Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Jeff Schmitt, Analyst
- Mark Dwelle, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and welcome to the Markel Corporation Q2 2019 Conference Call. All participants will be in listen-only mode (Operator Instructions). After today's presentation there will be an opportunity to ask questions (Operator Instructions).

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and options concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions, Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on the Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measure and a reconciliation to GAAP of these measures in the Form 10-Q, which can be found on our website at www.markelcorp.com in the Investor Information section. Please note this event is being recorded.

I would now like to turn the conference over to Tom Gayner, Co-Chief Executive Officer. Please go ahead.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Andrea. Good morning. This is Tom Gayner, I'm joined this morning Co-CEO, Richie Whitt, and our CFO, Jeremy Noble and it's our pleasure to welcome you to the Markel Corporation first half 2019 financial update call. The purpose of this call is to connect with you our owners and to provide you with an update on our financial performance through the first half of 2019. We'll also offer some commentary about current events and circumstances around Markel, and we look forward to any and all questions you'd like to ask us about your business.

We're pleased to report to you that we're off to a good start through the first six months of 2019. The overall financial results are quite good and Jeremy will provide you with the numbers and some details in just a minute. As always Markel is a complicated place, one beauty of that complication though, is that we've created a structure and architecture which fosters the ability to make good capital allocation choices and absorb some learning and tuition we sometimes pay along the way so that we can keep getting better.

As we've discussed for many years our rank order and allocating capital is first to invest in and support our existing businesses when we have reinvestment opportunities to help them achieve profitable growth. Second, we look for acquisitions that add to our existing businesses or create new fields for us to plan, third we build our portfolio of publicly traded equity securities and fourth when appropriate, we repurchase Markel stock. We did all four of these in the first half of 2019.

In addition to this financial lens and language of allocating capital, at the same time we run and manage our business through the human lens and language laid out in the guiding principles of the Markel style. Through the integrated thought that takes into account the financial metrics and the human and humane values we think we're running Markel in such a way that we will be able to gain the privilege of doing it again tomorrow .

The midpoint of 2019, each of our three engines of Insurance, Investments and Markel Ventures created positive value and energy for Markel. We've got some cylinders in those engines that are firing wonderfully rest assured that we diligently keep our eyes on all of the gauges and will never become complacent where things are going well, we can always do better.

We've also got some cylinders with shall we say, more room for improvement, and we're working on those as well. I think it's important at all times to remain even (inaudible) and work with diligence, both in the areas where things look great and also where they don't. That's what we do every day as (inaudible) says in the song, 'I still haven't found what I'm looking for'. Q2 is still working and looking and so are we, and so with that introduction, I'd like to turn things over to Jeremy to review the numbers from the first half. After Jeremy's comments which will cover our insurance and related operations and then I'll return with a few words about investments in Markel Ventures.

Following that, we'll open up the floor for questions. Jeremy?

Jeremy A. Noble {BIO 20687803 <GO>}

Thanks, Tom good morning everyone. All three of our operating engines made meaningful contributions to our results in the first six months of 2019. We continue to see outstanding performance in our investment portfolio during the first half of the year.

Mirroring the strong performance of the broader equity market operating results attributable to Markel Ventures operations increased substantially, and we also experienced meaningful premium growth in our underwriting operations. The first six months of 2019, total operating revenues grew 38% to approximately $4.9 billion. The increase was driven by just over $1 billion of net investment gains on our equity portfolio in 2019 resulting from favorable market movement additionally, revenues from Markel Ventures segment increased 10% year-over-year .

Looking at our underwriting results, gross written premiums were $3.3 billion for the first half of 2019, compared to $3 billion in 2018, an increase of 9%, which was attributable to higher gross premium volume in both our Insurance and Reinsurance segment. Retention of gross written premiums increased one point from 83% in 2018 and 84% in 2019 this increase was driven by an increase in the net retention within the insurance segment, resulting from higher retention on our general liability and professional liability product line partially offset by lower retention on our personal lines business.

