Q1 2012 Earnings Call

Company Participants

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

Other Participants

- Alison Jacobowitz, Analyst
- John Fox, Analyst
- Mark Hughes, Analyst
- Meyer Shields, Analyst
- Scott Heleniak, Analyst

Presentation

Operator

Greetings. Welcome to the Markel Corporation First Quarter 2012 earnings call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded. It's now my pleasure to introduce your host, Tom Gayner. Thank you, Mr. Gayner, you may begin.

Tom Gayner {BIO 1896932 <GO>}

Thank you, so much. Good morning. Welcome to the Markel Corporation 2012 First Quarter conference call. We are glad that you are joining us and we look forward to your thoughtful questions about our business. As is our custom, our Chief Financial Officer, Anne Waleski, will lay out the numbers for the First Quarter, followed by my co-President, Mike Crowley, and Richie Whitt, with comments about our international and domestic insurance operation. I will then discuss our investment and Markel Ventures operations a bit, and then we will open the floor for questions.

Before getting started, the rules say we need to repeat the Safe Harbor statement. Here it goes. During our call today, we may make forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements as described under the captions Risk Factors, and Safe Harbor and Cautionary Statements in our most recent Annual Report on Form 10-K and (inaudible) report on 10-Q. We may discuss certain non-GAAP financial measures in our call today.

You may find a reconciliation to GAAP of these measures on our website at www.Markelcorp.com, in the Investor Information section under non-GAAP Reconciliation or on our Quarterly Report on Form 10-Q. With that, Anne?

Anne Waleski {BIO 16735457 <GO>}

Thank you, Tom. Good morning everyone. I plan to follow the same format as in prior quarters. I'll 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.

I'm pleased to say that for 2012, we are off to a good, solid start. Our total operating revenues grew 18%, to $733 million in 2012, up from $622 million in 2011. The increase is due to a 15% increase in revenue from our insurance operations, and a 43% increase in revenue from non-insurance operations, which we refer to as Markel Ventures.

Moving into the underwriting results, First Quarter 2012 gross written premiums were just under $650 million, which is an increase of 10% compared to 2011. The increase in 2012 was due to higher gross premium buy-ins in each of our three operating segments. Net written premiums were approximately $580 million, up 12% to the prior year. Retentions were up slightly in 2012 at 90%, compared to 88% in 2011.

Earned premiums increased 14%. This increase was driven by a 23% increase in earned premium from the London Insurance Market segment. First quarter 2011 net written and net earned premiums for this segment were reduced by approximately $9 million of reinsurance cost, associated with losses incurred during the First Quarter a year ago.

Our combined ratio was 100% for 2012, compared to 112% in 2011. The combined ratio for 2012 includes $20 million, or four points of expense, related to our prospective adoption of the new DAC accounting standard. The 2011 combined ratio included 15 points of underwriting losses related to the three catastrophe events which occurred last year in Australia, New Zealand and Japan.

Excluding the impact of the prospective adoption of the new DAC accounting standards in the First Quarter of 2012, and the effects of the catastrophes in the First Quarter of 2011, our combined ratio improved by one point. This improvement was due to a lower expense ratio, and a lower current accident year loss ratio, partially offset by less favorable development of prior year's loss reserve. The improvement in the expense ratio is primarily due to an increase in earned premium.

The improvement in the current accident year loss ratio was due to lower attritional current year losses in the Excess and Surplus Lines segment, and to lower attritional and large energy losses in the London Insurance Market. Favorable redundancies on prior year's loss reserves decreased to $64 million, or 12 points of favorable development, compared to $75 million, or 16 points of favorable development in 2011. The decrease is primarily due to less favorable development of prior year's losses in the Excess and Surplus Lines segment. In the First Quarter of 2011, we resolved a significant portion of our outstanding liabilities associated with an Arizona missions program for mortgage servicing companies and as a result, reduced loss reserves by $16 million.

Next I'll discuss the results of our non-insurance operations, which we call Markel Ventures. In 2012, revenues from our non-insurance operations were $97 million, compared to $68 million in 2011. Net income to shareholders from our non-insurance operations was $200,000 in 2012, compared to $2.4 million in 2011.

