Q4 2020 Earnings Call

Company Participants

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

Other Participants

- Jeff Schmitt
- John Fox
- Mark Dwelle
- Mark Hughes
- Phil Stefano

Presentation

Operator

Good morning, and welcome to the Markel Corporation Fourth Quarter 2020 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 opinions 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 caption Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q and earnings release filed on Form 8-K.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in the earnings press release, which can be found on our website at www.markel.com in the Investor Relations 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 and good morning, everyone and thank you is the key and operative word to start off this message. The 18,000 employees of Markel turned in a wonderful performance in every dimension in 2020 and I just want to start off the call on behalf of Richie and Jeremy and everybody thanking the associates of Markel for their work throughout 2020, it was not an easy year.

Markel is a holding company and I think the thing that we hold most dear are our ideas and our values of taking care of our customers and our associates. We think that creates a win-win-win architecture, where our associates win by being part of Markel, our customers win by doing business with us, and our shareholders win, because when we do those first two things we produce good returns on capital and we think that is the ultimate form of sustainability. All three-engines of Markel fired in 2020 and provided positive thrust but it might not have seemed that way at various points of the year, especially early on in the early days of the pandemic. The great philosopher Mike Tyson said, everybody has a plan until they get punched in the mouth. Well, we got punched in the mouth in the early days of the pandemic but our plan is to build Markel in such a way that we can take a hit, we can get in the ring with Mike Tyson, we can take a punch in the mouth and keep on fighting, that's 2020 in a nutshell, Markel is a resilience machine, our three-engines withstood the blows from the early days of 2020 and our 18,000 plus associates adapted and figured out how to recalibrate and accomplish our mission of taking care of our customers, our associates and our shareholders.

I'm pleased this morning now to spend a little time with you reviewing the results and with that, I'm going to turn it over first to Jeremy Noble, our CFO, to discuss the numbers. Richie will then talk about our insurance operations. I'll hop back on to talk about investments and ventures and then we'll open it up for your questions.

With that Jeremy, thank you.

Jeremy A. Noble {BIO 20687803 <GO>}

Thank you, Tom and good morning, everyone. Following a year that reflected significant volatility and widespread impacts attributable to the COVID-19 pandemic we are proud of the results we delivered across all three of our engines in 2020 which demonstrates the strength and resilience of our businesses. Our underwriting operations delivered an underwriting profit despite elevated levels of catastrophic events and significant losses attributable to the global pandemic as we benefited from achieving meaningful rate increases and growth in new business. Our Markel Ventures operations saw strong top and bottom line performance amid challenging economic conditions and we achieved solid investment returns despite volatile market conditions and historically low interest rates.

Looking at our underwriting results, gross written premiums were $7.2 billion for the year compared to $6.4 billion in 2019, an increase of 11%. This increase was attributable to our insurance segment, which reported gross written premiums of $6 billion an increase of 13% compared to a year ago. This premium growth is attributable to both new business and improved pricing within our professional liability and general liability product lines, as well as our personal lines in marine and energy product lines. Gross written premiums with our reinsurance segment were consistent with 2019 at roughly $1.1 billion. Year-to-date, retention of gross written premiums was 83% in 2020, which is down one point from 84% a year ago.

Earned premiums increased 11% to $5.6 billion in 2020, primarily due to higher written premium volume in our insurance segment. Our consolidated combined ratio for 2020 was a 98 compared to a 94 last year. For the fourth quarter 2020, we reported an 89 combined ratio compared to 93 a year ago. Our full year 2020 combined ratio included $360 million or 6 points of underwriting losses attributed to the COVID-19 and $169 million or 3 points attributed to natural catastrophes. This compares to a $100 million or two points of catastrophe losses in 2019. Excluding the impacts of COVID-19 and natural catastrophes our combined ratio for 2020 improved due to a three point improvement in our attritional loss ratio and a one point reduction in our expense ratio arising from improved performance within our insurance segment in 2020 compared to 2019. With regards to prior year loss reserve development consistent with our reserving philosophy, prior year loss reserves developed favorably by $606 million in 2020, compared to $535 million in 2019.