Earned premiums increased 5% to $2.4 billion in the first half of 2019 due to higher written premium volume in our insurance segment partially offset by lower earnings in our Reinsurance segment. Our consolidated combined ratio for the first six months 2019 was 95% compared to 91% last year. The increase in the consolidated combined ratio was primarily driven by less favorable development on prior year's loss reserves within our insurance segment.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased to $1.1 billion compared to $971 million a year ago. The increased revenues were primarily attributable to higher revenues across our products businesses which includes our Q4 2018 acquisition of Brahmin leather works. EBITDA for Markel Ventures was $160 million for the first half of 2019, compared to $82 million last year. In 2019 our strong EBITDA reflects improved operating results of one of our consumer and building products businesses as well as the contributions from Brahmin. 2018 EBITDA was adversely impacted by an accrual associated with the manufacture of products at one of our businesses.

Turning to our investment results, net investment income increased to $213 million in the first half of 2018 to $226 million this year. The increase was driven by higher dividend income due to increased equity holdings and dividend rate. A higher short-term investment income due to higher short-term interest rates compared to the same period of 2018. Net investment gains included in net income were $1 billion for the first half of 2019 compared to a net investment losses of $18 million in 2018.

As I mentioned earlier, substantially all of our net investment gains in 2019 were attributable to the increase in the fair value of our equity portfolio during the period. Net unrealized investment gains, increased $281 million net of taxes during the first half of 2019, reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines and interest rates over the same period. Given our long-term focus variability in the timing of investment gains and losses is to be expected. Looking at our consolidated results for the year, our effective tax rate was 22% in 2019, compared to 47% a year ago.

As I've mentioned previously, the impact of management's decision to elect to treat two of our UK subsidiaries as US taxpayers beginning in 2018 at $102 million or 25% in 2018 effective tax rate. Our estimated annual effective tax rate, which excludes this impact, as well as certain other items that are infrequent or unusual in nature, is 21% in 2019 and 20% in 2018. We reported net income to shareholders of $1.1 billion for the first half of 2019, compared to $214 million a year ago. And comprehensive income to shareholders for the period was $1.4 million compared to a comprehensive loss to shareholders of $11 million a year ago.

Comprehensive income for the first six months of 2019 was driven by net income the components of which I just discussed, along with an increase in the fair value of our fixed maturity securities since the end of 2018. Finally, I'll make a few comments on cash flows capital and our balance sheet. Net cash provided by operating activities was $249 million for the first six months of 2019, compared to $308 million for the same period in 2018.

Operating cash flows for 2019 reflected higher claim settlement activity and lower cash flows from our Markel Ventures operations compared to 2018, largely due to the timing of working capital fluctuations. Invested assets at the holding company were $3.1 billion at June 30, 2019, compared to $2.6 billion at December 31. The increase in the holding company invested assets is due to our second quarter issuance of $600 million, a 30 year maturity unsecured senior note, partially offset by $212.5 million of cash used to acquire a minority interest in the Hagerty Group, a leading provider of specialty insurance to automobile enthusiasts.

Total shareholders' equity stood at $10.4 billion at the end of June, an increase of 14% from year-end. We repurchased 68,000 shares in the first six months of the year pursuant to our outstanding share repurchase program. With that, I'll turn it over to Richie, to talk more about our underwriting program services and ILS results.

Richard R. Whitt {BIO 7084125 <GO>}

Thanks Jeremy and good morning everyone. As Jeremy said today, I'll focus my comments on our underwriting operations. I will also provide brief updates on State now -- State National program services business and our insurance linked securities operation. Headlines for the first six months include solid underwriting results combined with strong premium growth, resulting from a combination of organic growth and an improving pricing momentum.

We're also pleased with the progress we've seen from our recently acquired State National Nephila [ph] operations. So starting with the insurance segment gross written premiums for the quarter are up $134 million or 11% compared to the second quarter of '18. For the first six months, Premiums were up $234 million or 10%. Premium growth for both for the quarter and the six months was driven by continued strong organic growth across several product lines most notably, our General Liability, Professional Liability, Personal Lines and Marine and Energy products.

