FINAL

Bloomberg Transcript

Q4 2013 Earnings Call

Company Participants

- Anne Waleski, VP
- Mike Crowley, Co-President
- Richie Whitt, Co-President
- Tom Gayner, President

Other Participants

- Bob Farnam, Analyst
- David West, Analyst
- Jay Cohen, Analyst
- John Thomas, Analyst
- Mark Dwelle, Analyst
- Matthew Berry, Analyst
- Ron Bobman, Analyst

Presentation

Operator

Greetings. And welcome to the Markel Corporation Fourth Quarter 2013 earnings conference call. I would now like to turn the call over to Mr. Tom Gayner, President and Chief Investment Officer. Thank you, Mr. Gayner, you may begin.

Tom Gayner {BIO 1896932 <GO>}

Good morning. Welcome to the Markel Corporation 2013 Fourth Quarter conference call. My name is Tom Gayner. With me are my colleagues Anne Waleski, our Chief Financial Officer and my Co-Presidents Mike Crowley and Richie Whitt.

As always let remind you that during our call today we may make forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions risk factors and Safe Harbor and cautionary statements in our most recent annual report on Form 10-K and quarterly report on Form 10-Q, and on pages 5 through 7 of our press release dated February 10, 2014.

We may also discuss certain non-GAAP financial measures in the call today. You may find the reconciliation to GAAP for these measures in the press release, which may be found on our website at www.markelcorp.com under news and events.

We are excited to tell you about the results from 2013. In a minute Anne will give you more numbers than you'll find in a phonebook. The litany of numbers can have the effect of numbing you to how much work went into producing those results.

Make no mistake though this was a transformative year for your Company on several fronts. We roughly doubled the size of our insurance business through the acquisition of Alterra, we continue to profitably expand our Markel Ventures operations, we enjoyed excellent returns on our publicly traded equity investments and we protected the balance sheet from credit and interest rate risk in our fixed-income operations.

We look forward to giving you some details on the numbers and the activities that went into that statement and as always we look forward to your thoughtful questions. With that let me turn it over to Anne.

Anne Waleski {BIO 16735457 <GO>}

Thank you, Tom. Good morning, everyone. I promise to try to be a little briefer than the telephone book.

I am happy to report that 2013 has been both an exciting and profitable year here at Markel. Our financial performance for the year was strong with our investing, underwriting and Markel Ventures operations all making significant contributions to our success. The challenges and the excitement generated by our acquisition of Alterra have created an environment of opportunity that is very rewarding to see.

In 2013 each of our legacy underwriting segments delivered profitable growth and strong underwriting results while the Alterra segment performed within our expectations. We have essentially completed the integration of customer facing activity and continue to make significant progress on the integration of back-office systems and processes. As Tom says, we are respectful of the amount of work our associates have put forth to accomplish all that has been accomplished so far this year.

Our total operating revenue grew 44% to $4.3 billion in 2013 from $3 billion in 2012. The increase is due to a 48% increase in revenues from our insurance operations which include $853 million from the Alterra segment and a 40% increase in revenues from Markel Ventures.

Moving into our underwriting results, in 2013 gross written premiums were $3.9 billion, which is an increase of 56% compared to 2012. The increase was primarily due to the inclusion of $1 billion of premium from the Alterra segment since our acquisition on May 1, 2013, as well as higher gross premium volume in the specialty admitted and excess and surplus line segments.

The increase in the specialty admitted segment was driven by premiums from the Hagerty Classic Auto book, which we began writing in the First Quarter of 2013. Within the excess and surplus line segment the increase is due primarily to the impact of more favorable rates and improving economic conditions.

Net written premiums for 2013 were approximately $3.2 billion, up 46% from the prior year for the same reasons I just discussed. Net retention was down in 2013 at 83% compared to 88% in 2012. The decrease in net retention is due to the inclusion of premiums written by Alterra.

Alterra has traditionally purchased more reinsurance than Markel has. Net retention in the Alterra segment for the eight month period. Since acquisition was 65%. Net retention for the legacy Markel segments was up slightly at 89% in 2013 compared to 88% in 2012.

Earned premiums increased 51%. The increase in 2013 was primarily due to the inclusion of $848 million of earned premium from the Alterra segment for the eight months ended December 31, 2013, as well as higher earned premium volume in the specialty admitted and excess and surplus line segments. The increase in specialty admitted is due to $98 million of earned premiums from the Hagerty book and continued growth as a result of the Thomco acquisition in early 2012.