Revenues from our non-insurance operations increased in 2012 compared to 2011, primarily due to our acquisitions of Baking Technology Systems, Incorporated, and WI Holdings, Incorporated in late 2011. The decrease in net income to shareholders from our non-insurance operation is a result of decreased shipments for the quarter in our manufacturing operations, where we expect to see improvements as the year progresses.

Turning now to our investment results. Investment income was up 14% in 2012 to just under $80 million. Net investment income included a favorable change in the fair value of our credit default swap of $11 million. During the First Quarter of 2012, financial markets improved and credit spreads narrowed, which favorably impacted the CDS [ph]. Net realized investment gains were $12 million, compared to $11 million in 2011. There were no other-than-temporary impairments in either period. Unrealized gains increased $214 million before taxes in 2012, driven by increases in equity securities. Tom will go into further details on investments in his comments.

Looking at our total results for 2012, the effective tax rate was 23% in 2012, compared to an effective tax rate of 14% in 2011. The increase is primarily due to anticipating a smaller tax benefit related to tax exempt investment income, as a result of projecting higher pre-taxed income for 2012 than in 2011. We reported net income to shareholders of $57 million, compared $8 million in 2011. Book value per share increased 6% to $373 per share at March 31, 2012, up from $352 per share at year end.

Finally, I'll make a few comments on cash flow and the balance sheet. Net cash used by operating activities was approximately $64 million for the three months ended March 31, 2012, compared to net cash used by operating activities of approximately $9 million for the same period of 2011. The increase in net cash used by operating activities was due to increased claims settlement activity, primarily in the London Insurance Market segment.

Historically, First Quarter is our lowest cash generating quarter, as we pay employee benefits, agent incentives, pension contributions and other items of that sort in the First Quarter. We would expect cash from operations to improve in the Second Quarter. Investments in cash held at the holding company were approximately $1 billion at March 31st, as compared to a little less than $1.2 billion at the end of the year 2011. The decrease is due in part to the purchase of THOMCO in January 2012. Mike will discuss that acquisition further in his comments.

At this point, I will turn it over to Mike.

Mike Crowley {BIO 6836605 <GO>}

Thanks, Anne. Good morning. First quarter results for North American operations showed increases in gross written premiums for both the Wholesale E&S [ph] and Specialty divisions. The Wholesale gross written premiums increased 11% over the same period in 2011, and the Specialty division of gross written premiums increased 10% over the same period last year. Market conditions remained transitional, with moderate increases in many lines.

Rates for wind-exposed property are climbing more significantly than other lines, and yet some lines, such as medical malpractice and specified medical remain very competitive. We see other insurance companies announcing rate increases. It's worth noting, in our opinion, that in our experience, some insurance companies who are announcing rate increases on renewal business are continuing to price new business very aggressively. At Markel, we maintain the consistency of our underwriting discipline on both renewals and new business, we are seeking rate [ph] on both.

With regards to the Wholesale division, during the quarter the division conducted agency council meetings for both our binding of brokerage businesses. At these meetings, we always strive to create an at atmosphere that is conducive to candid feedback, and I'm not suggesting that any of our agents on these councils are shy, they are not. The feedback we received was generally positive and supportive of the one Markel model. Criticism was limited, and mostly centered on response time. John Latham, President of our Wholesale division, and his team, have initiated several projects to address the concerns raised and have all ready reported back to council members on their efforts.

Marketing activities in the wholesale division were aggressive during the quarter, with over 388 agency visits made by our regional personnel. We continue to believe that we're appropriately staffed in the divisions at all of our regions to serve our agents and brokers. In the Specialty division, the increase in their gross written premiums was driven by growth in premiums at Markel American, our Personal Lines division, Markel FirstComp, the Agriculture division, and our carrier alliance business.

Offsetting some of the growths were declines in our Accident, Health and Program [ph] units. The A&H premium fell due to our exiting several programs due to lack of profitability, and Markel programs also terminated several programs for the same reason.

The significant highlight during the quarter was the closing of the THOMCO acquisition in early January. Greg Thompson and his team are a terrific addition to the Markel family. Britt Glisson, our Chief Administrative Officer, Robin Russo, our Executive Underwriter for Specialty, and Tom Smith, head of Sales and Marketing (inaudible), are working closely with Greg and his team on the transition of THOMCO's business. The moving of this business to Markel paper was light in the quarter, but will be accelerated during the remainder of the year with the full impact of the acquisition being felt in 2013.