Earned premiums for the segment are up 8% for the quarter and six months with similar drivers as the gross written premium increases. The combined ratio for the insurance segment was 95 for the second quarter of 2019, compared to 92 last year. This three point increase in the combined ratio was driven by less favorable development on prior accident year loss reserves, partially offset by a lower expense ratio. The decrease in favorable development on prior accident year's losses was primarily driven by less favorable development in our workers' compensation line and more adverse development in our property line. Lower expense ratio in the quarter was primarily driven by the impact of higher earned premiums.

The combined ratio for the first six months for the insurance segment was 95% versus 90% for the same period a year ago, with the increase driven by less favorable development on prior accident year losses primarily in our Professional Liability, Marine and Energy and workers' compensation, product lines. Higher earned premiums for the first six months, had a favorable impact on our expense ratio and an unfavorable impact on the prior year's loss ratio.

Turning next to reinsurance, gross written premiums for the quarter were up $14 million or 7% compared to the second quarter of '18. On a year-to-date basis, premiums were up $36 million or 5%. Premium growth in the quarter was driven by an increase in our general liability line due to the timing impact of renewals and multi-year contracts. This was partially offset by a decrease in professional liability due to non-renewals. Premium growth for the year is also driven by the timing impacts within our general liability line along with growth in our workers' compensation line due to higher premiums upon renewal.

As mentioned previously, significant volatility in gross written premium volume can be expected in our reinsurance segment, due to individually significant deals and the timing of renewals on multiyear contracts. Earned premiums for the segment decreased by 10% in the quarter. And 8% for the first six months, due to the runoff of earned premium from a large specialty quota share treaty that was non-renewed, and higher ceded earned premium resulting from changes in our outward property reinsurance structure. This was partially offset by growth in earned premiums in professional liability due to increases in gross written premiums in previous quarters.

The combined ratio for the Reinsurance segment was 96% for the second quarter of 2019, compared to 90% last year. This six point increase in the combined ratio was driven by a higher current accident year loss ratio and expense ratio. The increase in the current accident year loss ratio was primarily driven by our product, our property product lines where we've had increased purchases of excess of loss and catastrophe reinsurance coverage, resulting in a higher net attritional loss ratio in 2019.

The increase in the expense ratio was driven by the impact from lower earned premiums along with higher compensation costs in the current year. The combined ratio for the first six months for the Reinsurance segment was 97% compared to 94% a year ago, again driven by higher current accident year loss ratio and expense ratio. The increase in the current loss ratio for the first six months was driven by changes in the property reinsurance that I just discussed, partially offset by the impact of favorable premium adjustments across multiple product lines. The increase in the expense ratio for the first six months was driven by the impact of lower earned premiums along with higher compensation expense.

Next, I'll make a few comments about the State National program services business. Gross written premium volume for our State National program services operations was $655 million for the quarter and $1.2 billion for the six months, up 18% and 16% respectively from the same period last year. This was driven by organic growth across several existing programs. As a reminder, almost all of the gross written premium at State National is ceded to third party reinsurers.

Total ceded fee revenues were up 11% and 13% on a quarter and six month basis, from last year due to continued growth in program premium volumes over multiple quarters. We are very pleased with State National's strong six months performance. In addition, and as we expected State National is proving strategically important to Nephila and our overall ILS strategy. As a reminder amounts for our program services operations are reported in services and other revenue expenses within our operating results.

Next, I'll discuss insurance linked securities operation. With the completion of the Nephila acquisition in November of last year, we have significantly increased Markel's ILS operation. With our Nephila and Markel CATCo operations, we have approximately $13.7 billion of net assets under management as of June 30, 2019. Total revenues from our ILS operations were $50 million in the quarter and $104 million for the first six months of 2019, versus $17 million and $35 million for the same periods last year.