Our combined ratio was 97% in both 2013 in 2012. In 2013 a lower current accident year loss ratio and lower expense ratio were offset by a lower prior accident years loss ratio compared to 2012.

The 2013 results were also impacted by the Alterra segment, which added just under 8 points to the combined ratio driven in part by $75 million of merger and acquisition costs and approximately $26 million of tax fee losses. The decrease in the 2013 consolidated current accident your loss ratio is due in part to the impact of catastrophes in 2012 and increased underwriting results within our specialty admitted segment in 2013 compared to 2012 partially offset by an unfavorable impact from Alterra's current year losses.

The 2013 combined ratio included $411 million of favorable development on prior-year loss reserves compared to $399 million in 2012. Favorable development on prior-year loss reserves in 2013 included $21 million of favorable development on Hurricane Sandy. The benefit of the favorable development on prior-year loss reserves had less of an impact on the combined ratio in 2013 when compared to 2012 due to higher earned premium volume in 2013.

The decrease in the consolidated expense ratio in 2013 was driven by higher earned premiums in our excess and surplus lines, specialty admitted and London Insurance Market segments in 2013 compared to 2012. The impact of transaction and other acquisition-related costs incurred by Alterra in 2013 was offset by the impact of the adoption of the new DAC accounting standard in 2012.

Excluding transaction costs and other acquisition-related expenses incurred in 2013, the inclusion of the results of operations of Alterra had a favorable impact on the expense ratio as the Alterra segment had a lower expense ratio than Markel historically has had. As you may have noted in the press release we are providing additional information regarding the components of other revenue and other expenses since those two line items include not only revenue and expense from our Markel Ventures operations but also revenues and expenses from non-underwriting activities included in our insurance operation. Additionally, beginning with our 2013 Form 10-K, which we expect to file on February 28, 2014, we will provide additional supplemental financial information regarding Markel Ventures in our management discussion and analysis.

In 2013 revenue from Markel Ventures were $686 million compared to $489 million in 2012. Expenses from Markel Ventures were $613 million in 2013 compared to $433 million a year ago.

Net income to shareholders from Markel Ventures was $24 million in 2013 compared to $13 million in 2012. EBITDA was $84 million in 2013 compared to $60 million in 2012.

Revenues and net income to shareholders from our Markel Ventures operations increased in 2013 compared to 2012 primarily due to our acquisitions in 2012 and 2013 as well as more favorable results at AMF Bakery Systems. EBITDA from our Markel Ventures operations increased in 2013 compared to 2012 due in part to acquisitions and more favorable results at Parkland Ventures and AMF.

Other expenses for the year ended December 31, 2013, also include $28 million of expenses related to the life and annuity reinsurance business which was acquired as part of the Alterra transaction and is included in our other discontinued lines underwriting segment. This business is in runoff and we are not writing any new life and annuity contracts.

So life and annuity reserve on existing obligations are discounted using assumptions that were determined as of the date of the acquisition. Accretion of this discount is included in other expenses.

Now we'll talk a little bit about our investment results. Investment income was up in $2013 to $317 million compared to $282 million in 2012. Net investment income for 2013 included $74 million of investment income attributable to Alterra, which was net of $58 million in amortization expense from adjusting Alterra's fixed maturity securities to a new amortized cost basis at the acquisition date.

Net investment income also included a favorable change in the fair value of our credit default swap of $11 million as compared to $17 million for 2012. Excluding the impact of Alterra and the credit default swap, net investment income for 2013 decreased compared to 2012 due in part to a decrease in our holdings of fixed maturities and an increase in cash and cash equivalent.

Net realized investment gains for 2013 were $63 million compared to $32 million in 2012. Included in net realized gains were $5 million of other-than-temporary impairments as compared to $12 million in 2012.

Looking at our total results for the year, our effective tax rate was 22% in 2013 compared to an effective tax rate of 17% in 2012. The increase in the effective tax rate in 2013 was driven by higher earnings tax at a 35% rate and a smaller tax benefit related to tax investment income, which resulted from having higher pretax income in 2013 as compared to 2012.

We have reported net income to shareholders of $281 million compared to $253 million in 2012. Book value per share increased approximately 18% to $477 per share at December 31, 2013, from $404 per share at yearend 2012. The increase is primarily due to equity issued in connection with the acquisition of Alterra and $459 million of comprehensive income to shareholders.

Finally I will make a couple of comments about cash flows in the balance sheet. Net cash provided by operating activities was $746 million for 2013 compared to $393 million for 2012.

The increase was driven by higher cash flows from underwriting activities primarily as a result of the Alterra acquisition and higher premium volume primarily in our specialty admitted and excess and surplus line segments. The increase was also impacted by higher cash flows from the Markel Ventures operations in 2013 compared to 2012.

Invested assets at the holding company were $1.3 billion at December 31, 2013, compared to $1.4 billion at December 31, 2012. The decrease in invested assets at the holding company is primarily the result of tax paid for the Alterra acquisition partially offset by dividends received from subsidiaries and a net increase in debt.

I'd like to close with a couple of comments regarding 2014. First, we continue to focus on growth opportunities and we completed our acquisitions of Abbey Protection, a UK-based integrated specialty insurance and consultancy group, during January 2014.

Second, in 2014 we will monitor and report our ongoing underwriting operations in the following three segments -- US insurance, international insurance and global reinsurance. The US insurance segment will include all direct business and facultative placements written by our insurance subsidiary domiciled in the United States.

The international insurance segment will include all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States including our syndicates at Lloyd's. The global reinsurance segment will include all of our treaty reinsurance written across the Company.

Results for lines of business discontinued prior to or in conjunction with acquisitions will continue to be reported as the other insurance discontinued line segment. At this point I would like to turn it over to Mike to further discuss operations.

Mike Crowley {BIO 6836605 <GO>}

Thanks, Anne. Good morning.

The Fourth Quarter results for legacy Markel North American operations are a continuation of the trends we saw in the previous three quarters of 2013. The E&S segment had another excellent quarter with gross written premiums increasing 11% over prior year.

The combined ratio for the quarter was 77.5% compared to 102% in 2012. The combined ratio for the year was 80% versus 93.7% for 2012. Again, all five regions in the E&S segment produced higher gross written premiums versus prior year, continuing a trend that started in late 2012.

As previously reported, Bryan Sanders assumed the position of President of the E&S division on January 1, and has hit the ground running. We are very confident that he is more than qualified to fill the big shoes left by John Latham who is still on board with Markel after leading the segment through a terrific year. Again I would like to take this opportunity to thank John for his excellent leadership over the past few years.

I am also pleased to announce that Wendy Houser has been promoted to the position of Regional President for the Mid-South region based in Plano, Texas outside Dallas. Wendy has been with Markel for over five years and previously served as manager for the wholesale marketing team.

In 2012 she relocated from Richmond to Texas as Managing Director, Underwriting and Production. Wendy has more than 16 years' experience in the industry and we know she will do a terrific job leading that region.

Recently we held our wholesale agents binding and brokerage Council meeting. These meetings are very important to us because of the candid feedback that we receive from our best producers. I am pleased to report that the feedback was very positive, encouraging and helpful in our efforts to improve operational efficiency and continuing to enhance our service and product offerings to our agents.

The specialty admitted segment results were also excellent. The decision to exit certain lines of unprofitable business and certain specific accounts, the addition of the Hagerty business and the continued improvement at FirstComp all contributed to the improved results.

Gross written premiums increased 22% in the quarter over prior year and increased 34% for the year versus prior year. The combined ratio for the Fourth Quarter was 88% compared to 107% in the Fourth Quarter of 2012, and the combined ratio for the year was 97% compared to 108% in 2012. I want to congratulate Greg Thompson, Robin Russo, Matt Parker, Don Faison and the entire specialty team on the execution of their plan to improve the specialty division results.

With regards to rate, we finished the year with low single-digit increases on almost all lines of business. The largest rate increases occurred in workers compensation, casualty and management liability lines.

Additionally we saw good growth in a number of lines of business with the largest growth in spec med [ph], environmental and miscellaneous E&O. Within our product line leadership group we are fully staffed and well positioned to support all of our insurance divisions. We anticipate some potential rate softening in 2014 particularly in property lines; however, we believe our ability to track new business at acceptable rate levels remain strong.

Special kudos go to Tom Smith and his team in sales and marketing for the outstanding job they've done in 2013 in centralizing and coordinating our branding efforts across all divisions. Because of their excellent efforts we are now one company with a recognizable brand and that is having a positive effect on all of our businesses.

Finally I want to congratulate all Markel Alterra Associates for their hard work and terrific results in 2013. I'll now turn the call over to Richie.

Richie Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning, everybody. I'm going to start my comments with Markel International's 2013 results then give a brief update on the Alterra integration and then talk a little bit about pricing trends.

Markel International finished 2013 with an 88% combined ratio; that compared to an 89% combined ratio in 2012. Both years produced strong results driven by solid prior accident year reserve releases and relatively light catastrophe losses.