Turning to our investment results, net investment gains included net income were $618 million in 2020 compared to $1.6 billion in 2019 and were primarily attributable to an increase in the fair value of equity securities, which experienced significant market volatility during the year. The impact of significant declines in the fair value of our equity portfolio in the first quarter driven by unfavorable market value movements resulting from the onset of the pandemic, were more than offset by increases in the fair value of our equity portfolio over the last three quarters of 2020. As I mentioned in previous calls given our long term focus, variability in the timing of investment gains and losses is to be expected and we may continue to see volatility in the equity markets due in part to economic uncertainty caused by the pandemic. With regards to net investment income we reported $372 million in 2020 compared to $452 million last year. The decline is largely due to lower short-term interest rates as well as lower holdings and lower yields on fixed maturity securities in 2020. Net unrealized investment gains increased $353 million net of taxes during 2020 reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines in interest rates.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased to $2.8 billion for 2020 compared to $2.1 billion last year. This increase reflects the contribution of revenues from our recent acquisition of Lansing Building products, which we completed in late April and VSC Fire & Security, which closed during the fourth quarter 2019. Excluding the contributions of Lansing and VSC operating revenues within our Markel Ventures operations decreased compared to 2019 as a result of lower sales volumes attributed to the economic and social disruption caused by the pandemic. EBITDA from Markel Ventures was $367 million for 2020 compared to $264 million a year ago, reflecting the contributions of Lansing and VSC as well as growth and improved operating results at certain of our businesses.

Looking at our consolidated results for the year, our effective tax rate for 2020 was 17% compared to 21% in 2019. The lower effective tax rate in 2020, is primarily attributable to a tax benefit that was recognized in 2020 for accumulated losses on certain investments we sold. We reported net income to common shareholders of $798 million for 2020 compared to net income to common shareholders of $1.8 billion a year ago. Comprehensive income to shareholders for 2020 was $1.2 billion, compared to $2.1 billion a year ago.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $1.7 billion for 2020 compared to $1.3 billion for 2019. Operating cash flows for 2020 reflected higher premium collections as we've seen strong growth in our insurance segment over the past several quarters as well as greater cash flows for Markel Ventures given increased earnings. Invested assets for the holding company were $4.1 billion at the end of December compared to $4 billion at the end of 2019. The increase in holding company invested assets was due in part to the proceeds from our May preferred shares offering, offset by funds used to acquire Lansing earlier in the year. Total shareholders equity stood at $12.8 billion at the end of December, compared $11.1 billion at the end of 2019. We ended the year with a very strong balance sheet. We are well-positioned to be opportunistic around deploying capital including to support growth in our insurance operations, given the attractive opportunities we are seeing in the specialty insurance marketplace.

With that, I'll turn it over, Richie to talk more about our insurance businesses.

Richard R. Whitt {BIO 7084125 <GO>}

Thank you, Jeremy, and good morning, everyone. As Tom and Jeremy have said, we finished 2020 strong posting an overall underwriting profit with a 98% combined ratio for the year. While this is not the result we were aiming for as we entered 2020 after recording $360 million of underwriting losses related to the COVID-19 pandemic followed by natural catastrophe events in the third and fourth quarter adding an additional $169 million in underwriting losses, this is an amazing accomplishment. We finished the year with a fourth quarter in which we reported a combined ratio of 85% before the effects of COVID and natural catastrophe losses. We achieved strong growth and meaningful rate increases across most of our insurance and reinsurance product lines and saw reductions in our attritional loss ratios across most of our products in the last half of 2020 as the impact of price increases and portfolio management efforts started to materialize. We continue to seek out opportunities to grow and benefit from the positive insurance and reinsurance market environment and to reduce volatility in our underwriting results as we enter 2021.

So now I'll discuss our insurance operations, which include our underwriting operation, state national program services operations, and insurance linked securities operations. So starting with the insurance segment. Gross written premiums for 2020 were up $709 million or 13% and net earned premiums were up $544 million, also 13%. Gross written premiums were up 15% in the fourth quarter. Premium growth for both the quarter and year was driven by continued strong organic and new business growth along with the impact from rate increases across several product lines most notably in our professional liability, general liability, marine and energy, and personal line products. Importantly, virtually all of our growth was in our preferred product offerings as our top-line growth was impacted in part by targeted reductions on products and accounts that weren't meeting our profitability goals. We believe our efforts around portfolio construction will continue to improve profitability levels over time.

