Q3 2013 Earnings Call

Company Participants

- Anne Waleski, VP
- F. Michael Crowley, Co-President
- Richard Whitt, Co-President
- Thomas Gayner, President

Other Participants

- Doug Mewhirter, Analyst
- Jay Cohen, Analyst
- Mark Dwelle, Analyst
- Matthew Berry, Analyst

Presentation

Operator

Greetings. And welcome to the Markel Corporation Third Quarter 2013 earnings conference call. (Operator Instructions). It is my pleasure to introduce your host, Tom Gayner, President and Chief Investment Officer. Thank you. Mr. Gayner, you may begin

Thomas Gayner {BIO 1896932 <GO>}

Thank you, Rob. Good morning. Welcome to the Markel Corporation 2013 Third Quarter conference call. My name is Tom Gayner, and it is my privilege to greet you this morning, and in a few minutes. Turn [ph] things over to our Chief Financial Officer, Anne Waleski, and my Co-Presidents, Mike Crowley and Richie Whitt to give you a brief update on how things are going at Markel these days.

Prior to this call, I was speaking with one of our long-term shareholders about the conference call process. He told me he has owned the stock for about 20 years, and that our call was boring. He said he really could not imagine us saying anything in the call that would change his mind about Markel and his long-term ownership of the stock. I thanked him for his honesty. And Actually I agreed with him.

My number one goal is actually to still be here 20 years from now and delivering a report just as boring as this one. I suspect what he told me is true for our loyal and long-term owners to provide us with the capital we need to run this business. I also suspect it is true for shorter term followers of the stock to usually issue a sell recommendation immediately following this call. As the character Inigo Montoya said in the Princess Bride, you keep using that word.

I do not think it means what you think it does. I will leave it to those of you with access to the long-term charts of Markel to decide which unchanging point of view you wish to embrace. The force that propelled the 27 year line on the chart up and to the right cannot be found within the cells of the spreadsheet.

Boring works for me when it comes to talking about our financial results. We should not be that exciting. I am all in favor of grinding it out along the same lines as we have to our 27 years as a public company. We have looked after the capital that you have entrusted to us, and we have produced wonderful returns for the owners of this Company.

Roughly speaking, the longer you have owned Markel, the more money you have made. By the way, while it may look and sound boring, I can promise you that we are having a lot of fun doing this. There is not a day that goes by when I do not hear laughter in this office.

In addition, there are some days when we are simply stunned by what happened. I promise you that we are not boring. We are not prelude, let me share with you what I do consider the most boring part of our call, i.e. the Safe Harbor statement.

But our General Counsel advices me to share with you. 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 precautionary statements in our most recent annual report on Form 10-K and quarterly report on form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP to these measures on our website at www.markelcorp.com and or quarterly report and form 10-Q. Ann.

Anne Waleski {BIO 16735457 <GO>}

Thank you, Tom for always starting us out with a smile. Good morning, everyone. I am pleased to be able to report that for the first nine months of 2013, we have produced strong underwriting results and profitable growth in each of our legacy operating segments.

The Alterra segment has performed within expectations, and we continue to make significant progress with the integration efforts. Out total operating revenues grew 39% to $3 billion in 2013 from $2.2 billion in 2012.

The increase is due to a 42% increase in revenues from our insurance operations which include $531 million from the Alterra segment and 41% increase in revenues from our non-insurance operations which we refer to as Markel Ventures. Moving into the underwriting results, for the nine months of 2013, gross (inaudible) premiums were $2.9 billion which is an increase 53% compared to 2012.

The increase in 2013 was primarily due to $715 million of premiums from the Alterra segment since our acquisitions on May 1st of 2013 as well as higher gross premium volumes in Specialty Admitted and Excess Surplus lines segment. The increase in Specialty Admitted is driven by premiums from the Haggerty and Tomco businesses. Within the Excess and Surplus lines segment, the increase is due in part to the impact of more favorable rates and improving economic conditions.

Net written premiums for 2013 were approximately $2.4 billion up 44% to the prior year for the same reasons I just mentioned. Net retention was down in the first nine months of 2013 at 83% compared to 89% in 2012.