Even with light catastrophe losses producing double-digit underwriting returns in consecutive years is a tremendous achievement. I want to congratulate William Stovin and the entire Markel International team on another fantastic year.

Markel International's gross written premium increased 3% to $914 million in 2013. Areas of growth included our specialty book as well as our Singapore and Netherlands branches.

We continue to explore opportunities for international expansion. We were particularly pleased to recently see Lloyd's appointment of Inga Beale as CEO and a renewed Lloyd's focus on overseas opportunities.

As Anne said, we closed the Abbey deal in January 2014. We are very excited to add the Abbey team to Markel International. While it is still early in the process the transition has been smooth.

We actually began to write the majority of Abbey's business on Markel paper on January 1. Abbey adds unique retail products and services to our international insurance portfolio and we see opportunities to grow their already strong franchises in legal expense and professional fee protection. We also believe there is a significant opportunity to cross-sell Abbey's products with our existing retail products.

Now I'd like to give a brief update on our acquisition of Alterra. It is been approximately nine months since the deal closed on May 1, 2013; however, it feels like much longer as the integration effort actually began in December of 2012 when we announced the deal.

We have made excellent progress bringing the two organizations together and with every day that passes things feel more and more like business as usual. As Anne stated, Alterra's results have largely been within our expectation.

This is an important statement as our expectations for Alterra were and still are very high. Within the Alterra segment premium volume in the global insurance and reinsurance divisions have met expectations and are in line with prior-year volume. Lines of business that will ultimately become part of Markel International and the excess and surplus lines division have also performed within our expectations.

With the transition to our new segments in the First Quarter of 2014 we don't expect to discuss Alterra as much as we have in 2013. We will be excited, however, to spend more time talking about our various businesses.

Finally I would like to give a brief update on pricing trends in our January 1, 2014 renewals. Pricing trends were very consistent throughout 2013 with modest single-digit price increases in most lines of business.

We have tremendous diversification at Markel and the various areas of the specialty insurance marketplace in which we compete do not all move at the same pace or at times even in the same direction. Clearly the most challenged pricing areas today are property insurance and reinsurance and casualty reinsurance. We saw significant pricing pressure in these areas throughout 2013 and in particular on January 1, 2014, renewals.

As a result our January 1 property and casualty reinsurance writings were down modestly. On the brighter side, pricing is still firm in excess and surplus and worker compensation lines of business. Our many other lines of insurance fall somewhere in the middle of these two extremes.

There is much discussion and angst in the industry on where pricing trends are headed as Markel will continue to push for price increases where available and necessary, and we have the discipline and diversification to walk away from underpriced or marginal business. With that I'd like to turn it over to Tom.

Tom Gayner {BIO 1896932 <GO>}

Thank you, Richie. As we said earlier, we are delighted to report these 2013 results to you.

In our investment operations we earned 33.3% on our equity portfolio in 2013, a similar return to the S&P 500. Through the first three quarters we were meaningfully ahead of that benchmark in a way that surprised me.

Normally in a bull market run we would underperform the index given our conservative nature. Over the years our best relative results tend to come about in tough times rather than when prices are moving up rapidly.

In the Fourth Quarter the surprise outperformance of the first three quarters started to fade as the bull market run up did indeed start to outpace our type of steady Eddie, high-quality company. I have no short-term market prediction but I can tell you that we will remain oriented towards the highest quality and most dependable companies we can find as we allocate funds to equity investments.

Our long-term record of outperformance stands as a testament to the validity of our approach. We continue to methodically add to our equity portfolio and we expect to continue to do so.

In our fixed-income operations we broke even. We earned just enough in interest income to offset the declines in market values of our bond portfolio that came about from the rise of interest rates in 2013. Our legacy Markel portfolio actually earned us quite positive returns but it was not enough to offset the effect of adding the longer duration and different credit profile Alterra portfolio on May 1, which was just about the lowest point of the year for interest rates.

Given our cash and liquidity position and the fact that interest rates have risen a bit and that the yield curve has steepened somewhat, we are beginning to invest modestly in longer-term fixed income securities. I would anticipate that our duration of roughly 3.5 years could move towards a more normal 4 to five years over the course of 2014. This should help our investment income line as we pick up additional yield from this action.

We are especially focused on adding to our municipals series portfolio given the opportunities we see and are watching. In total we earned 6.8% on our investment portfolio in 2013. I am very pleased with those results as they contributed meaningfully to the confluence of income in the Markel Corporation.