The combined ratio for the insurance segment in 2020 was 96% versus 93% last year. The three point increase was driven by losses recognized in 2020 from the COVID-19 pandemic along with several mid-sized cat events that impacted the current year combined ratio by six and three points respectively. The impact from COVID and cat events were partially offset by a three point improvement in our attritional loss ratio arising from several product lines most notably in our property, professional liability, marine and energy product lines due to reduced loss experience, rate increases and changes in business days. We also benefited in the current year from a lower expense ratio driven primarily by the continued growth in net earned premiums as we sought to keep controllable expenses flat.

Turning to the reinsurance segment, gross written premiums for 2020 were up $17 million or 2%, and earned premiums were up $26 million or 3%. Premium growth for the year was driven by growth in our general liability and professional liability lines partially offset by lower premiums in our credit and surety line. The combined ratio for the Reinsurance segment was 104% in both 2020 and 2019. The 2020 combined ratio was impacted by seven points of underwriting losses from COVID-19 and five points from natural catastrophe events versus a 10 point impact from nat cat events in 2019. Excluding the losses from COVID and cat events, the combined ratio decreased due to a lower attritional loss ratio across several product lines partially offset by less favorable development on prior year losses.

2020 represented the fourth consecutive year of underwriting losses in our reinsurance segment primarily as a result of unprecedented and significant catastrophe activity over the last four years along with the impact from COVID-19 in 2020. While there are certainly opportunities in the current market to grow our top line in reinsurance we're going to be very cautious about growth in the near term until we are convinced profitability issues have been resolved by a combination of price increases and portfolio management. To illustrate the difference in our strategies in insurance versus reinsurance over the past three years, our insurance gross written premiums have grown in 13% compound average growth rate versus essentially no growth in reinsurance. Recent results have not been good enough in our reinsurance portfolio and we've not earned our targeted return on capital. We've recognized that reinsurance is a volatile business and volatility is what we are paid to assume as a reinsurer. We'll continue to make adjustments to our core, casualty, and specialty products, and believe we are on track to produce appropriate returns on a smaller, more focused reinsurance portfolio.

So next, I'll go to program services. Gross written premium volume for our state national program services operations were down 10% to $2.1 billion for the year driven by the cessation of two large programs earlier in 2020. This was partially offset by new program business added in 2020. As a reminder almost all of these gross written premiums are ceded to third parties. Program Services business continues to perform extremely well producing consistently strong operating margins. We're also encouraged by new business development opportunities. It is clear that there is rising demand for fronting services to help match insurance risk to capital.

Moving to our ILS operations, our combined ILS operations have a little under $11 billion in net assets under management at December 31, 2020. Revenues from our ILS operations decreased 6% for the year due primarily to the continued orderly wind down of CATCo which continues to return investor capital as quickly as possible. Before considering amortization expense, the operating loss from our ILS operations in 2020 was wholly attributable to cost of CATCo, majority of which are non-recurring in nature.

For 2021, Nephila has received an excess of $1 billion of new subscriptions to-date. This is driven by proven market conditions and in part by opportunities created with the transfer of our Markel Global Re property CAT portfolio to Nephila. A portion of this capital was deployed at 1-1 and additional amounts will be deployed at major renewal dates over the course of the year. Nephila was also able to establish and are working on new investment vehicles. These include an ESG impact fund and a Lloyd's Syndicate multi-class fund. That being said, Nephila was impacted by the elevated level of U.S. nat cat activity in the third and fourth quarters, which impacted their fund performance for the year. When allowing for cat losses, development classes, or side pockets, anticipated redemption activity, and the timing of capital allocation from new subscriptions the total increase to AUM will be tempered to start of the year. Going forward, we feel strongly about the prospects for our ILS operations.