The decrease in net retention is due to the inclusion of premiums written by Alterra from May 1st to September 30th, 2013. Net retention in the Alterra segment for the five month period was 66%. Net retention for the legacy Markel segments was flat at 89% for both periods.

Earned premiums increased 44%. The increase in 2013 was primarily due to $530 million of earned premium from the Alterra segment for the five months ended September 30th, 2013 as well as higher earned premium volume in the Specialty Admitted and Excess and Surplus lines segment. The increase in Specialty Admitted is due to earned premiums from the Haggerty and Tomco businesses.

Our combined ratio was 97% for the first nine months of 2013 compared to 96% in 2012. The increase in the combined ratio was due to a lower prior year loss ratio partially offset by a lower expense ratio compared to the same period in 2012. During 2013, the benefit of the favorable development of prior year's loss reserves had less of an impact on the combined ratio when compared to the same period in 2012 due to higher earned premiums in the current year.

The 2013 results were also impacted by Alterra segment which added six points to the combined ratio driven by $70 million of merger and acquisition costs and $33 million of cash-fee losses. Favorable development on prior year loss reserves increased to $281 million or 12 points compared to $260 million or 17 points in 2012. These amounts are net of $28 million in 2013 and $31 million in 2012 of unfavorable loss reserve development on asbestos and environmental exposures within our discontinued line segment.

We complete our annual review of these exposures during the Third Quarter of each year. During this year's review, our expectation of this severity of the outcome for known claims increased, and we increased our prior year loss reserves accordingly.

The decrease in the expense ratio for the first nine months of 2013 is driven by higher earned premiums in our legacy Markel segments compared 2012 partially offset by the impact of the merger and acquisition costs incurred by Alterra. Excluding the merger and acquisition costs incurred in 2013, the inclusion of Alterra had a favorable impact on the expense ratio. Alterra has had a lower expense ratio than we have had historically.

The expense ratio for 2012 was unfavorably impacted by the perfective adoption of the new DAC standards which increased our expenses by $41 million or 3 points on the 2012 combined ratio. Next I will discuss the results of the Markel Ventures. In the first nine months of 2013, revenues from Markel Ventures were $486 million compared to $345 million in 2012.

Net income to shareholders for Markel Ventures was $18 million in 2013 compared to $9 million in 2012. EBIDTA was $64 million in 2013 as compared to $41 million in 2012. Revenues, net income to shareholders, and EBIDTA from Markel Ventures increased in the first nine months of 2013 compared to the same period of 2012 primarily as a result of more favorable results at AMF bakery systems and our acquisitions of Haveco and Redding bakery systems.

Next, we will turn to the investment results. Investment income was up in 2013 to just under $229 million. Net investment income for 2013 included $44 million of investment income attributable to Alterra which was net of $39 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 favorable changes in the fair value of our credit default swap of $9 million as compared to $14 million for 2012. Excluding the impact of Alterra and the credit default swap, net investment income for the first nine months of 2013 decreased compared to 2012 due in part to a decrease in our fixed maturities and an increase in cash and cash equivalents.

Net realized investment gains for 2013 were $41 million compared to $25 million in 2012. Included in net realized gains were $4.6 million of other then temporary impairments as compared to $4.2 million in 2012.

Tom will discuss investments further in his comments. Looking at our total results for the nine months, our effective tax rate was 28% in 2013 compared to an effective tax rate of 19% in 2012. The increase is primarily due to higher estimated earnings taxed at a 35% rate and due to anticipating a smaller tax benefit related to tax-exempt investment income as a result of projecting higher pre-tax income for 2013 and 2012.

We reported net income to shareholders $182 million compared to $197 million in 2012. Book value per share increased to approximately 14%to $462 per share at September 30th, 2013 from $404 per share at year end. Increase is primarily due to equity issued in connection with the acquisition of Alterra and $253 million of comprehensive income to shareholders.

Finally, I will make a few comments about cash flow and balance sheet. Net cash provided by operating activities was $542 million for the nine months ended September 30th, 2013 compared to $240 million for the same period of 2012. The increase was driven by higher cash flows from underwriting activities and investment activities.