Also during the quarter we announced several key executive promotions. (inaudible), who joined the Company in 1989, was promoted to lead Markel Specialty Commercial. Mark

Nicholas, who also has been with the Company for over 20 years, was promoted to oversee not only our A&H business, but our carrier alliance business and Personal Lines division. Audrey Hanken was promoted to President of Markel American. Audrey joined Markel American over 17 years ago, and has played a key role in building our Personal Lines business. She previously served as head of Underwriting and Product Development.

Mary Pat Joyce was promoted to President of Prairie State, our carrier alliance business, and she joined Markel in 1999, and most recently was head of operations of Prairie State. Matt Parker was promoted to President of Markel FirstComp. Matt has been with FirstComp for over five years, and most recently was Chief Operating Officer. All of these individuals have significant experience in their respective area, and in the cases of Don, Mark, Audrey, and Mary Pat, significant tenure with Markel. Hopefully, these promotions are evidence to you of Markel's ability to fill key positions from within, which is one of the defining strengths of our Company.

With regards to our product line leadership group during the Fourth Quarter, Markel of 2011 -- Markel's (inaudible) philosophy for 2012 was announced (inaudible) to all of our underwriters. During the First Quarter of 2012 all divisions, Markel International, Wholesale and Specialty, showed positive rate increase. Given the results we saw in the quarter, we're optimistic we can meet our rate increase targets in 2012. The pipeline leadership also initiated several process improvement in standardization projects to streamline our quote, bind and issuance capabilities.

We officially launched My PLL [ph] website to all North American associates on March 30, establishing a protocol and standardization for underwriting guideline across all product lines. We also established protocols for internal communications between regions and the PLL Group [ph]. All of this is being done to improve our speed and clarity when communicating quotes and other information to agents and brokers.

Other highlights include the addition of a Contractors Pollution Liability policy to our binding (inaudible), and developing a ISO claims-made (inaudible) form, in addition to our propriety form to meet the needs of our customers. While still spotty, we're pleased to see continued improvement in the rate environment, and growth in a number of product lines. However, be assured we will not lose our focus on our sales an marketing efforts, being in front of our agents and brokers, and improving our processes and speed of delivery remains at the forefront of what we do everyday.

I'll now turn the call over to rich Richie Whitt. Richie?

Richie Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning, everybody. What a difference a year makes. Pleased to report a solid start of 2012 at Markel International. Our combined ratio was 97% in the First Quarter of 2012. Anne mentioned the prospective adoption of the new DAC accounting standard. The adoption of this standard added three points to International's First Quarter combined ratio.

You'll obviously recall that we got off to a difficult start in the First Quarter of 2011, reporting a combined ratio of 152%, with significant catastrophe losses from several events around the globe, including the Australian floods, the New Zealand earthquakes and the Japanese earthquake and tsunami. As compared to the start of 2011, the First Quarter of 2012 is relatively quiet, and I can tell you in the insurance business, quiet is a good thing.

In the First Quarter of 2012, International gross written premiums were up 9% to $278 million. We continue to experience growth in our Marine & Energy division, most notably in our Energy book. We're also seeing solid growth in our catastrophe-exposed property writings. Premium growth in both of these areas were aided by rising prices.

We're seeing single digit price increases on Marine, Energy and Liability business, and increases between 10% and 20% on average for catastrophe-exposed property business. Unfortunately, the pricing environment in other areas of our book remains competitive. While prices no longer appear to be falling, competition remains strong for Professional Liability, Equine, Trade Credit, and in our various retail markets around the world.

As Mike mentioned, there's always some differential between new business pricing and renewal business pricing. But there's been a bigger and bigger disconnect recently, as what Mike said, people seem to be getting tougher on renewals, but are being pretty aggressive on new business.

Our International leadership team, led by William Stovin and Jeremy Brazil, is focused on growing in the areas where appropriate prices are achievable, and we're working to maintain our discipline in the areas that still remain competitive. Similar to the US, the pricing environment appears to be improving, but it's far from a hard market at this point.

We also continue to focus on possibly growing our retail branch offices around the world, our latest offices in Rotterdam and Munich are settling in and they're off to good starts. Our retail management team is also working to develop standardized processes and procedures to use across our retail branches in order to more efficiently right these small, but profitable policies. In summary, we're happy to be off to a good start in 2012, and we'll stay patient as this market continues to evolve.