The increase in revenue in both periods is due to the contribution of revenue from Nephila partially offset by lower revenues from Markel CATCo due to lower assets under management and a reduction in management fees charged on side pocket shares which are shares that are restricted from redemption. Operating revenues for both periods were impacted by cost associated with internal reviews of matters at Markel CATCo operations and related litigation costs, the effects of which were more than offset by lower retention and incentive compensation costs in 2019, compared to '18. A number of items are creating a very complicated picture for ILS results in 2019.

Related to Nephila purchase accounting adjustments, brokerage revenue and expenses from our Velocity MGA in delayed fee recognition on side pockets make it makes it difficult to see the underlying performance. As these items burn off through the rest of 2019, the picture will clear up. Sifting through the noise caused by these items Nephila is broadly on target to meet our expectations from the beginning of the year. The primary differences in the actual underlying results compared to our initial expectations is attributed to have a lower net assets under management resulting from the 2018 loss events and the film are taking a disciplined approach to long-term value creation for investors heading into 2019.

Related to Markel CATCo the run-off of the business and the associated cost of the internal review and litigation have resulted in losses for the quarter, in the first six months of the year. As a reminder amounts from our ILS operations are also reported within services and other revenue expenses within our operating results.

Regarding Markel CATCo last week CATCo announced it will cease accepting new investments. It will not write any new business going forward. Markel CATCo will commence the orderly run off of its existing portfolio which is expected to take up to three years. These decisions were made in light of the fact that substantially all of the capital in the funds which tendered for redemption and the inquiries from government authorities in the loss reserves recorded in late '17 and early '18 at Markel CATCo remain ongoing.

Markel however strongly believes that the insurance linked security market is here to stay. We'll continue to grow and there is an area where we are establishing a market leading position with our recent acquisitions of Nephila and State National. Building on these successes last week, we announced our plans to establish a new retrocessional insurance linked securities platform in Bermuda. The new platform is expected to allow us to expand our current range of ILS capability drawing, on the deep talent and resources from across the Markel organization.

This platform will be overseen by Markel Global Reinsurance veterans, Jed Rhoads and Andrew Barney Barnard. Initial product offerings are expected to include a property catastrophe retrocessional investment head of the 2020 renewal period. The fund is expected to offer seasons a suite of property retrocessional products with the ability to have coverage provided either on a collateralized basis or on a rated paper basis written by Markel Bermuda Limited, or a combination of both.

Finally, some market commentary market conditions there, market conditions continue to improve in an incremental fashion. We continue to see month over month price improvements in most lines of business. Florida renewals broadly met our expectations, and I believe market expectations for price increases however, given higher frequency and severity assumptions following the last two years of cat activity more rate will likely be needed in 2020. We continue to see low to middle single-digit price increases in professional and casualty lines but, we would still describe most of these areas as competitive. It seems very clear that the market is in transition with carriers reinvesting their expectations for CAT frequency and severity and professional and casualty results clearly needing rate increases after several years of decrease.

There has been much discussion in the market of increased increasing claims trend and whether rate increases are keeping pace. I think the reality is that the answer will differ by line of business and it's going to take time to know a definitive answer. Our sense is that professional and casualty lines need rate increases to account for increasing claims trends it would be foolish to assume that all price increases will fall directly to the bottom line.

Similar to last quarter, the only major line where pricing is declining at the moment is workers' compensation, as a result of its good results over the last several years and highly regulated nature. We believe that workers' compensation is still profitable, but clearly the margin that we have seen in the business over the past several years is shrinking. We are cautiously optimistic that the incremental rating environment improvement will continue during the rest of the year.