The increase in cash flows from underwriting activities is primarily the result of the acquisition of Alterra and higher premium volume primarily in our Specialty Admitted and Excess Surplus lined segments. Invested assets at the holding company were $1.1 billion at September 30th compared to $1.4 billion at year end.

The decrease in invested asset is primarily the result of cash paid for the Alterra acquisition partially offset by net increase in debt. I would like to close with a quick mention of the announcement we made on October 9th, 2013 regarding our offer to acquire Abbey Protection, the UK-based Integrated Specialist Insurance and Consultancy Group. Subject to shareholder and regulatory approval, we expect this to close in January of 2014. At this point, I will turn it over to Mike to further discuss operations.

F. Michael Crowley {BIO 6836605 <GO>}

Thank you, Anne. Good morning. The results for legacy Markel North American operations were very good and continue the positive trend we have seen during the year. Gross written premiums increased 20% over prior year in the Third Quarter and 23% over prior year or nine months.

E&S segment performed well again with all five regions again showing growth. Gross written premiums increased 8% over prior year in the quarter and 12% over prior year for nine months. The combined ratio of 87.8% for the quarter was one point better than prior year.

The year to date combined ratio was 80.9% compared to 90.6% for the same period last year. The segment continues to improve operating efficiency and the service to our agents and brokers.

Confirmation of this comes from the fact that annualized premiums for underwriters is up over 8% and the upgrades to our wholesale portal continues to receive very positive reviews from our agents. During the quarter, we announced that John Latham, President of the E&S division will be stepping down from that position on January 1st of 2014. John has begun plans for retirement in 2016, and has elected to spend the final two years with Markel focusing on our customers and assisting me with special projects.

John has done an exceptional job leading the E&S division over the past few years. He is to be commended for excellent results that we are realizing today. I want to emphasize that this is John's decision, and he will remain fully engaged at Markel over the next couple of years.

Brian Sanders who joined Markel with the Alterra acquisition will assume the position of President of the E &S division effective Jan 1, 2014. Bryan has a long and outstanding background in the wholesale world having been in the industry for 32 years. He has served in leadership positions with Alterra, Max Specialty, and HRH where we worked together. We have great confidence that Bryan will continue the success achieved under John's leadership.

The Specialty Admitted segment also had a very good quarter gross written premiums increased 37% over prior year in the quarter and are up 39% year-to-date. The combined ratio in the quarter was 90.3 or 18.9 points lower than prior year due to lower calendar year loss ratio and higher prior year takedowns.

Year-to-date combined ratio is 108 or 7.4 points lower than prior year. As Anne said, the increase in gross written premiums in the Specialty division continues to be driven by the Haggerty and Tomco businesses.

In the segment, we are continuing to execute on our plans which we talked about on our last call to exit unprofitable lines in non-renews, certain specific accounts in order to improve our underwriting results for this segment. With regards to our product line leadership headed by Jerry Albanis, the quarter was very active. We are continuing to execute plans integrating the Alterra professionals within the product line leadership group.

They have successfully combined brokerage property teams and have adopted the Alterra property integration tools and pricing for the book. Mike Miller who led the marine practice at Alterra has expanded his responsibilities and has both commercial ocean marine and middle marine reporting to him. We continued to hold joint-product meetings across the organization including professionals from Alterra, Wholesale Specialty, and Markel International to foster closer working relationships among these professionals.

Meetings have been held with the marine property professional liability and energy teams. We have also now consolidated all of our homeowner business into our personal lines division under Audrey's Hankins leadership. Previously this business resided in Alterra wholesale and our personal lines operations.

The only comment that I will make with regard to the rate environment is that we are getting modest rate increases although down slightly from earlier end of year. In summary, a very good quarter for North American operations. I will turn the call over to Richie Whitt.

Richard Whitt {BIO 7084125 <GO>}

Thank you, Mike and good morning, everyone. I will start my comments with Markel international's nine month results, and then give an update on the Alterra integration. Markel international had an amazingly consistent, and sticking with Tom's theme, somewhat boring result for the first nine months of 2013. When I say boring, I mean that in the absolute best of ways. Boring is good in insurance.