I'll finish up with a bit of market commentary and I'm sure there'll be questions afterwards. Trends that we've discussed in past quarters continued in the fourth quarter and at the January 1 renewals. We see continuing price momentum in almost all lines. Our insurance rate increases continue to average in low double-digits and with double-digits overall for the 2020 year. Reinsurance, which has lagged primary insurance pricing closed the gap throughout the year, but was still not as strong as rates being achieved in primary market. This situation helps further explain our continued double-digit growth in insurance versus roughly flat in reinsurance, while new entrants and incremental capital raises have had an impact around the edges of the market we believe that pricing momentum will continue as a multitude of factors such as low interest rates, elevated cat activity, social inflation, COVID-19 losses and economic uncertainty are likely to persist throughout 2021. This hardening market has nothing to do with a shortage of capital. Unlike previous hard markets capital is actually plentiful. The factors I just mentioned are driving the market and all capital both new and old must face that reality as they price business.

We also believe our business will continue to benefit as the economy recovers from the impact of COVID-19. While large and mid-sized business has shown reasonable resiliency to the economic disruptions, small business, which is a meaningful part of our portfolio has been adversely impacted. As the vaccine rollouts gained traction, we expect small business activity to rebound given pent-up demand in the economy. We enter 2021 well positioned and excited about our opportunities. We're laser focused on our goal to deliver a 90% combined ratio or lower for the year with double-digit top-line growth, and we're off to a fast start in January and here in early February.

Thanks for your time today and now I'd like to turn it over to Tom.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Richie, I appreciate it. My comments will be extraordinary brief this morning. Jeremy has given you the numbers, so I look forward to your questions. In the Ventures area, as Jeremy reported it was a record year. $2.8 billion of revenues, $367 million of EBITDA and certainly driven points in the year earlier on. The only two words that I can use to describe the performance by the Markel Ventures group of companies are amazed and grateful, they have just done a spectacular job of figuring out how to operate in the world in which we live and they've produced record results and as Jeremy alluded to that's a record level of profitability even without the acquisitions of Lansing and VSC.

On the investment side, we first and foremost protected our balance sheet and we produced positive returns at the same time following our consistent historical disciplined and sustainable approach. The net of all of this of what's happening in the insurance related businesses, the ventures businesses and the investment operations is that all of those factors combined put us in a very strong capital position, which will enable us to play both offense and defense as we enter into 2021, and I suspect we will have the opportunity to defend both teams on the field at various points during the year. So we're very optimistic, we're very grateful for the results that the 18,000 plus employees of Markel produced over the years.

I just wanted to thank everybody for the efforts in an extraordinary year that we did not have a playbook for as we entered into it, but we're pleased to report these results to you, and we now look forward to taking your questions.

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) The first question is from Phil Stefano of Deutsche Bank. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes. Thanks, and good morning. I was hoping you could talk about the decision to release, I -- understandably it is a small portion but release a small portion of the COVID reserves. And maybe you can help frame for us, what you see as the risk around COVID estimates. And I guess I'm just surprised that we're seeing reserves come down already, it feels like industry commentary pretty broadly. Is that the liability lines will have impact over the next couple of years? And of course, the industry always has this mantra of being quick to recognize the bad news and slow to recognize the good news?

A - Jeremy A. Noble {BIO 20687803 <GO>}

Hey Phil, it's Jeremy. Maybe I'll start and Rich, you might join in. It was pretty modest reduction. And actually, we didn't change our gross COVID loss reserve estimates, that is actually a reflection of a little bit of additional benefit from reinsurance. And part of that is associated with kind of enterprise aggregate covers that we would have in place. It would have been influenced by the fact that we had elevated in that levels of net cat losses. So really the only thing we reflected was a pretty modest amount of additional reinsurance recoveries. We didn't change the gross reserves. Rich, I don't know if you want to comment on that?

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

Yes. Yes. Exactly. Yes. So it really was all about the aggregate cover and some of that benefit from the aggregate cover getting allocated to COVID. So gross reserves were unchanged. Totally agree with you, in terms of the uncertainty around COVID reserves. I think in terms of the two areas where we have exposure, event cancellation, I think at this point, I think we have a pretty good handle on event cancellation, and I don't expect a whole lot of volatility around that. The business interruption in the U.K. again now that we've got the Supreme Court decision, I think most of the areas are laid out and it's a matter of moving to final settlement with the insurers, and I think we feel reasonably comfortable about those reserves. But again, this is first time any of us is seeing this situation.

And then in the U.S., I know there's been a couple of verdicts that have probably been adverse, you would say adverse to the insurance industry. But the reality is that 50%, 60% or so verdicts that are out there have been positive for the insurance industry in terms of what constitutes physical damage and upholding virus exclusions, communicable disease exclusion. So, there's still volatility and potential risk out there. But, we know we're nine months later into it, 10 months later into it. We know more about it today than we did when it all started, and I think we feel as good as we can about the reserves.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. That's an interesting point of clarification on the gross versus the net. And looking at the reinsurance segment, I guess two questions with -- within that. The first, was there any benefit from a profit accrual in the fourth quarter that helped the results? And then Richie, you had framed thinking about the top line growth in reinsurance in your opening remarks. And it feels like, so as we get the cat-exposed business that comes out and goes through Nephila instead. I mean, it feels like this is going to be a clear headwind, cat-exposed business aside is flattish kind of the right way to think about growth for reinsurance in the short run?

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

Yes. I think flattish is the right way to think about growth in the short run for reinsurance. Obviously, we've transferred roughly $200 million of catastrophe business over to Nephila. So, all things being equal, you would expect gross written premium to be down a bit this year in terms of our casualty, professional and specialty portfolios. The one thing that is happening it could change that a bit is just price increases. We could put the same lines down on treaties, but end up with more premium because of the price increases. So I don't expect significant growth. Obviously, we've got over -- we would have to overcome the $200 million that's coming out. We may not be down the full $200 million. We could be something short of that just simply because of price increases on treaties. The first part of your question about profit, I don't -- I'm not really sure what you're talking about there. Sorry, Phil.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes. Was there a profit accrual that flow through the expense ratio? Or accrued to the benefit of the reinsurance segment in some way? I guess it was -- when I was teasing out the quarterly numbers, it felt like there was a slight uptick from what I would have expected.

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. Hey, Phil. The expense ratio, you're right. In the quarter, the expense ratio in reinsurance was up, that it is sort of personnel related expenses, part of that is the costs associated with our decision to exit out of property within the Markel Global Re division, so much more personnel costs from that than anything on the kind of the profit side.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. And just one point of clarification, I think there was a -- the 90% combined ratio target, was that for all of P&C or just the insurance?

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

That's for all of P&C.

Q - Phil Stefano {BIO 18965951 <GO>}

Got it. Thank you.

Operator

The next question is from Jeff Schmitt of William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, good morning. Looking at growth in the insurance segment, obviously, really great rate increases, you would set out sort of averaging in the double-digits. But I was wondering how much of a drag you maybe be seeing there from lower exposures, audit premiums, tightening terms and conditions if you're lowering limits or increasing deductibles? Are those factors -- I mean is that a couple of point drag for the years or is that maybe not as high?

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

Yes. There's no doubt that we talked about small business has been impacted obviously a little bit harder by the pandemic. So some of that business was not there to renew or -- and maybe the new business stream is not as strong as a result of that. We are definitely in places, shortening our limits and as a way to manage the portfolio. And so you're getting a rate increase, but you might actually have less premium because of the shortening of the limits. We measured the pure rate increase, and so it doesn't include things like changing terms and conditions or shortening of the limits. So there is some drag there, but I can't quantify that for you.

The reality is I mean, we're up over double-digits in terms of our rate increases and we're up 13% in growth for the year. So there's a little bit more growth than there is rate increase. So there -- that suggests to me that net, net, net there is some new business on top of just the rate increases that we're receiving. But there's no doubt, there is some drag there, and then in addition, we're always remixing the portfolio, and there was over a $100 million of business that we exited during 2020, because it wasn't performing to our return hurdles. So, our growth was net of having to get out of some of that business.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And just on that repositioning, which what areas did you get out of? What areas are you looking to kind of shift to?

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

Sure. We got out of a couple of programs that were underperforming. One in particular that was probably $70 million or $80 million, we came off of that program during the year. Some of our smaller program business camps as an example, social services, very little opportunity for growth, challenged areas in terms of profitability we have gotten out of. And where we're really focused is professional liability, casualty, property, marine and energy where we're growing nicely and our rate increases are not just double-digits, they're mid to high 15 to 20 sorts of increases.