Now I'll turn it over to Tom.

Tom Gayner {BIO 1896932 <GO>}

Thanks, Richie. As you've heard so far, here's a lot of positive momentum around Markel these days and I'm glad to tell you, that's true for our investment and Markel Ventures operations as well. On the investment front, we earned a total return of 4% for the First Quarter, with fixed income earning 1.3%, and equities earning 11.5%.

As has been the case for more quarters than I can believe now, interest rates started the period low, and then went lower. As such, we earned the total return of more than what we should expect from the underlying coupon return (inaudible). We continue to believe that interest rates are unnaturally low, and given that belief, we continue to chose to protect the balance sheet by maintaining our bond portfolio at a lower duration than what we would naturally like.

In effect, we're incurring an opportunity cost to do so. This is consistent with our focus on the balance sheet of Markel. There will come a time when this decision should add meaningful value to our shareholders. We'll be the first to point that out to you when it does.

On the equity side, we earned a total return of 11.5% for the quarter and we continue to steadily and methodically increase our equity investment commitment. It now stands at 59% of shareholders' equity, up from 54% at year end 2011. We have additional capacity to increase our equity holdings, and we continue to do so as we have for the last few years. We believe that our portfolio of global, dominant, profitable companies represent the best big opportunity to earn good long-term rates of return and as such, we continue to steadily and methodically add them to the investment portfolio.

On the Markel Ventures front. During the First Quarter, revenues were just shy of $100 million, and are included in the other revenues line of our income statement. EBITDA totaled $9.4 million. As always, a reconciliation of EBITDA to GAAP net income is available on the website. Frankly, the First Quarter EBITDA levels were below our budgeted expectations. This was due to a combination of normal seasonality.

Our lumpy businesses, not getting as many lumps of business, as is often the case, and the expensing of some meaningful growth opportunities at certain of the Ventures companies. We remain optimistic about meeting our annual goal, since the seasonality improves as the year goes on, and we have good order (inaudible) and backlogs in some of the lumpy businesses. Also, the growth initiatives and associated expenses will continue, but they should begin to bring appropriate revenues and profits for the passage of time.

Additionally, just after the quarter ended, we added Havco to the Markel Ventures family. Havco is the leading manufacturer of wood flooring for the trailers of tractor trailers, and has a multi-decade history of leading market share and profitable. Havco is led by Bruce Bader and a well-established management team that will be staying and leading Havco into the future. We are proud of the ongoing continuity of management at all of the Markel Ventures companies, and are glad to welcome Bruce and his team to the family. I am confident they will earn fine rates of return on our capital.

In order to give you some frame of reference about the magnitude of the growing Markel Ventures operations, I'll tell you at this point that the annualized revenue run rate of Markel Ventures should approach $500 million, and we continue to expect double digit EBITDA margins from the collection of these businesses. Please remember that the Safe Harbor statement that I started out with, I hope that information is somewhat helpful as you consider the size and scale of this growing component of value creation for Markel shareholders.

To summarize, we're optimistic about what is going on at Markel these days. As Mike and Richie reported, we're seeing better insurance markets and we're continuing to refine and improve on every aspect of our operations. We're off to a great start on the investment side, and we look forward to reporting a full year of operations from the Markel Ventures group of companies. We appreciate the long-term nature of our shareholders who are interested in earning a successful, long-term business and we now look forward to your thoughtful questions.

With that, we'll open the floor for Q&A.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions). Our first question is coming from Mark Hughes from SunTrust. Please proceed with your questions.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you, very much. The (inaudible) ratio in the Specialty Admitted was up a bit year-over-year. Is that higher level going to be sustained going forward?

A - Mike Crowley {BIO 6836605 <GO>}

There were three things that was unusual in the quarter, the DAC expense which Anne talked about, we had some severance in the quarter, and we the write down of systems in the quarter.

Q - Mark Hughes {BIO 1506147 <GO>}

So the DAC would be sustained, perhaps, but the others not?

A - Anne Waleski {BIO 16735457 <GO>}

That's correct.

Q - Mark Hughes {BIO 1506147 <GO>}

Of the increase, how much was the DAC? I'm sorry if I missed that.