International produced consistently strong results driven by solid prior accident year reserve releases and like capacity losses. Gross written premiums increased 3% to $725 million. Areas of growth included our Specialty book as well as our Singapore and Netherlands branches. Pricing trends have been very consistent throughout the year with modest single-digit price increases.

However, in many areas of the market things remain competitive particularly CAT-exposed properties, both insurance and re-insurance, professional liability, retail and equine lines. There is much discussion in the industry on where pricing trends are headed right now. At Markel, we are going to continue to push for price increases. Given the current interest rate environment, there really is no room to reduce rates and produce acceptable returns.

International combined ratio for the nine months of 2013 and 2012 was an 88 combined. As I have said previously, both years benefited from relatively light catastrophe losses and solid prior accident year reserve releases. While the nine months results were delightfully boring at Markel International, the team was extremely busy and anything but bored with the integration of Alterra going on and the announcement of the proposed acquisition of Abbey Protection.

As Anne said, if all goes as expected, this deal will close in January next year. We are extremely excited to add the Abbey team to Markel International. Abbey adds unique retail products and services to our international insurance portfolio, and we see opportunities to grow their already strong franchise and legal expense and professional fee protection.

I would like to give a quick update on the acquisition of Alterra. It has been approximately six months since the deal closed on May 1st. We have made excellent progress bringing the two organizations together. With every day that passes, things feel more and more like business as usual.

As Anne stated, Alterra's results have largely been in line with our expectations. This is a really important statement. As our expectations for Alterra are very high. Within the Alterra segment, premium volume in the global insurance and re-insurance divisions have met and in some cases exceeded expectations and are in line with prior year's volume.

Lines of business that will ultimately become part of Markel International in Excess and Surplus have also performed well. The Alterra segment results for the nine months which includes $70 million in merger and acquisition costs are again in line with our expectations. We have begun the process of establishing a margin of safety on loss reserves. This is similar to what we have done with all past acquisitions.

We are looking forward to the day in is not too distant future when we know longer talk about legacy Markel and Alterra and simply discuss our Markel results. We are well on our way at this point. As I stated last quarter, we have some work to do with systems and our back office processes in order to fully integrate all elements of Alterra operations into our existing model. As such, we are managing and recording the results of the legacy operations which include U.S. insurance, Alterra at Lloyds, Global Insurance and Global Re-insurance as our Alterra segment and expect to do this for the remainder of the year.

We have several initiatives in place to make the changes in systems and processes that are necessary in order to implement a new segment reporting structure by the First Quarter of next year. You also note that we included the legacy Alterra life and annuity book which is in runoff in our other discontinued line segment. With one quarter to go, we are on target for an excellent year with outstanding underwriting profits and very nice book value growth. I would like to turn it over to Tom.

Thomas Gayner {BIO 1896932 <GO>}

Thank you, Richie. As we have alluded to earlier, we are delighted to report our year-to-date results to you. In our investment operations, we earned 23.2% on our equity portfolio for the first nine months of 2013.

Amazingly enough, that is an outperformance of 350 basis points compared to the S&P 500 return of 19.7%. Let me repeat, we are 350 basis points ahead. Normally I would expect to under-perform in a rip roaring bull market since we are conservative and defensive in nature. We will not complain about it though.

More importantly, this continues a multi-decade record of superior investment return. I think it is fair to say that our four-part investment discipline of investing in profitable businesses with good returns on unlevered capital, with honest and talented managers, capital discipline re-investment opportunities at fair prices works. It is time tested, and we are sticking to it.

In our fixed income operations, we earned a return of a negative 0 .06%. Interest rates are moving up, and Detroit among others is going bankrupt. As such we are keeping our duration short and credit quality as high as we know how to make it.

In total, we earned 4.5% on our investments, and I am very pleased with those results as they contributed meaningfully to the comprehensive income of the Markel Corporation.

We are methodically adding capital to our equity portfolio and expect continue to do so. At Markel Ventures, total revenues was 40% to $486 million from $345 million a year ago. Our share of EBIDTA from the Company rose 54% to $64.2 million up from $41.5 million a year ago.

During the Third Quarter, we added Eagle Construction to the family. Eagle is the leading Richmond-based home builder. We have known the principles of the company for two generations.