So to some, the first half of the year up we feel very good about the progress made in our underwriting ILS and program services operations. Market conditions continue to improve and we are growing profitably across our businesses. We are intently focused on finding ways to leverage Markel's unique set of capabilities for our customers. Thanks for your time today. And I'd like to turn it to Tom.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you. Richie. Well as you can see from the numbers we enjoyed wonderful results in both Markel Ventures and in our investment operations during the first half of 2019. At Markel Ventures we set new records in revenues and EBITDA, revenues exceeded $1 billion during the first half and EBITDA of $161 million gives a vivid picture of the size and scope as well as profitability of our Markel Ventures operations. We continue to enjoy strong results from our industrial businesses where we expect cyclicality. Those businesses all continue to perform well, both due to their own efforts and management expertise as well as a continuing favorable economic environment. Our companies to tend not to be as economically sensitive, also continue to grow and perform well and we're gaining ground in some spots where we had ground to gain. All in all, I just want to thank you, the shareholders, my colleagues and our Board of Directors for your patient confidence that we were making good capital allocation decisions as we work to build Markel Ventures.

It is delightful for me to be able to report to you overall, solid organic growth and double-digit percentage EBITDA profitability that we've discussed. The environment to add new companies to Markel Ventures remains tough as valuations continue to be high across the marketplace. Fortunately, we continue to enjoy organic growth opportunities within many of the businesses that we already own. Also, our track record of financial performance along with our values based long-term approach continues to cause people to seek us out about the possibility of joining the Markel family.

We will keep working diligently on what we have and we will remain open-minded and flexible as we consider growth opportunity. In our investment operations we had excellent results during the first half of the year in our equity portfolio, we are 19.4% during the first half which exceeds the return of the S&P 500. This result continues our record of out-performance that now dates back for 30 years.

In general, I would, usually expect us to underperform in straight up bull markets like we've been experiencing so far in 2019, given our defensive and value-oriented approach. That said I don't propose to (inaudible). I'll take we will continue to invest with the exact same discipline and approach that we followed for decades.

Fortunately, we continue to find what we believe a reasonable equity investments to make at this time. In our fixed income operations we earned a more than coupon return of 5% that result came from lower overall levels of interest rate and ongoing diligence from our fixed income team to maintain pristine credit quality. We're letting the duration of our bond portfolio naturally come in a bit since we can garner any enthusiasm we're committing to the low rates of return currently on offer in the long-term bond market.

We'd rather sell debt than buy it at this time and we're acting in accord with this belief. We continue to methodically and steadily invest in equity between ongoing investments and appreciation our publicly traded equity portfolio and our equity holders now stand at 66% of total shareholders' equity up from 62% at year-end .

We believe that our balanced debt and disciplined an unrelenting approach the building our portfolio of partially owned businesses I publicly traded stocks alongside building the value of the Markel Ventures majority owned companies combined to work as designed to build long-term value for all of us at Markel and by all of us, I mean, our customers, our associates and our shareholders.

We continue to strive to build one of the world's great companies and that means running the companies with win, win, win opportunities for all involved. Thank you for your confidence in us and support as we do so with that thanks again for joining us today. And Andrew you've now open the floor for questions.

Questions And Answers

Operator

We will now begin the question-and-answer session (Operator Instructions) And our first question comes from Jeff Schmitt of William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, good morning everyone. I know you addressed claims trends a little bit there, but just curious if you could provide more detail I guess some competitors are seeing that tough legal environment which was acute and like a commercial auto spreading into general liability and in other casualty lines. Could you maybe speak to that what you're seeing there?

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

Sure we don't write a lot of commercial auto, but obviously we're very aware of the issues that have been experienced there and obviously trend particularly severity has been problematic in commercial auto. I think we are seeing -- and it's not it's not anywhere near what is being seen in commercial auto, but we're seeing some uptick in severity in places like professional and casualty. It's manageable but the message we're sending our underwriters and I think it's the right message is these rates that we're looking for, they not just nice to have, we need to have them.

There is -- I mean we've enjoyed an incredibly benign 10 or so years quite honestly in terms of claims trend. You would expect some reversion to the mean over time. And so we need to get some rate in professional and casualty and other areas to make sure we're keeping up with trends.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay and just a question on CATCo, with that being run off are you seeing many funds transferred to Nephila?

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

Nephila? Nephila really isn't raising funds right now. They went into 2019 after two really tough years for their investors intent on doing the best, they could to build the best portfolio for the existing investors and being a 100% focused on that. So you know Nephila really has not been in a fund-raising mode in 2019.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay and just one last one on Markel Ventures. Could you maybe speak to the, just what you're seeing in the M&A environment right now as we kind of approach the end of the cycle. Just from a valuation perspective or is there much of a pipeline there?