A - Jeremy A. Noble {BIO 20687803 <GO>}

One other line would be the personal accident and contingency in the international space.

(Multiple Speakers)

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

We got out of that as well. Yes.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Got it. Okay. And then just one on the expense ratio in the insurance segment, running at 36%. It would have been high 30s the past few years. I know you've mentioned just earned premium volume being up but earned premium volume growth did pretty good for a number of years, I guess is 36 the right run rate to think about there?

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. We're really continuing to work on the expense ratio, so it's a great point that we've seen that come down, our variable component in the ratio really is pretty unchanged, so most of the benefit you see year-over-year is us holding the direct and controllable expenses, broadly flat while sort of in insurance growing net earned premium 13%. We think that's a trend that we can continue to see as we grow. So we've been really focused on trying to hold this direct and controllable expenses flat and scaling up our operations that are sort of in place. So we've seen that really measured over a period of time, I mean you can go back, for a number of years and really see the movement in the expense ratio.

So we're going to continue to work on that, and I think we can do a bit better than even where it was for 2020.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Got it. Okay. Thank you.

Operator

The next question is from John Fox of Fenimore. Please go ahead.

Q - John Fox {BIO 1796608 <GO>}

Yes. Hi. Thank you. I have a number of questions. First of all, very good results, thank you.

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

Thanks, John.

Q - John Fox {BIO 1796608 <GO>}

Richie, you mentioned, event cancellation, I've been doing some reading, of course, the summer Olympics were I guess technically postponed and there's some thought that if they're canceled this year, that would be a big insurance industry loss. So could you comment on that point of view and what exposure Markel might have?

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

We did have a portion of the exposure to the Olympics, we wrote a portion of that. If the Olympics were ultimately canceled, we don't believe it would have much impact to our reserves. We sort of took the position that it very well could be canceled in terms of setting up our reserves, so we wouldn't expect much change to our reserves if in fact they ended up having to cancel.

Q - John Fox {BIO 1796608 <GO>}

Okay. Great. And in your comments you talked about reinsurance business "wanting an acceptable return". What is that for reinsurance? And what type of capital base is that on with about $900 million of premium?

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

I think capital, I'd say it's about one to one in terms (Multiple Speakers) of the capital. And we need the same 90%, need the same 90% combined on the reinsurance. I mean, actually I'd like to see it be a little bit lower. I said 90% or better in 2021 and that's -- but now, let me just say we're coming off some tough performance in the last few years. I don't know that I'll report, put the reserves up at a 90% initially, we will have a margin of safety, but I wanted to (Multiple Speakers) be damn sure it's ultimately going to prove out to a 90%, and so that's the goal.

A - Jeremy A. Noble {BIO 20687803 <GO>}

And John, it's Jeremy. It should be a little more capital efficient too, I mean that was part of the decision to sort of exit property and sort of focus on doing property sort of through, Nephila is offering. Obviously net cat on the property reinsurance side is a much more capital intensive product line.

Q - John Fox {BIO 1796608 <GO>}

Right. Sure. That makes sense. And Richie, did you give an outlook for program services. I mean you mentioned that a couple of accounts that didn't renew but then the fourth quarter was strong. Do you expect that to grow this year?

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

Yes. I do. I do. One of those accounts was one that -- they received, they were upgraded back to A from A minus, and so we knew all along eventually that program would go away. And we actually were fortunate to keep it longer than we thought, so that was always going to be one that was going to take a little while to replace. The new business pipeline is full right now. We really have seen a pickup in activity. So I think we'll grow in '21.

Q - John Fox {BIO 1796608 <GO>}

Okay. Great. And then just the kind of a simple question, the clarification on ILS investment management. So you have $212 million of revenue and $231 million of expenses for a loss, does that $231 million -- does that include the amortization of goodwill and intangibles?

A - Jeremy A. Noble {BIO 20687803 <GO>}

No, the amortization would be separate.