We formally worked with them together for several years in our Markel-Eagle joint venture, and we are delighted to welcome the home building organization to Markel. One data point to help understand our respect for Eagle, is that in 2008 and 2009 when the construction industry collapsed and home building stood at the very epicenter of the financial crisis, Eagle remained profitable.

These are our kind of people, and we could not be happier that they are with us now. Finally, I would like to close with one thought that I think separates Markel Corporation from so many other companies and even from Markel in its earlier days. Namely from where we sit today, we get to see opportunities to deploy capital in our existing insurance businesses, new insurance opportunities, publicly-traded securities, privately held businesses expansions to businesses we already own, and too an increasing robust network of people we know and have done business with.

Some people would call this yield flow. I think a better my name for it is idea flow. It creates a 360-degree view of the world. I believe this is highly unusual and incredibly valuable.

Most companies are more constrained in their notions to what they can and will do and how they think about the allocation of capital. We are a comprehensive Company. We have a comprehensive idea flow that covers the water front, and we have experience at successfully re-investing our capital and all sorts of businesses all around the world. There is not a long list of organizations with those characteristics and the demonstration of to doing it reasonable well.

Hang on, folks, we are just getting started, and we look forward to your questions about the firm. Rob, if you would open up the floor for questions for us.

Questions And Answers

Operator

(Operator Instructions). Thank you, Our first question is from the line of Doug Mewhirterr from SunTrust Robinson. Please proceed with your question.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Hello. Good morning. I just had one question for Mike. I notice in the Specially Admitted business the reserve releases in this quarter actually accelerated. I was wondering what accident years or what sublines or segments did you see that? I guess related to that question, how your efforts to I guess re-price or improve the workers comp business is going?

A - F. Michael Crowley {BIO 6836605 <GO>}

One, it t is going very well. Two, first comp drove a lot of that Anne what was it the 11 to 12 years?

A - Anne Waleski {BIO 16735457 <GO>}

Right.

A - F. Michael Crowley {BIO 6836605 <GO>}

That were we had the releases. That business is performing very well. A lot of it also has to do with the move of premium to California to non-California business and it is growing.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Actually it reminded me of another question. There has been a couple competitors in the workers comp space who have had some trouble, and I am not sure how much overlap you had with them. Has that triggered any positive disruption in the market for you where you are seeing more submissions, or you are getting a tiny bit more price leverage because of less supply in the market?

A - F. Michael Crowley {BIO 6836605 <GO>}

We are getting rate. I cannot comment on where that business is coming from. We are growing. We are getting rate. We are moving into different geographic areas. In the business, I have said for a number of quarters, that First Comp it is performing and on the path that we had set out for them when we acquired them in November of 2010. They are executing their business extremely well in a touch comp environment. We could not be more pleased with the direction of that business.

Q - Doug Mewhirter {BIO 7026139 <GO>}

Thank you. That is all my questions.

Operator

Our next question comes from the line of Mark Dwelle of RBC Capital Markets. Please proceed with your question.

Q - Mark Dwelle {BIO 4211726 <GO>}

Good morning. Just a couple questions. Richie, you talked a little bit about the Abbey Protection. Can you give us a little sense of what their historic level of premiums has been and where their combines ratios are and things like that to kind of frame the possibilities there?

A - Richard Whitt {BIO 7084125 <GO>}

Sure. Sure. It is a bit of a hybrid business, Mark. You have to think of it in terms of revenues really quite honestly.

It is both an underwriting business and a service business. Historically, about 40 million pounds in revenues so call that about $60 million. They have been able to drop about 10 million pounds call it about $15 million to the bottom line.

It is a combination of underwriting risk where they take underwriting risk on legal protection or other professional services like if a person that is brought in on a tax audit or something like that by the Internal Revenue in the U.K. as well as they provide services such as advice, legal advice and some of that tax advice.

It is an interesting business because it is a little bit insurance. It is a little bit service. It fits very nicely into our retail operation. It gives us additional products sets to offer our small to medium-sized retail customers. So we think it really kind of expands what we can do in the U.K. retail market.

Q - Mark Dwelle {BIO 4211726 <GO>}

Thank you. That is helpful background. The question I guess maybe for Anne or Tom.

The level of cash on the balance sheet. Not with anyone the investment classification, but just the actual cash. It is probably the highest I have ever seen it. Is this just taking the opportunity to build cash resources with the debt markets the way they have been, or do you have some other kind of allocation in mind for some of that cash?

A - Thomas Gayner {BIO 1896932 <GO>}

The number one spectacular reason that it keeps growing is because we are making a lot of money. That is a good thing. The bottom portfolio for instance as I have said is not really much of a yield curve.

It is a yield line. The opportunity cost of staying short and staying in cash and preserving all the optionality for what you want to do with it does not incur much in the way of opportunity costs. So those are some factors going on. The other factor is we did just do a major acquisition.

We have another one in the works right now. We are buying companies in Markel Ventures. We have a lot opportunities to deploy that. But as always, you can expect us to be careful and methodical about how the way we would go about it. You can also expect at some point that with higher interest rates which I expect, we will invest the bond portfolio in a longer term than what we do right now.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Fair enough. One last thing just a numbers question for Anne. You were saying the portion of amortization related to the Alterra piece of investment income that was $39 million you said?

A - Anne Waleski {BIO 16735457 <GO>}

That is correct.

Q - Mark Dwelle {BIO 4211726 <GO>}

They earned $44 million and the amortization was $39 million. So really almost no benefit this quarter.

A - Thomas Gayner {BIO 1896932 <GO>}

No the $44million was net of the $39 million.

A - Anne Waleski {BIO 16735457 <GO>}

Right.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it.

A - Thomas Gayner {BIO 1896932 <GO>}

Also, that is an interesting feature of our financial since we took over Alterra. You are not seeing a huge increase in investment income because of the amortization. Where you see it is in the cash flow. $540 million of cash flow is a significant increase over what we had at this point in the last year. That amortization explains some of the defense between what you are seeing through the P&L and what you are seeing on the cash flow statement.

Q - Mark Dwelle {BIO 4211726 <GO>}

That is very helpful. Thank you. I will stop there.

Operator

Our next question from the line of Jay Cohen with Bank of America. Please proceed with your question

Q - Jay Cohen {BIO 1498813 <GO>}

Yes. Thank you. A couple of questions. First, is in the Third Quarter it looks like the Ventures business earnings were a bit lower, quite a bit lower than the run rate of what we had been seeing. I am taking other revenues minus other expenses. What is going on there?

A - Anne Waleski {BIO 16735457 <GO>}

Jay, I do not actually think there is anything significant going on there if you are comparing it to the prior period. It could be timing of orders, but in looking through the quarter results there was not anything worthy of note.

Q - Jay Cohen {BIO 1498813 <GO>}

It looked to me like a net of other revenues and expenses have been running $15 million to $20 million. This quarter looked like closer to $8 million. You are saying even though (inaudible) that looks like a big drop there is nothing unusual at all?

A - Anne Waleski {BIO 16735457 <GO>}

There was not anything unusual in our analysis. I am happy to pick it up with you offline and go through it. Nothing came up where (inaudible) like I said there can be timing and seasonality in the numbers. Nothing worthy of comment.

A - Thomas Gayner {BIO 1896932 <GO>}

If I would, this is a bit of a guess on my part. What we look at in terms of looking at the businesses and how they are doing is the EBIDTA and the cash generation of business. We talked about that earlier. (inaudible). We had previously used as a rough shortcut the other revenues and other expenses as a pretty good proxy for what is going on. There are other things that go on in other revenues and other expenses that might distort that number. The directional information we gave you on the revenues and the EBIDTA of Markel Ventures is a pretty good description of how things are going there, and they are going well.

Q - Jay Cohen {BIO 1498813 <GO>}

You said a bigger part of the income statement. It would be great to get better disclosure around that since it is going to growing as well. One quick request. That is all. Second question, the amortization of the Alterra investment portfolio which is obviously holding back GAAP investment income. Can you talk about what that number looks like going forward?

A - Anne Waleski {BIO 16735457 <GO>}

The amortization number for Alterra's investment portfolio will be taken accrues the duration of the portfolio basically. It is going to run for I would guess three or four years and probably look close to the same quarter over quarter. It will come down some as we sell securities.