At Markel Ventures total revenues rose 40% to $686 million from $489 million a year ago. Our share of the EBITDA from the companies rose 39% to $83.8 million up from $60.4 million a year ago. We continue to be very excited about the ongoing growth of the Markel Ventures company and we are optimistic about organic growth opportunities as well as additional acquisitions.

The common complaints and concern about the insurance business is that the industry is over capitalized and prices are under pressure. Well, that is true.

This is my 24th year the business and that seems to have been a true statement in about 21 out of those 24 years. Despite that, we've continued to compound the capital of Markel at rates in the teens over a long period of time including last year and the last five years.

I hope you don't think it's immodest of me to say that's a pretty good record most of which was accomplished while our stock was rated underperformed. We'll keep doing the things we do and you can keep doing the things you do.

As to what we plan to do we'll manage our existing businesses to the best of our ability with discipline and common sense. Also, given the wide and widening view that we have of the world, as we forward capital in our existing insurance business, new insurance opportunities, publicly traded securities, privately held businesses, expansions and additions to businesses we already own, and to the increasingly robust network of people we know, we trust, and have done business with.

We look forward to continuing to report the results of these activities to you in the future and now we look forward to your questions. With that can you be so kind as to open the floor for questions?

Operator

Thank you, Mr. Gayner. At this time we will be conducting a question-and-answer session. (Operator Instructions).

Questions And Answers

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

I guess one request, one question. On the request, given that you are changing your reporting format and most of us model this stuff quarterly, if you are able to if you could restate your earnings going back a couple of years quarterly just so we have something to work off of going forward on the new RMSology [ph]. So, one request.

And then the question is, we don't have a lot of detail by segment with the development, but it looks like overall your accident year loss ratio excluding CATS was about the highest we have seen in six or seven quarters. Given some of the pricing trends in the US I might be heading down. I'm just wondering what is going on there?

A - Anne Waleski {BIO 16735457 <GO>}

What's going on there is all of Alterra is in the current accident year. So when you do the acquisition there is no concept of prior year to push back to.

Q - Jay Cohen {BIO 1498813 <GO>}

So simply because Alterra is now fully included or more fully included in the earned premium, that has been elevating it relative to the past six quarters?

A - Tom Gayner {BIO 1896932 <GO>}

Right. And we are reporting a 118% combined on the Alterra segment. Obviously a chunk of that is we are working on building a consistent margin of safety like we've always done in other acquisitions.

So that's adding significantly to the current accident year as well. And as Anne said there is no prior accident year when you buy a company, and so we have been working, getting the reserves in the right bucket, getting things to a confidence level that we are comfortable with. All of that is flowing through the current accident year on Alterra.

Q - Jay Cohen {BIO 1498813 <GO>}

That makes sense. I appreciate that. I do remember the Markel International acquisition and there was a year or two where you did have elevated accident year numbers and obviously that resulted in favorable development years later but I understand the strategy.

A - Anne Waleski {BIO 16735457 <GO>}

And Jay, as regards the restatement, we will go back and restate all of the periods that we show in the reports next year.

Q - Jay Cohen {BIO 1498813 <GO>}

That's awesome. Is that as you go, or can you do that ahead of time and give us kind of a runway?

A - Anne Waleski {BIO 16735457 <GO>}

No. It will be as you go.

Q - Jay Cohen {BIO 1498813 <GO>}

Nothing you can do ahead of time to help us? Because otherwise we can't really model it going forward if we don't have the year before.

A - Anne Waleski {BIO 16735457 <GO>}

That's not something we are planning to do.

Q - Jay Cohen {BIO 1498813 <GO>}

All right, thank you.

Operator

John Thomas, William Blair.

Q - John Thomas {BIO 19259993 <GO>}

Could you disclose the reserve development number for specialty admitted in the quarter?

A - Anne Waleski {BIO 16735457 <GO>}

The favorable reserve development was $24 million for specialty admitted and a piece of that was from Hurricane Sandy. And the other piece of that would be flowing out of the Worker's Comp business.

Q - John Thomas {BIO 19259993 <GO>}

Okay. And then Alterra there was no prior-year reserve development in the Fourth Quarter, it was all accident year?

A - Anne Waleski {BIO 16735457 <GO>}

Right. Again, there is no real prior-year concept in the first year of acquisition. So it all falls into the current year.

Q - John Thomas {BIO 19259993 <GO>}

Okay. And then specialty admitted, what would you say about how Worker's Comp is compared to last year on a loss trend?