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

Well, as I alluded to in the comments, prices are high. So our likelihood of buying something that just comes through the traditional channels and in an auction market is pretty doggone [ph] look, because the valuation gaps are just a bit too far for us to get to. That said, the good news is we've got a business that has an annualized run rate of $2 billion and 17 or so different companies and they are out in the marketplace every day, dealing with customers, dealing with vendors, dealing with competitors and they see and frankly generate conversations and things that we will get to see that are not just part of traditional deal for us.

So the last couple of things that we have bought have come through non-traditional channels and I'm not going to make any predictions but we still get to talk to some pretty interesting people with interesting businesses on a pretty regular basis and we'll do the best we can.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay, thank you.

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

Thank you.

Operator

Our next question comes from Mark Dwelle of RBC Capital Markets. Please go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning. Just a few questions, I didn't see any mention of catastrophe losses within the 10-Q forms, I was wondering if you had any meaningful amount, so just in the aggregate by business segment or maybe just weren't that many this quarter?

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

Mark, there is always catastrophes there was tornadoes and flooding and various things in the first half of the year. It was probably and I think (inaudible) just put it out. It was probably sort of an average first half of the year in terms of catastrophes. We just to make things a little more simple we don't start adding up catastrophes until they are spun [ph] to CATCo and until they exceed our dollar threshold. So we sort of have the normal run rate of catastrophes not enough to call out in the financing.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay.

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

This is Tom. I always look forward to hearing how your name gets pronounced and this -- in this particular quarter, it would be like thinking about what the injury report for the Pittsburgh Steelers would be. I mean, there shouldn't be any, but there's training camps and there's people riding motorcycles without helmets and stuff like that, that goes on but fortunately, not so much this particular quarter.

Q - Mark Dwelle {BIO 4211726 <GO>}

Well, that's good and we'll hope the same for the training camp. Unrelated -- somewhat related note, you mentioned, also in the filings that there was a little bit of a reserve addition within the insurance segment related to prior year catastrophe losses. Could you say what that amount was?

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

Hi, Mark, that is very modest and across the company, there was basically almost no movement on the 2018 event. There were some offset between kind of reinsurance and insurance and really we're to the point now that we are into our reinsurance protections on the outwards to some of that is how we allocate some of the recoveries between the insurance and reinsurance segment. But even in the insurance is very modest .

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay, that makes sense. Another question and this is just to clarify, there was a note that you had acquired in a minority stake in the Hagerty, the Hagerty Group, LLC, that's just minority stake amongst the ownership that you already have in Hagerty right or is that some different entity?

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

We've been working with Hagerty for a number of years now, but I think there was a misconception that we had ownership in Hagerty. So we've enjoyed a fabulous relationship and as a result of that the opportunity came up recently for us to partner with them more closely by taking a minority shareholding. So this is our initial shareholding and we're very excited to be more closely associated in partnering with the Hagerty Group.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That actually very helpful and then I guess the last, the last question and maybe it maybe it's too soon to comment at length, but you mentioned the plans to establish a new Bermuda platform to some extent replace what CATCo had been doing. Do you imagine a sizing similar to what CATCo had been? Or would the intent be to start relatively smaller and build it up from there?

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

Yes. Mark probably the first thing is it's not a replacement for Markel CATCo. It's a different strategy, a different leadership team obviously run by Jed Rhoads, Barney Barnard and a number of their underwriting talent from the Markel Regroup. It's a different portfolio then what CATCo was writing. In terms of size, it's going to be crawl, walk, run. We -- success this year would be getting it off the ground and getting it started and so we'll -- like we do so many things at Markel Corporation, it will be a crawl, walk, run approach to it.

Q - Mark Dwelle {BIO 4211726 <GO>}

I guess with that clarification then if it's not particularly a replacement just sort of a similar type of vehicle, would it be still in the plans to eventually resurrect or relaunch or whatever you might describe the existing CATCo platform with the current businesses being wound down?

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

You know I don't think so. Obviously we learned a lot through -- we have learned a lot through the difficulties that CATCo had and the impact it had on their investors when we went out and talked to investors and we've talked to virtually all of the investors in CATCo there was very little appetite to continue to invest in the CATCo product. So, we are following the wishes of those investors and that product will go away.

Q - Mark Dwelle {BIO 4211726 <GO>}

Thanks very much for the insights and good luck for the rest of the year .

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

Thank you.

Operator

Our next question comes from Phil Stefano of Deutsche Bank. Please go ahead.

Q - Unidentified Participant

Yes, thanks , good morning. I guess just following on the last line of questions a little bit. I was hoping you could give us a sense of the number of employees in CATCo and kind of what they're what future looks like. Understood the new ILS Structure Fund is going to have a different leadership team, strategy, different portfolio. Can any of these employees move over to the new fund.

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

Yes, there is about 20 -- at Markel CATCo for the coming few years job one we will absolutely be order with the orderly run of CATCo in returning capital to the investors as soon as humanly possible. So that will be job one, but obviously these people have experience in all the back office functions and so forth it takes to run a fund and the hope would be over time as CATCo winds down, they could assist in the new effort.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And going back to job one any sense you can give us how we get from $3 billion to zero and assets under management over the next three year any sense around timing that you can help us understand that cadence?

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

You know I probably don't have any numbers I can give you today, I mean, it really is in the hands of the -- and what's going to make it more difficult is the 2017 events, 2018 events, it have acted differently than any events that we have seen previous to those two years. People are continuing to report development on the '17 events, and even more development on the Jebi events, the Michael events. So, they're going to be cautious, they're going to be cautious in terms of releasing their collateral , obviously there's contractual language around how releases work, but I would just expect given the way 2017 and '18 has developed, there will be a cautious approach from seeding but we are obviously going to be working very hard with them to try to return that capital to the investors.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it, okay. Switching gears and looking at reinsurance via the accident year ex-cat [ph] loss ratio ticked up in the quarter and the explanation was that there was a change in the outwards reinsurance structure. Was there anything one-time in nature in the second quarter, with the change in Reinsurance or is the mid '60's probably the right way to think about that attritional loss ratio up from the low '60s, we saw recently?

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

This sort of goes back to some comments I made last quarter about we are, we're making some changes to our reinsurance program. Our goal is always to keep as much of the premium that we write is as possible working with our reinsurance partners, but we want to eat our own cooking. We have switched the type of coverage that the reinsurance Group had from a quota share structure to an excess of loss structure and CAT protection.

So it's going to take a couple of quarters, I think for that to smooth out just around the accounting around it and earning of that ceded premium so, it's a little distorted at the moment and you add to the fact that CAT business is very seasonal, it's going to probably take to the end of the year for that to settle down into more of a steady state. And it's Jeremy here, I would just add that we've been very focused on kind of managing volatility. So in some ways we might experience given the change in the reinsurance program, a slightly higher attritional loss ratio, but we should do better when there is there more significant or severe losses.

The other thing that can impacted a little bit is mix in the portfolio. So to the extent that we write more casualty or specialty lines the Reinsurance versus property just as a mix that could have an impact on that attritional loss ratio as well.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay one good question what my hopefully quick question, was there anything in the -- in the quarter?

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

There is nothing on origin, so you may have heard the reports that the rate change. Subsequent to the end of the period in a move from minus 0.75 to minus 0.25, which is a little bit less than I think what most of the industry was expecting and therefore, it will be a Q3 event and be, it will not be significant, given the modest sort of change and as a reminder, we just continue kind of UK -- in 2014.

So we've been off that for quite some time.

Q - Mark Dwelle {BIO 4211726 <GO>}

Great, thanks.

Operator

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

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

Thank you very much for joining us and we look forward to connecting with you next quarter.

Operator

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