple of questions. First is, can you quantify what the tax benefit was in the Fourth Quarter?

A - Anne Waleski {BIO 16735457 <GO>}

Jay, I'm going to have to pick that up with you off the line. We don't have the quarter number here in the room, but I'll call you after this and let you know.

Q - Jay Cohen {BIO 1498813 <GO>}

That would be great. That would be helpful, thank you. And, then, also, in the quarter, I'm looking at sort of the other revenues, minus the other expenses, presumably that's the ventures business. And, it looked like the income, the net of those two, was down quite a bit. Can you talk about why that might have been? And, maybe -- correct me if I'm wrong, but I thought that was mostly the ventures business?

A - Richie Whitt {BIO 7084125 <GO>}

In terms of revenue, Jay, yes. In terms of the net income right now, no. And, that is because of the Aspen MGA business. And, as we said, 2011 is going to be sort of a -- well, they came on board October 15th, obviously on board for all of 2011, but we are booking a loss right now on the Aspen MGA business, both in the quarter and probably for the full year of 2011. That is because that MGA business is set up with a base commission, and then a contingent commission based on profitability. Right now, to be conservative, we are booking loss reserves that would result in no contingent commission being paid on that MGA business, and thus we're recording it at a loss.

Q - Jay Cohen {BIO 1498813 <GO>}

Great. And, that will show up in the other expenses, right?

A - Richie Whitt {BIO 7084125 <GO>}

Correct.

Q - Jay Cohen {BIO 1498813 <GO>}

All right. Were there any additional losses in the quarter associated with the guaranteed bank contract or the E&O from mortgage services company? The issues that impacted the Third Quarter?

A - Richie Whitt {BIO 7084125 <GO>}

Very,very quiet quarter from the standpoint of those things.

Q - Jay Cohen {BIO 1498813 <GO>}

Okay. That's all I had. I appreciate it.

A - Richie Whitt {BIO 7084125 <GO>}

No problem.

A - Michael Crowley {BIO 7345383 <GO>}

Thanks, Jay.

Operator

Thank you. Our next question is a follow-up from the line of Beth Malone of Wunderlich Securities. Please state your question.

Q - Beth Malone {BIO 1497932 <GO>}

Okay, thank you. I was just wondering, these really severe storms we've been experience in 2011 already, do you anticipate that they could have an impact on your losses for the First Quarter?

A - Richie Whitt {BIO 7084125 <GO>}

Sure, Beth. I mean, obviously, you'll -- with the amount of snow and things, roof collapses, you name it -- we will, of course, have exposure to that. And, typically when you have a bad winter, a stormy winter, our property results aren't that hot at the end of the First Quarter. So, just given what we have been seeing across the US, I would expect our property numbers won't look too terrific at the end of the First Quarter. But, often, that doesn't necessarily mean we end up with a bad property year. You can go the rest of the year and have a pretty nice year. So, it would not surprise me at all if we start out with a tough property year.

Q - Beth Malone {BIO 1497932 <GO>}

Do you think, with that in mind, is that going to have any effect, do you believe, on the pricing?

A - Richie Whitt {BIO 7084125 <GO>}

I doubt it. I doubt it. I just don't think it's big enough. I'm sure it will run into the billions. But, I just think it's so widespread, and the standard line carriers, all the various things, I just don't think it would be big enough to move things.

Q - Beth Malone {BIO 1497932 <GO>}

Okay. All right, thank you.

Operator

All right, thank you. Our next question is from John Neff of Akre Capital Management. Please state your question.

Q - John Neff {BIO 7249602 <GO>}

Hi, thanks very much. Probably a question for Tom, but you mentioned the three engines driving the increase in book value per share. I was wondering if you could possibly give us the attribution? What did -- what, if anything, did Markel Ventures and the acquisition of Aspen contribute to that growth this year? Thank you.

A - Tom Gayner {BIO 1896932 <GO>}

Yes, from a book value point of view, the traditional two main engines of insurance and investments are what you are going to see driving the book value per share. The Markel Ventures Group actually will start to come through income and cash flows and things of that nature. So, almost -- I can't think of any change that would happen in the book value on account of Markel Ventures, other than the accretion of a very small amount of income.

Operator

Thank you. Our next question is from the line of David West of Davenport & Company. Please state your question.

Q - David West {BIO 1838548 <GO>}

Good morning, just one question. I wonder if you can give us an update on the likely expenses associated with the Atlas initiative this year, or is it -- should that be winding down?

A - Richie Whitt {BIO 7084125 <GO>}

Dave, it's Richie. We currently -- we've got two things going on. And, we're probably going to be moving away from the Atlas initiative. We're getting to the point, probably after 2011, where it's really just run-rate investment and technology to run our business. So, the Atlas initiative really probably winds down in 2011.

We still have going, as a result of that, our data warehouse initiative, and Mike mentioned some of the initiatives around our broker web sites, and, so forth, and make business easier for them to do with us. And, we would expect something on the order of probably fairly similar to what we had this year, a little bit less than what we had this year. So, I think it was roughly three points on our combined ratio this year. It's probably going to be less than that in 2011.

Q - David West {BIO 1838548 <GO>}

Thanks very much.

A - Richie Whitt {BIO 7084125 <GO>}

Thanks, David.

Operator

Thank you, our next question is from Ken Billingsley of BGB Securities. Please state your question.

Q - Ken Billingsley {BIO 6971717 <GO>}

Good morning. I wanted to follow-up with some commentary that you had on -- I think you talked about rates and reserves and how the implications maybe were in the past going forward. But, on the rate side, could you just talk about maybe a new versus renewal rate, what you're seeing, and also what you're doing, from termed and condition to deductibles, what competition you're seeing there on the ones that you're winning, and the business that you're not winning?

A - Michael Crowley {BIO 7345383 <GO>}

Probably the best way I could answer that is that -- two things. One, we're not out buying business. We look at new business with the same jaundiced eye, if you will, that we do renewal business, and use the experience that we have on lines of business that we write on renewal, when we look at new business opportunities. So, I don't see a big difference.

I will tell you that other carriers are very aggressive in the new business arena right now and that's certainly a challenge for us. From a pure rate standpoint, again, I just have to -- it's hard to say, but I still look at 2011 like I look at 2010. What was the other part of your question?

Q - Ken Billingsley {BIO 6971717 <GO>}

Just, on that, I guess my -- the question on that, on the new versus renewable, are you having more success with holding rate on renewal business? I'm going off of commentary that we're hearing from some surveys that have been out recently.

A - Michael Crowley {BIO 7345383 <GO>}

I might say that, it's easier -- we've done better from a percentage basis of retaining business than writing new business. It's challenging to write new accounts. It's a feeding frenzy in a lot of the things that we do.

With regards to deductibles and coverage, as I said earlier, a lot of our product line leaders are looking at our coverage forms. We did a deep analysis on a lot of casualty forms last year. We're refreshing those forms, but the enhancements we're making on them and the improvements are still with a strong eye on underwriting profit. We're not going to jeopardize our underwriting profit. But, we do refresh forms and look at those on a regular basis.

Q - Ken Billingsley {BIO 6971717 <GO>}

And, so -- and then from a shopping standpoint, are you feeling like you are being shopped, your business is being shopped a little bit less than, maybe, it was back in 2009?

A - Michael Crowley {BIO 7345383 <GO>}

I don't know that I can answer that accurately. I mean, our business gets shopped. I don't know that it's any more now than it was in the past or any less.

Q - Ken Billingsley {BIO 6971717 <GO>}

Very good, thank you.

Operator

Our next question from the line of Charles Gold of Scott & Stringfellow. Please state your question.

Q - Charles Gold {BIO 17653874 <GO>}

Congratulations lady and gentlemen on the quarter. The question's about the investment income line. It looks like that had a nice bump up in the quarter and was the highest of the year, if I'm correct on that. Obviously, some of that can be attributed to dividend increases and increased size of investments. But, I wonder whether the municipal problem we're going through now could also be a blessing and whether, now, some of that money is rolling over at a higher yield rate than the money it's replacing? In other words, your roll-over rate now positive instead of a negative?

A - Richie Whitt {BIO 7084125 <GO>}

Yes, Charles, I think you have correctly answered your own question. That's correct. And, the other thing, I would refer back to the earlier comments about where the money is going, and those global blue chip companies. 2010 was a pretty nice year of dividend increases.

Q - Charles Gold {BIO 17653874 <GO>}

Right.

A - Richie Whitt {BIO 7084125 <GO>}

So, in many cases, those were yielding just as much as an alternative bond solution. And, I have one friend who refers to sort of that set of companies as almost corporate tips. You get an inflation adjusted yield because of the pass-through nature of the company, and their ability to raise prices and be doing well enough that shows up as pure cash, which they're in turn using to pay dividends and buy back stock.