A - Mike Crowley {BIO 6836605 <GO>}

Well, as we said before we have changed our mix of business in the Worker's Comp. Geographically we have moved out of Southern California in a lot of ways.

We moved into more profitable states and we have also been aggressively getting rate in a number of states. As they have executed, as I've said a number of times on the call, exactly according to the plan to improve the results for FirstComp.

Q - John Thomas {BIO 19259993 <GO>}

All right. Thanks.

Operator

Mark Dwelle, RBC Capital Markets.

Q - Mark Dwelle {BIO 4211726 <GO>}

Sorry if I'll just echo what Jay Cohen said earlier on maybe if you had a full-year number that gave us an idea of where the sector totals were for a full-year basis. It would give us a little bit better idea of understanding the comps as they develop throughout the year.

My first question I guess is, Richie, you were commenting on the property and reinsurance and casualty reinsurance and you had said that they were down modestly. Are you referring to the price or the volume of premiums that you renewed at January 1?

A - Richie Whitt {BIO 7084125 <GO>}

That was really more talking about the volume that we renewed. Depending on what you want to talk about, the property insurance, property reinsurance, casualty reinsurance, you are talking anywhere from $5 to $15, I would say, off in terms of price on average, and there is always outliers on each side of that.

We saw things that were off $25 and $30 and we said, no thank you. And things that we saw that were off less we tried to get on, but I think a few other people have been saying $5 to $15 is sort of the average that pricing was off. I think that is about what we were seeing in those areas.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That's helpful.

And then on the prior-period development, since you just gave us the specialty admitted would it be possible for you to give us either the full-year or the quarterly totals for the other three segments? Obviously 0 was Alterra, but for the London Market and the E&S?

A - Anne Waleski {BIO 16735457 <GO>}

Right. For E&S it was $64 million for the quarter and for London Market $40 million for the quarter.

Q - Mark Dwelle {BIO 4211726 <GO>}

$40 million? 4-0?

A - Anne Waleski {BIO 16735457 <GO>}

4-0, that's correct.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thank you for that.

Last question I had, Tom, I just wanted to verify I don't think there were any acquisitions in Markel Ventures that added in during the First Quarter other than previously announced ones obviously to the extent that they continue. There are no new ones in the Fourth Quarter, is that right?

A - Tom Gayner {BIO 1896932 <GO>}

Yes. I'm looking -- Eagle closed, I think, late in the Third Quarter. So there would've been some contribution during the Fourth Quarter that would not have been there a year ago.

Q - Mark Dwelle {BIO 4211726 <GO>}

Correct. Okay. Thank you, that's all my questions.

Operator

Bob Farnam, Keefe, Bruyette & Woods Incorporated.

Q - Bob Farnam {BIO 15005467 <GO>}

Just to continue on the Ventures question. So can we basically take a look at the Fourth Quarter and use that as a run rate excluding the idea of having additional M&A and whatnot, but is that a comfortable run rate from there?

A - Mike Crowley {BIO 6836605 <GO>}

As far as any other basis of judgment that sounds good to me.

Q - Bob Farnam {BIO 15005467 <GO>}

Okay. And it looked like in the Fourth Quarter the margin in Ventures had dropped down a bit. Was there anything that was driving that?

A - Mike Crowley {BIO 6836605 <GO>}

Most of that is just mix. Different businesses have different levels of profitability to them and also a little bit of seasonality, but I wouldn't read too much into it.

Q - Bob Farnam {BIO 15005467 <GO>}

Okay. And now that you have broken down some of the other income, revenue on the -- MGA revenue looked like a drop from last year to this year, so what was the driver in that?

A - Mike Crowley {BIO 6836605 <GO>}

That's where we have made acquisitions of MGAs and then we start converting them to being underwritten on Markel paper. So the MGA revenue goes away and you start seeing it showing up in our underwriting result. So that will continue and the next time we buy an MGA it will go up a little bit and then start to come back down immediately as we put it on our paper.

Q - Bob Farnam {BIO 15005467 <GO>}

Right. Okay.

And for the Alterra segments I know you basically saying you can't show prior-year development, that it's all baked into the current accident year. Can you just give us an idea, a ballpark, what the prior year development would have been if you could have booked it as prior-year development?

A - Anne Waleski {BIO 16735457 <GO>}

I just don't think we have a good number to give you in that space. I think the best thing around Alterra is what Richie was referencing. If you take out the transaction costs and you look at CATS, they performed in line with expectations taking into consideration that we are building some margin around their loss reserves to get them to a level of conservatism that would match ours.

A - Richie Whitt {BIO 7084125 <GO>}

Yes, and I guess the other thing I would say, Bob, is we have taken -- we've been using these three quarters to sort of hit the buckets where we think they need to be. Not necessarily concerned about is it prior year, is it current year, but how do we feel about the reserves on casualty, how do we feel about the reserves on Worker's Comp, how do we feel about the reserves on reinsurance?

So we are trying to line the buckets up right now. So I'm not even sure how meaningful current year prior year would be because we are moving reserves around to get the buckets where they need to be.

Q - Bob Farnam {BIO 15005467 <GO>}

Right. And moving the buckets, basically have the reserve moves been as expected when you made the deal initially?

A - Richie Whitt {BIO 7084125 <GO>}

Yes, I would say pretty much as we would've expected. In total, yes, in total certainly when you get down to some of those individual classes, yes we have had to move some things around. But to this point and I may have said this last quarter the biggest surprises been the lack of surprises.

Q - Bob Farnam {BIO 15005467 <GO>}

Okay. Thank you, very good. Thanks.

Operator

David West, Davenport and Company.

Q - David West {BIO 1838548 <GO>}

Anne, couple of questions for you. The tax rate you mentioned 22% for the year, Q4 looked quite a bit lower than that, can you talk about what impacted the effective tax rate in Q4?

A - Anne Waleski {BIO 16735457 <GO>}

Yes, I think, David, the biggest change in the Fourth Quarter is just going from an estimated to an actual. So I don't know that there was any specific event. It's just been a matter of taking the calculation to an actual calculation.

Q - David West {BIO 1838548 <GO>}

Somewhat over accrued in prior quarters?

A - Anne Waleski {BIO 16735457 <GO>}

Right. Exactly.

Q - David West {BIO 1838548 <GO>}

Okay. All right. Very good.

And then somewhat of a clarification, I think you mentioned the impact of the credit default swap on net investment income. Did I get this right, was it a positive $11 million this year versus a positive $17 million last year?

A - Anne Waleski {BIO 16735457 <GO>}

That's correct.

Q - David West {BIO 1838548 <GO>}

Okay. Do you happen to have what the Q4 impact was?

A - Anne Waleski {BIO 16735457 <GO>}

Of the credit default swap? I don't have that handy, David, but I am happy to call you with it.

Q - David West {BIO 1838548 <GO>}

Okay. I can probably back it out of the, I'm sure it's in the Q3 --

A - Anne Waleski {BIO 16735457 <GO>}

I don't think it should be a material number, frankly.

Q - David West {BIO 1838548 <GO>}

Okay. Very good.

And then, Richie, you mentioned in your comments that you basically have been pleased with how things have developed at Alterra. With a year of integration activities could you kind of look back and talk a little bit about where you've maybe got your biggest pleasant surprises and where you see the biggest challenges having been?

A - Richie Whitt {BIO 7084125 <GO>}

I think the biggest -- and Mike or Tom might want to kick in here -- I think one of my most pleasant surprises has been how well the business has held up. The second you announce the deal everybody, all of your competitors are going to look to see if there's some way they can take advantage of the transition that you are in the middle of and the volume has held up extremely well.

The key people that we desperately wanted to keep have stayed with us. And you would have expected some attrition on both of those items and I would say both of those have exceeded my expectations.

In terms of challenges as we continue to go forward we have to hold onto that business and there is a more competitive environment as we move forward. I think everybody is saying the same thing there, so we have got the challenges everybody else faces there.

We've got to continue to make these people want to be part of Markel Corporation but of course that is a challenge we have every day with all of our employees. And then I think as Anne said, I think on the front end of the business, the client facing, I think we've got that settled down very nicely. We still have work to do to settle the dust on our processes, on our system, sort of the back end of the business.

A - Mike Crowley {BIO 6836605 <GO>}

I'd add to that I think that the people at Alterra have done a wonderful job staying focused on their clients. And I also tell you in my travels around and involvement with a number of the large agent brokers that we didn't do that much business with before that the reception has been terrific from the agents and brokers. And I think we've got a wonderful opportunity with the new expanded lines that we have to grow the business.

A - Tom Gayner {BIO 1896932 <GO>}

And David I would like to add from the investment point of view, there have been several questions about the accounting of prior years and different buckets and all that kind of stuff, well there is one big giant bucket in the investment department called cash and that all came in with the Alterra investment portfolio. And I have been very pleased with the way that we were able to recraft the Alterra portfolio and turn some of the things that would not be going-forward assets with Markel into cash and reallocate that.