Q - John Fox {BIO 1796608 <GO>}

Okay. And anything (Multiple Speakers) from your comp? Go ahead.

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

Go ahead. I was just going to say but it does also include some pretty significant charges related to CATCo

Q - John Fox {BIO 1796608 <GO>}

Right. I was just going to ask about that. Have you guys quantified that? Or not at this time?

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

We did not quantify it. I mean, I think you can go back in the last quarter and probably get a reasonable estimate of it.

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. What I would say, I think, Richie, commented on this earlier is full year CATCo expenses were approximately $50 million, pretty significant amount, that would be non-recurring in nature.

Q - John Fox {BIO 1796608 <GO>}

Yes. It's very significant. And did you buy any stock back in the quarter?

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

We did not. We stopped the repurchase plan back in March.

Q - John Fox {BIO 1796608 <GO>}

Okay. Great. Thank you.

Operator

(Operator Instructions) The next question is from Mark Dwelle of RBC Capital Markets. Please go ahead. go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Hey, good morning. Just a couple that haven't already been addressed. Down in the product services and other segment, there was a $41 million charge related to the Latin America reinsurance segment, is that a goodwill write-off? Or is that an underwriting loss, the description, it wasn't really clear what was happening there?

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. Mark, it's Jeremy. Let me try to clarify that. So go back to 2013 when we acquired Alterra, we inherited a small Latin America reinsurance operation, really over the course of the past 24 months, we've been winding down our Latin American operations, and this would be an example, as Richie was talking to before. Not really a core product offering and not really sort of meeting profitability and return targets for us.

The last remaining piece of our sort of exit is a sale of a small Brazilian reinsurance company, and we're in sort of active negotiations in that space, and hopefully we'd have a transaction later this year. Because of the intent to sell from an accounting standpoint, we recognize that loss. What's important to reflect is a little bit of the accounting. So you'll also see in the quarter, a pretty large CTA gain and other comprehensive income and the accounting would require us to crystallize the accumulated CTA loss and reclassify that into an operating -- into operating income as an operating loss. So we've got that in the reinsurance segment outside of the combined ratio, that $41 million you alluded to, that's largely offset by corresponding CTA gain, because of that reclassification. The actual book loss is pretty small.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. All right. So ultimately it's primarily an accounting. Was there any material amount of premium associated with that? It sounds like you've pretty well run it down to a de minimis amount?

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

Over the last couple of years, it was very de minimis.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it. Okay. The second question that I had, you commented on, a goal of 90% or better combined ratio, which in my recollection is maybe the first time you've ever said such a goal publicly. So thank you for that. But more specifically, as you contemplate that targeting, would you perceive most of the improvement from here to be primarily loss ratio driven? Or do you think that there's any meaningful amount of expense ratio savings that can be further generated from here?

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

Well, both, both. I think there's probably more on the loss ratio side at this point. I made a point of the 85 combined in the fourth quarter before cat and before COVID. We're hoping, there's not another COVID type loss in '21. And we have significantly reduced our cat exposure by the end of 2020. So I would expect our kind of normalized cat load to be less in '21. So, I feel like we're there in terms of a run rate to produce 90% or below. And then Jeremy spoke about the expense ratio, we continue to scale the business and we're holding the line on our controllable expenses. So, our goal is to drive it lower than the 36 we reported this year.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it. Thank you. That's very helpful. Last question, we haven't heard enough from Tom yet. So I'm going to ask you a Ventures question. I mean, obviously, this year was a difficult year in a number of senses for the multitude of business units in there. What are the key signposts you're looking for as far as reopening to kind of get the revenues, particularly, in the units that's saw revenue declines, to get those back running positively again this year?

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

Sure. Well, again amazed and grateful are the words that I would write for what happened in Ventures. When we looked at the economy being shut down in April and May, and order books that just disappeared, the recovery that is already taking place is spectacular, and that's attribute to the management teams that run those businesses in the -- and the workforces who just figured it out. For instance, the Havco which makes the wood flooring for trucks as the gentleman who runs that said, you can't make wood floors from home. So that workforce figured it out a way to operate safely and make wood floors and capture a pretty good amount of business that started to show up in the second half of the year.

The most economically sensitive section of the Ventures Group would be things that are related to transportation and the various trailer businesses, and I can tell you those businesses are already picking up in the fourth quarter, was pretty nice and their order books are way, way better than what they were earlier in the year. So I don't think there's much that I can control about general economic conditions, that'd be like thanking the weatherman for a sunny day, but as the weatherman I would predict that the conditions are getting better.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thank you. That's helpful. I don't have any other questions. Thanks.

Operator

The next question is from Mark Hughes of Truist. Please go ahead.

Q - Mark Hughes {BIO 1506147 <GO>}

Yes. Thank you. Good morning. I wonder if you could talk about kind of frequency and severity as you saw it develop through the year in anything related to COVID and the shutdown and then maybe social inflation you mentioned that as the continuing driver for rate momentum. Do you think there's some pent-up demand as maybe courts open in 2021?

(Technical Difficulty)

Operator

Hello, everybody. Please hold.

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

We think frequency is about the same. In terms of severity that's really where you see -- that's really where you see the social inflation showing up, the nuclear verdicts, the things of that sort. That's why -- that's part of the reason we're shortening limits, that's part of the reason, you buy reinsurance, you try to do things to manage that. And we do believe, the rate increases we're achieving now, are running in excess of trend at this point, and they need to. I've said that we need to be at a 90% or less to generate appropriate returns on our capital, and so that margin that we've been generating has been needed. So, I think frequency we're seeing about the same, severity is where we're seeing it go up.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you for that. On the cat exposure, you point out how the normalized cat load is less in '21. Any other metrics you can share sort of specifics on say premiums related to cat exposure? Or maximum loss numbers just to give us a better sense of that change?

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

Probably the best thing I could give you is, each year we sort of work up a cat load in terms of our combined ratio. And Jeremy, keep me honest here, would that have been about 3 points for 2019 and it's probably less than 2, for -- excuse me, for 2020 (Multiple Speakers)

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes.

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

It's probably less than 2 points for '21.

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. And for example, our Global Re division that property book, I think ended up writing gross maybe $220 million, it's a certainly less than that, I think that's in the press release, but that would be a good example that the vast majority of that business will not be on the books in 2021.

Q - Mark Hughes {BIO 1506147 <GO>}

And then if I may just a couple of specific numbers, and I'm sorry, if I didn't back into this properly, the expense ratio for the insurance segment and then the reinsurance segment for Q4?

A - Jeremy A. Noble {BIO 20687803 <GO>}

Yes. Sure. The insurance expense ratio was about a 35%, and for reinsurance I think it was about 36%.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you very much.

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

Thanks, Mark.

Operator

And the next question is a follow-up from Phil Stefano of Deutsche Bank. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes. Thanks. A quick one on the 90% combined guidance. I got the impression in response to an earlier question that the right way to think about the 90% is a fully developed number. But of course, there could be some level of conservatism to the reserving basis on that. I mean how should we think about this 90% as a reported versus a fully developed number?

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

90%, I'm thinking in terms of the 90 as reported. So, if we have a margin of -- we obviously will include a margin of safety in both our insurance and reinsurance operations. With that margin of safety, I could potentially see us reporting something in excess of the 90% in reinsurance in 2021, and I'm hoping for something less than the 90% in insurance in 2021.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. Understood. And with the ILS commentary in AUM update, I didn't hear Lodgepine mentioned in there. I was hoping, you can give a quick update on that?

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

Lodgepine, in terms of the results, Lodgepine had a terrific year in 2020. We talked a lot about small to medium sized events, so it was really frequency in 2020 in terms of the cat losses, none of that really got to the retro portfolios, and so they had a terrific year mid double-digits returns on the portfolio. The place that we fall in short is in terms of raising capital. We're a little short in terms of our capital raising, and we're hoping to now with a year's track record, I know a year isn't a lot, but it is a years' track record. We're hoping that we can get out there and raise some capital here in the first quarter before the Japanese renewals on 4/1 [ph].

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. Thank you.

Operator

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

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

Thank you very much for joining us. We're pleased to be able to report the results that we did to you. We look forward to 2021 and chatting with you again next quarter. Thank you all so much. Bye-bye.

Operator

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