A - Anne Waleski {BIO 16735457 <GO>}

For Specialty Admitted, hang on one second, I was shuffling some papers around. You can expect that the DAC piece [ph] will be larger in the first and Second Quarter than it will be in the later half of the year. It's about four points on Specialty Admitted in the First Quarter.

Q - Mark Hughes {BIO 1506147 <GO>}

Okay. And then the London -- the current year losses were quite low, as low as we've seen in some time. I know that's a volatile business. Any reason to assume that will change current (inaudible) year? Should we keep it at a plus 67%?

A - Tom Gayner {BIO 1896932 <GO>}

There's a couple of things going on there over the last few years, added some businesses that have fairly low loss ratios, but maybe slightly higher expense ratios, and the two that I'm thinking about are Elliott Special Risks and a trade credit businesses. They have low loss ratios, but higher than typical expense ratios. There's a bit of a mix thing going on there, also it was a very quiet quarter in terms of catastrophes, so that also is impacting. I think it was a good quarter in terms of the current accident year. I don't know that we could expect that every quarter going forward during this year.

Q - Mark Hughes {BIO 1506147 <GO>}

Just any thoughts on pace of favorable development going forward? It's down a little bit year-over-year, but still at a very healthy level. What can you say about that?

A - Anne Waleski {BIO 16735457 <GO>}

I think we expect it to continue to be healthy, so I'm not expecting any big differences in the future quarters.

A - Mike Crowley {BIO 6836605 <GO>}

And the only thing I would add to that, Mark, the market has been softening for five, six years now, so while we always attempt to establish a fairly consistent margin of safety, with the market margins shrinking, I think it's likely, unless the market stars to tick up which we think it's starting to, those things will continue to drift down.

A - Anne Waleski {BIO 16735457 <GO>}

A little bit, yes.

Q - Mark Hughes {BIO 1506147 <GO>}

Okay, thank you.

Operator

Thank you. Our next question is coming from Jay Cohen from Bank of America Merrill Lynch. Please proceed with your question.

Q - Alison Jacobowitz {BIO 1514560 <GO>}

Hi. Actually, it's Allison Jacobowitz, actually. Just a follow-up to the last question in part. I don't know, it possible at this point for to you give maybe more -- a little bit more specifics on the DAC accounting change, and how it's going to come through the rest of the year? I think you said something in the queue about $43 million over nine months, we've got $20 million in the First Quarter.

Is it that $23 million we should look for for the next couple of quarters, and how should we look at that? Then also, I don't think I heard it. If you could talk about the -- the -- the favorable change in the swap this quarter that added the $11 million to investment income. I'm sorry, I don't have the quarterly history, but I'm sure that's one, but how you might be thinking about that. If there's anything you can put around that?

A - Anne Waleski {BIO 16735457 <GO>}

Okay, Allison, relative to the DAC question, there's about four points in the First Quarter. My best swag would be that you could take three points in the Second Quarter, then two points, then one point, and it may move around a little bit, but that would be a reasonable swag. Relative to the credit default swap, it has moved around a fair amount quarter-to-quarter. The markets just moved in enough of the right direction this quarter that we ended up with a pretty positive outcome.

Q - Alison Jacobowitz {BIO 1514560 <GO>}

Thank you.

A - Tom Gayner {BIO 1896932 <GO>}

Nothing really add to that. The history is that every quarter there's movement, it would net towards zero over time.

Q - Alison Jacobowitz {BIO 1514560 <GO>}

Okay, great, thank you very much.

Operator

Thank you. Our next question is coming from Scott hell Lynn Helen nabbing.

Q - Scott Heleniak {BIO 15171212 <GO>}

Good morning. I was wondering if you could touch on the -- a little more on the comments you made about new business being a lot more competitive, I'm assuming that's been a change over the last couple of quarters. Just curious if you can sort of touch on what areas that you're seeing that increased new business competition? Is it by class or is it small versus medium, or large?

A - Mike Crowley {BIO 6836605 <GO>}

Scott, this is Mike. I don't know that we're seeing an increase over the last couple of quarters. What my point is, is what we're seeing is -- our underwriting discipline is consistent on new business as it is on renewal business, and what we're seeing, when we read the press releases, we're seeing comments by competitors saying that they're raising rates, and we see and we hear from our agents, and it's pretty much across the board, large, small, whatever, but particularly on the business that we're in which is medium size to small risk.