A - Thomas Gayner {BIO 1896932 <GO>}

Yes. Maybe a way to think it is roughly, and help me out here, guys, $20 million a quarter right now. The duration of the portfolio is about probably five years.

A - Anne Waleski {BIO 16735457 <GO>}

Four to five years.

A - Thomas Gayner {BIO 1896932 <GO>}

That $20 million should sort of trail off over the next four years or so from that $20 million down to nothing as that securities mature. It is a pretty big number. The day we bought Alterra was probably close to the low for the rates. They have come back up since then. We have marked the portfolio up pretty significantly on May 1st. That is what we are amortizing through.

Q - Jay Cohen {BIO 1498813 <GO>}

That makes sense. I am sure it is in the cue, but I just did not see it yet. The unamortized portion. What does that equal right now?

A - Thomas Gayner {BIO 1896932 <GO>}

I do not have that. I am not sure it is in the cue. That is something we would be willing to put in going forward if it is not. We will get something to you, Jay.

Q - Jay Cohen {BIO 1498813 <GO>}

That is great. Thank you, that is helpful. I will re-cue with other questions. Thank you.

Operator

(Operator Instructions). The next question is from Matthew Berry of Lane Five Capital. Please proceed with your question.

Q - Matthew Berry {BIO 16846746 <GO>}

Hello everyone. A couple of questions. Richie you spoke about establishing a margin of safety for the Alterra book. I noticed that the current year loss ratio was improved quarter over quarter. No prior year developments in there in the Alterra segment. Could you describe how that process works, how it will evolve over time, and how it will impact the financials.

A - Richard Whitt {BIO 7084125 <GO>}

Sure. Very consistent with what we have done with all past acquisitions. We have a policy or a philosophy at Markel of being more likely redundant then deficient. When we buy companies, we sort of tread our way into that philosophy by adding a margin of safety to the current accident year. The reason for the decrease year-over-year was catastrophe losses in the prior year primarily.

I can assure you, we did take the actuarial pick and did a very consistent methodology to add a margin of safety to the reserves in the quarter. We will do that as we go forward. Margin of safety that we have added depends on the type of business that it is. In past acquisition, it has been anywhere from 4 points to 10 points on the business on the current accident year as we earn that business. But I guess I would tell you here that somewhere in that range of what we are adding to the Alterra current accident year as it is earned onto our books.

Q - Matthew Berry {BIO 16846746 <GO>}

Okay, and that is consistent with what I see over the long run in terms of reserve releases and how that cycle works. That makes sense. One for Tom which I wouldn't term in my limited experience with home builders describe the majority of them as profitable high risk-owner investment capital with solid management and great reinvestment opportunities. Could you describe what you see that is different at Eagle, and how they run their business different from the typical home builder?

A - Thomas Gayner {BIO 1896932 <GO>}

The great thing about Eagle as demonstrated by the fact that they remained profitable in this miserable environment as we could have is that intellectual capital of the organization is really what matters. You have people who have outstanding relationships with subcontractors and a network of people who can get things done. The size of the Eagle organization relative to what they do in terms of people on their payroll. It is actually relatively small.

It is like an accordion. It can expand and shrink back depending on the set of opportunities that are out there, and they have successfully done it for two generations. We have a lot of confidence in their ability to continue to do that and that flexibility.

A part of (inaudible) Markel is a huge advantage for them in the sense that when the appropriate time to add capital and try to seize opportunities and push ahead, we can support that program . At the same time, when it is time to go in reverse a little and shrink and hunker down, that is okay.

They can redistribute that capital back to us, and we will find other ways to put it to use. If you are a standalone monolined-company, you do not typically have that flexibility. Same sort of thing that we have happening in our insurance businesses, whereas opposed to one line of insurance, we have a 100. Different times some of them need capital and others are generating capital, and then the overall corporate environment we can put the capital to good use.

Q - Matthew Berry {BIO 16846746 <GO>}

Thank you, very much.

Operator

(Operator Instructions). There are no further questions at this time. I would like to turn the call back to management for closing comments.

A - Thomas Gayner {BIO 1896932 <GO>}

Thank you, very much. We look forward to speaking with you soon. Good bye.

Operator

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