Q - Charles Gold {BIO 17653874 <GO>}

My other question, Jay alluded to, which was, the number of the other line where the revenue and the expenses were the same, and I think the answer had to do with Aspen's expenses, being on the expense side. If you take that out, were the margins roughly the same as the first three quarters for the other income and expenses?

A - Richie Whitt {BIO 7084125 <GO>}

I think roughly so. And, yes, in terms of the -- looking at a real businessman's look at the businesses we own, that's exactly what is happening. There's distortions in purchase of accounting, especially in the amortization line when you buy something, and you create an amortization expense that obscure it a bit in the financial presentation. But, if you were a businessman, and you were looking at these businesses, they are performing as expected.

Q - Charles Gold {BIO 17653874 <GO>}

Congratulations. Thanks a lot.

A - Richie Whitt {BIO 7084125 <GO>}

Thank you.

Operator

Thank you. Our next question is a follow-up from Meyer Shields of Stifel Nicolaus. Please state your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. I apologize, this is a question because of my ignorance. What's the tax rate on the international underwriting profits. If the -- pardon me, if the profits aren't going to be repatriated?

A - Anne Waleski {BIO 16735457 <GO>}

If they're not going to be repatriated, we aren't providing taxes for them. But, if your question is what is the statutory rate in the UK, it's about 28%.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, I guess what I'm asking is whether we should apply a different tax rate to the underwriting profits of the London book?

A - Anne Waleski {BIO 16735457 <GO>}

It would be -- it would still be in those low 20's if you're doing it on an effective rate.

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

A - Anne Waleski {BIO 16735457 <GO>}

Because they also have tax exempt.

A - Richie Whitt {BIO 7084125 <GO>}

They are -- I think it would probably be safer than try to put it -- break it into its pieces. I think it would be safer to tell you that we would expect a low 20s sort of tax rate next year, as long as we don't have some other change in the tax code or other things going on.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thank you.

Operator

Thank you. Our last question is a follow-up from Amit Kumar from Macquarie. Please state your question.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks. Just very quickly going back to the point you made on Aspen and the $30 million underwriting loss expected for 2011. I assume that is for the current loss picks for their business. But, when you looked at Aspen's loss reserves, was there any adverse reserve adjustment in Q4 results relating to Aspen, and how do you feel about their loss results going forward?

A - Richie Whitt {BIO 7084125 <GO>}

Well, I'll say going forward, we feel good about what we're setting reserves up at, and we feel good about the reserves on the balance sheet today. During purchase or at purchase, there was an adjustment made to Aspen's loss reserves. It did not go through Fourth Quarter -- or, our Fourth Quarter earnings -- but there was an adjustment made to loss reserves to sort of bring them in line with our reserve and standards. So, I can say that we feel good about the reserves, and we believe they're at a consistent level with the rest of the company.

But, two things -- workers' comp is relatively new to us; and two, workers comp is incredibly volatile and a tough market right now. So, I couldn't tell you I have the same confidence that I have with the reserves that have been on our books for 10 years, and some of the other lines of business that we've been writing for 10 and 20 years. I just; we're not there yet.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks. I'm just trying to get some comfort -- and we've seen workers' comp trends develop in a meaningfully adverse for some other companies over 2010. And, I'm just wondering, you are retaining $200 million out of $300 million book. Why is that -- if it's being re-underwritten, I would have expected the number to go down, not up. Maybe, can you just refresh me on that?

A - Richie Whitt {BIO 7084125 <GO>}

Yes. Well, now, the $200 million that we're retaining, the book has gone down. I think Aspen -- or FirstComp -- at their peak, wrote almost $400 million of premium. And, they finished last year at around $300 million, and we're actually projecting that they write something a bit south of that for 2011. And, we are increasing our participation on that, our retention of that business, and we're going to be keeping, we think today, $200 million.

Now, they have taken price increases in some of their states, particularly California. And, if those price increases result in less business, we'll be keeping less than $200 million. And, we're perfectly comfortable with that, because the key is to get the price right and write business to an underwriting profit.

So, I'm not -- while certainly there is the potential for adverse development, I'm not particularly concerned about the loss reserves that were on the balance sheet when we bought it, after the reserve adjustment there. Clearly, even though we're taking price increases, we don't -- the market is volatile. And, we don't know where that's going to end up yet.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Thanks for your answers.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back to management for closing comments.

A - Tom Gayner {BIO 1896932 <GO>}

Thank you, very much. We're delighted to finish up 2010 in the way that we did, and we look forward to the next quarter, and the next set of news to report to you. We'll be here if you have any further questions, and we look forward to seeing you all soon. Thank you, bye-bye.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.