We're hearing from our agents that some of the carriers have been very aggressive in the past during the soft market are raising rates substantially on renewals, and yet we see them in the marketplace where we compete with them being very competitive on new business and not following the same philosophy. I don't see that the aggressiveness on new business is not increased in the quarter. It's been aggressive.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay.

A - Mike Crowley {BIO 6836605 <GO>}

Just pointing out the difference between our underwriting philosophy and maybe some others.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay, that's clear. Just wonder field goal you can touch on whether you're seeing any big changes on policy terms and conditions over the past few months as the markets improved a little bit? Any movement there?

A - Mike Crowley {BIO 6836605 <GO>}

Nothing really significant.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay. The only other thing I had, just a couple of numbers questions. Where there any catastrophe losses in the quarter?

A - Anne Waleski {BIO 16735457 <GO>}

There were nothing of any materiality. There were a couple of the tornadoes that had been classed as catastrophes, but nothing material in our numbers.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay. And just one other thing, too. The Markel Ventures, you talked about some of the seasonality of the business. Now based on the collection of businesses you have now, is key one going to be the seasonally weakest or softest quarter and improves in the second and Third Quarter? How should we think about the seasonality of that business, top and bottom?

A - Tom Gayner {BIO 1896932 <GO>}

Our experience so far is Q1 is indeed the lowest quarter we've seen in the build through the year.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay, thanks.

Operator

Thank you. (Operator Instructions). Our next question is coming from Meyer Shields from Stifel Nicolaus. Please proceed with your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Thank you. Good morning, everyone.

A - Anne Waleski {BIO 16735457 <GO>}

(Multiple Speakers). Good morning.

Q - Meyer Shields {BIO 4281064 <GO>}

I think this is a question for Mike. I think you noted $14.5 million first time related loss. Was that any adverse to the development?

A - Anne Waleski {BIO 16735457 <GO>}

No, I don't think so. I think mostly it came out of just where we're tearing in the loss ratio. The reserves have held in there pretty good.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, so this is just booking at Markel levels?

A - Mike Crowley {BIO 6836605 <GO>}

I think the other thing you have got to think about, Meyer, last year as we were bringing that business on, California was a relatively small portion of it. Now that we're keeping a 100% of the business, California is kind of fully loaded in there, and our California loss ratio, just because of what the California market's been the last few years, we're carrying higher loss ratios there, but we've been raising prices and we've been working really hard on California, so we're optimistic they'll come down in the future, but California we're carrying at a pretty high loss ratio.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. Tom, I'm not sure how to phrase this question. Whether it's the Buffet Rule or something similar to that, but are you worried about, in general, equities or equity prices getting a hit if the associated taxation for realized gains or dividends changes over the next year?

A - Tom Gayner {BIO 1896932 <GO>}

Not really. I mean, the number of factors, the number of variables that goes into what a given price of any equity is going to sell for on any given day is about a million. While those might be bad factors, I don't think they're the exclusive drivers on why things sell for what they do. We are -- we tend to be bottom up people rather than top down people. If you worry about the Buffet Rule, the changes in tax, whatever goes on in European politics, et cetera, et cetera, I think you go in a hole and never do anything, and I don't think that would be a productive way to proceed.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. One last question, if I can. I think we started off with a discussion of agency feedback on One Markel's positive and negatives. Was growth in the quarter impacted on the negative side at all?

A - Mike Crowley {BIO 6836605 <GO>}

I would say it was impacted on the positive side. Really, the feedback is very good on the One Markel results, and we're seeing almost all of our large wholesale producers' books grow with us. There's a couple that haven't, one, because they lost a lot of business themselves, but we got -- I might not have worded that as well as I could have, just trying to be candid. Really, the only negative response was just trying to help us continue to speed up their response to them in terms of quote, bind, issue. The response on the One Markel and their availability of all Markel products for these agents and brokers have been terrific.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thank you for clarifying.

Operator

Thank you. Our next question is coming from John Fox from Fenimore Asset Management. Please proceed with your question.