That's been a smoother and better process then might have originally been expected. The second thing I would like to point out as sort of a secondary effect of the Alterra acquisition is that the size of deals we would look at in Markel Ventures is aided and improved and increased by the total size of the Markel balance sheet.

And we're just getting to look at better quality, larger more substantial companies that have more runway than would have been the case in the past. So that also comes about because Markel Ventures in and of itself is going down the learning curve, and we learn and there are things that in retrospect that I wish I would have done differently, or lessons that we take.

But there's just no way to get from here to there without making some mistakes and going down learning curves. But I am very pleased with the way that that process is going. And it has been accelerated by the Alterra acquisition.

The third thing I think about as I look around the people at this table and I think about what we've been through personally and professionally and just sort of strapping ourselves into the cockpit in the last year to get this done and the accomplishments beyond the people that are just in this room, it is been a very energizing thing for the Markel Corporation. And it is how stars emerge and you find out the capabilities and what people can do, and that bodes very well for the future of the Markel Corporation.

A - Mike Crowley {BIO 6836605 <GO>}

The good thing is nobody threw up with the extra Gs when we strapped ourselves in the cockpit.

Q - David West {BIO 1838548 <GO>}

Good to hear. Thanks, so much.

Operator

Ron Bobman, Capital Returns.

Q - Ron Bobman

I had a specific question about -- I think I heard you say Worker's Comp and that you had some favorable development. Of course correct me if I'm wrong, but if I am right could you repeat the number if you provided it? And am I right in assuming that that effectively that came from the FirstComp business?

A - Richie Whitt {BIO 7084125 <GO>}

It's all FirstComp, yes.

A - Anne Waleski {BIO 16735457 <GO>}

It did come from FirstComp and we don't have that number broken out.

Q - Ron Bobman

Okay. And if I remember correctly when you bought FirstComp you also may be somewhat in similar fashion to Alterra you brought the reserve processes and levels to a Markel size and I was wondering how this favorable developments sort of compares in magnitude to any increase that you may have done closer to the acquisition date of FirstComp? And that's it for me, thanks.

A - Richie Whitt {BIO 7084125 <GO>}

It's interesting. Yes, we did work on the margin of safety when we immediately upon the purchase of FirstComp. The one thing you have to remember about FirstComp when we purchased them is most of their business was MGA business,

So there really wasn't that significant a level of reserve on the purchase date. So I would tell you most of the reductions we're taking now are actually business that has been written post the acquisition and we are starting to see nice redundancies come out of that business.

Q - Ron Bobman

Great. Super.

I hope it continues. Thank you.

Operator

Matthew Berry, Lane Five Capital Management.

Q - Matthew Berry {BIO 16846746 <GO>}

Richie, you mentioned a range of experiences with rate across different lines of business. And I just wanted to refer back to historical experience, which has been at times when the market is softening you tend to experience an increase in competition from new entrants into some of your market.

You have moved out of other perhaps larger markets, and so I am thinking that when things harden people leave the specialty and excess and surplus lines and go back to their original business. So with those two different dynamics in mind, I know different things move in different directions at different times, but are there any particular lines of business which you tend to focus on because they are bellwethers or foreshadow a broader weakening of rate across your broad portfolio?

A - Richie Whitt {BIO 7084125 <GO>}

I don't know if there's any that are necessarily bellwethers. I think what we are seeing in the reinsurance market is the influx of the insurance-linked capital. That clearly is having an impact.

And as I kind of said in my comments, actually E&S market is holding up very nicely. And we saw what we had seen during 2013 were people pulling back in the E&S market as well as benefits from the economy improving.

So I think you have to look at each of the pieces of the market on their own merit. And obviously the reinsurance market is challenged right now because of this influx of new capital.

The E&S market is pretty solid and hopefully that will continue. And as I said our other markets are somewhere in the middle, but I would say in all five of our divisions we feel very good about where we sit in terms of our underwriting (technical difficulties) and our pricing.

A - Mike Crowley {BIO 6836605 <GO>}

And I think with regards to the E&S division we continue to see organic growth in the Fourth Quarter, which continues to be encouraging.

Q - Matthew Berry {BIO 16846746 <GO>}

Okay. That's all for me, thank you very much.

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Actually my question was answered. Thank you, very much.

Operator

Mr. Gayner, there are no other questions in the queue. Would you like to make closing comments?

A - Tom Gayner {BIO 1896932 <GO>}

See you next quarter. Thanks so much. Bye-bye.

Operator

Thank you, this will conclude the teleconference. You may disconnect your lines at this time. Have a great day.