Q - John Fox {BIO 1796608 <GO>}

Thank you. I have a few questions. One, thank you for the disclosure on the accounting change, that's appreciated. In Specialty, I was under the impression that last year, you were going to put some reserves up at FirstComp or bring it up to Markel standards of about $30 million last year, and of course it's in this quarter this year. Is it my impression that that's last year wrong, or is there something else going on there, in terms of bringing it up to Markel standards, in addition to what Richie said about California?

A - Mike Crowley {BIO 6836605 <GO>}

Two things there, John. When we purchased FirstComp, we put some reserves up to get historical reserves where we thought they needed to be and in line with our, more likely than not, redundant margin of safety philosophies. In all our lines of business at Markel as we go forward, we build in a margin of safety on the loss reserves and the loss ratio because things happen, you know. That is part of our more likely redundant than deficient philosophy, to have that margin of safety as we move forward.

So there's two pieces. There was what we needed to do when we bought it, but on an ongoing basis, we will continue to put a margin of safety on FirstComp just like we do all of our other businesses. That could potentially decrease -- the amount of the margin could decrease -- as we become more comfortable with that business, but it's no different than what we do everywhere else, I guess is what I'm saying.

Q - John Fox {BIO 1796608 <GO>}

Okay. Is there anything else in the segment, even if you (inaudible) to 14 that wrote at an underwriting loss, are there other lines of business or any other trends that are significant there?

A - Mike Crowley {BIO 6836605 <GO>}

No, nothing -- nothing really. We feel good about it. We're getting price wherever we can, and with regard to FirstComp, they are focused on improving pricing, they're focused on the risk selection, they're focused on their agency plant management, and they're also focused, as Richie mentioned, on their geographical mix. They went into two new states, Louisiana and Alaska last year, and then we saw some nice growth there, so no, I don't think so.

Q - John Fox {BIO 1796608 <GO>}

Okay, THOMCO is in that segment. I thought I heard that is going to impact next year?

A - Mike Crowley {BIO 6836605 <GO>}

No, THOMCO -- very little of the THOMCO business transitioned in the First Quarter. We'll be transitioning those programs that are moving to Markel paper during the course of the year. Some of bigger programs are later in the year, their largest program, I think, we start transitioning in September. So, we won't feel the full impact. I think what we said in previous disclosures was that we expect about $60 million direct to hit in 2012 with the full impact of the acquisition hitting in 2013.

Q - John Fox {BIO 1796608 <GO>}

Okay. So that's like an MGA situation rolling under your paper?

A - Mike Crowley {BIO 6836605 <GO>}

Right, exactly.

Q - John Fox {BIO 1796608 <GO>}

And for Tom Gayner. For Ventures, I believe Havco is in the Second Quarter, is that right?

A - Tom Gayner {BIO 1896932 <GO>}

That's correct, that didn't close until April.

Q - John Fox {BIO 1796608 <GO>}

Okay. Did you close anything in the First Quarter?

A - Tom Gayner {BIO 1896932 <GO>}

No.

Q - John Fox {BIO 1796608 <GO>}

Okay, and so the acquisitions line in the cash flow statement is really for THOMCO?

A - Tom Gayner {BIO 1896932 <GO>}

Right. Correct. (Multiple Speakers) --

Q - John Fox {BIO 1796608 <GO>}

Not for Ventures?

A - Tom Gayner {BIO 1896932 <GO>}

Correct.

Q - John Fox {BIO 1796608 <GO>}

Okay, thank you.

A - Mike Crowley {BIO 6836605 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions). Our next question is a follow-up from Meyer Shields from Stifel Nicolaus. Please proceed with your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. One brief one. When we look at the underwriting process for the generating profit in the discontinued lines, is that sort of sporadic, or is there some sort of (inaudible)?

A - Tom Gayner {BIO 1896932 <GO>}

Meyer, that's going to be very sporadic. Those lines are discontinued. It's really legacy reserves that are now running off. I think the small positives you've seen sporadically over the last several quarters is really just the more likely redundant than deficient philosophy of Markel playing out as we're settling out those legacy reserves. We're seeing bits and pieces of redundancy. I wouldn't even attempt to project what that could look like going forward.

Q - Meyer Shields {BIO 4281064 <GO>}

All right, fair enough. Thank you.

Operator

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

A - Tom Gayner {BIO 1896932 <GO>}

Thank you, very much. We look forward to updating you next quarter. See you soon.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation.