Q3 2020 Earnings Call

Company Participants

- Jeremy Andrew Noble, Chief Financial Officer
- Richard Reeves Whitt, Co- Chief Executive Officer & Director
- Thomas Sinnickson Gayner, Chief Executive Officer

Other Participants

- Bob Farnam, Analyst
- Charles, Analyst
- Jeff Schmitt, Analyst
- John Fox, Analyst
- Mark Dwelle, Analyst
- Phil Stefano, Analyst

Presentation

Operator

Good morning, and welcome to Markel Corporation's Third Quarter 2020 Conference Call. All participants are in a 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 -- 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 self harbor and cautionary 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 the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in our most recent Form 10-Q, which can be found at our website at www.markel.com in the Investors 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 Sinnickson Gayner {BIO 1896932 <GO>}

Thank you, Emily. Good morning and welcome. We apologize for the delay in starting the call this morning. We understand that one of the numbers that was distributed was incorrect and connected you to the replay, which of course has not happened yet. This is the actual call. We've sent out an email with the correct number and we see a roster is being assembled in something of a slow in argue was fashioned. We apologize for that error on our part. We hope others are able to join us in process, and that the replay will work as function and we are grateful that you're here this morning.

So good morning and welcome as stated this Tom Gayner, I'm here today with our Co-CEO, Richie Whitt, and our CFO, Jeremy Noble. We're glad you've joined us and we look forward to briefing you on current conditions, as well as answering your questions. I'm not telling you anything you don't know when I'd say the 2020 remains unlike any other year. The systemic challenges of the COVID-19 pandemic and all that following in its way remain immense and unrelenting. That said, I could not be more proud of the efforts of everyone in this organization to truly serve our customers, our associates and our shareholders in the face of adversity.

We've provided for claims and financial assistance to our policyholder customers to cover substantial losses and economic cost. Those losses stem not just from the things you see in the headlines regarding the pandemic, but also a state of natural catastrophes, such as more hurricanes than hurricane names, wildfires a major [ph]direction, and ongoing recurring events and circumstances that we see regularly in our insurance operations. We continued to provide necessary and desirable products and services throughout our Markel Ventures operations. That includes building the machines, with deep breathe. Things will get much more basic or necessary than that and since man does not live by (inaudible) alone, we also produce and provide everything from medical services, housing, house plants to brighten your day and trailers to convey everything from industrial gases to the car you drive. We make truck floors to keep the products you need from falling out of the bottom of the trailer, technology consulting services to manage and keep track of it all, and many other items as well. And by the way, we also provide fire suppression services to keep it off from catching on fire.

We're doing our best to keep our associates safe and gainfully employed throughout these truck trial times. We're also working to produce financial results which create the capital we need to be able to serve our customers and associates. Over many years and as displayed to the first nine months of 2020, we've built a system at Markel to be a resilient and robust company. We work to serve and dependably honor the promises we made. We've built a diversified three engine machine consisting of our insurance, investments and Markel Ventures operations. Those components work together to fulfill our purpose each and every day.

We're delighted to be able to report our 2020 year-to-date progress in doing so this morning. Clearly, work remains to be done. While our insurance operations remain mildly in the red to the year-to-date, [ph]we recover dramatically since the first quarter shock losses, we recognize that the onset of the COVID-19 pandemic. We've accelerated our pace of making tough but necessary decisions to increase the durability and quality of our insurance operations, which will be measured by improved profitability. In our investment operations we're reporting profitable results for the first nine months. While that is always too shorter timeframe to draw conclusions about investing those results continue a multi-year pattern of conservative and profitable investing.

Our investments protect our balance sheet and stand behind the promises we make and they also produce appropriate returns. In our Ventures operations, we produced outstanding results so far in 2020. The leaders of the Ventures businesses adapted and figured out ways to surmount unprecedented conditions and circumstances. I am grateful and amazed for their work and accomplishments. The performance of our three engines demonstrates the resilience and the spirit of Markel to fulfill our purpose of serving our customers, our associates and our shareholders.

We believe in win, win, win as the fundamental architecture underlying Markel, and we're pleased to be able to share how that played out in the unprecedented conditions of 2020 today. Even more importantly, we hope this update provides you with a shared optimism of how we will continue to evolve and build even more resilience and sustainability going forward. At this point, I'll turn the call over to Jeremy to review the financial details of the year to date. Richie will then follow with some commentary on our insurance, and insurance and securities operations, and then I will speak briefly about our ventures and investment engines, following that we will take your questions.

So that, Jeremy?

Jeremy Andrew Noble {BIO 20687803 <GO>}

Thank you, Tom, and good morning everyone. Our underwriting, investing and Markel Ventures results continue to be heavily influenced by the effects of the COVID-19 pandemic. But fortunately, we saw positive contributions from each of our three engines during the third quarter. Our insurance operations produced an underwriting profit despite elevated levels of natural catastrophe losses as well as increases to reserves related to the pandemic, reflecting the strong underlying performance of our business. Our Markel Ventures operations delivered meaningful profits demonstrating their resilience despite economic uncertainty. And our investment portfolio also saw gains and bit volatile market conditions.

Looking at our underwriting results, gross written premiums were $5.4 billion for the first nine months of 2020, compared to $4.9 billion in 2019, an increase of 10%. This increase was attributable to our insurance segment, which reported gross written premiums of $4.5 billion, an increase of 13%, compared to 2019 period. This premium growth is attributable to both our growth in our and more favorable rates with our professional liability, and general liability product lines as well as growth in our personal lines, product lines.

Gross written premium within our reinsurance segment were consistent with the 2019 period and roughly $960 million. Year-to-date retention of gross written premiums was 83% in 2020, which is down 1 point from 84% in 2019. And our premiums for the first nine months increased 10% to $4.1 billion in 2020, primarily due to higher written premium volume in our insurance segment. Our consolidated combined ratio for the first nine months of 2020 was a 101%, compared to 95% in 2019. For the third quarter 2020, we reported a 97% combined ratio, compared to a 94% a year ago.

Our 2020 combined ratio included 9 points of underwriting loss is attributed to COVID-19 for the nine-month period, compared to 3 points for the quarter. As I've discussed in the past two quarters, we recognized $325 million of pre-tax net losses and loss adjustment expense during the first quarter of this year. For those policies and contracts were COVID-19 was identified as approximate were direct cause of loss. During the third quarter, we increased our loss estimates on these coverages by $32 million and also recognized $15 million of losses on our trade credit product line arising from the economic uncertainty resulting from the pandemic. As a reminder, our losses for COVID-19 are primarily attributed to business written within our international insurance operations are primarily associated with coverages prevent cancellation, business interruption losses and policies where no specific pandemic exclusions exist.

Due the inherent uncertainty associated with our assumption surrounding COVID-19, which among other things, includes assumptions around coverages, liability, reinsurance protection, duration and loss mitigation factors, as well as the fact that the economic impact of a pandemic continued to evolve, our estimates continued to be subject to a wide range of variability.

During the third quarter a test case of the sample of business interruption coverages for policies written in the United Kingdom was completed with the court's judgment finding mostly in the favor of policy holders. This really was most impactful to certain estimates in our reinsurance segment, where we increased our estimate of losses and loss adjustment expenses of certain treaties following increase in estimated losses by our savings. Within our insurance segment, the ruling did not meaningfully impact the reserves previously established for business interruption coverage given the assumptions we initially made in our policy terms and conditions.

Our estimate at September 30th, 2020, also reflect additional data gathered through increased claims reporting and change in our expected duration of the pandemic, which was most impactful to our vent cancellation coverages. In addition to the explicit provision of losses recognized during the quarter on our trade credit product line as the overall effects of the pandemic continue to evolve, further losses indirectly related to the COVID-19 pandemic are possible and they also emerge within our professional liability and workers' compensation product lines among others, including our reinsurance product lines.

To date, we've not seen any other evidence of significant incurred losses increasing for these secondary exposures. Our underwriting results for the first nine months of both 2020 and 2019 also reflect losses attributable to natural catastrophe. Our 2020 combined ratio included $101 million or 2 points of underwriting losses from hurricanes Laura, Sally, Isaias as well as the Midwest a (inaudible) and wildfires in the Western U.S., compared to our 2019 combined ratio, which included $43 million or 1 point of underwriting losses from Hurricane Dorian and Typhoon Faxai. With regards to prior year loss reserve development consistent with our reserving philosophy, prior-year loss reserves developed favorably by

$435 million in the first nine months of 2020, compared to favorable prior year development of $337 million in 2019.

Turning to our investment results following the significant declines for the fair value of our equity portfolio during the first quarter, we have seen meaningful recoveries in the second and third quarters. Net investment losses for the first nine months of 2020, $231 million, compared to net investment gains of $1.1 billion last year, a year-over-year decline of $1.3 billion.

As I've mentioned in prior calls, in our long-term focus, variability in the timing of investment gains and losses as we expected and we may continued to see volatility in the equity markets, due in part to the economic uncertainty caused by the pandemic. With regards to net investment income, we reported $274 million in the first nine months of 2020 compared to $339 million a year ago. The decline is largely due to lower short-term interest rates and lower holding to fixed maturity securities in 2020. Net unrealized investment gains increased $298 million, net of taxes. During 2020, reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines in interest rates during the first nine months of the year.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures surpassed $2 billion through the first nine months of 2020, compared to $1.6 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 the acquisition of VSC Fire and Security, which closed during the fourth quarter of 2019. Excluding the contributions of Lansing and VSC in 2020, operating revenues in our Markel Ventures operations decreased compared to 2019 as a result of decreased demand attributed to the economic and social disruption caused by the COVID-19 pandemic. EBITDA from Markel Ventures was $284 million for the first nine months of 2020, compared to $219 million last year, reflecting the contribution of Lansing and VSC, as well as growth and improved operating results. It's certain of our businesses. Looking at our consolidated results for the year, our effective tax rate for the first nine months of 2020, was not meaningful to the small pre-tax loss in the period. The effective tax rate was 22% for the nine months ended September 30th, 2019. And the estimated annual effective tax rate for both periods was 21%. We reported a net loss to common shareholders of $31 million for the first nine months of 2020 compared to net income to shareholders of $1.3 billion a year ago. And when combined with the contribution of the increase in net [ph]unrealized gains on our fixed maturity portfolio comprehensive income to shareholders for the first nine months of 2020 was $260 million, compared to $1.6 billion a year ago.

Finally, I'll make a few comments on cash flows capital in our balance sheet. Net cash provided by operating activities was $1.3 billion for the first nine months of 2020, compared to $712 million in 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.

Invested assets at the holding company with $3.8 billion at the end of September, compared to $4 billion at the end of 2019. The change in holding company invested assets reflects funds used to acquire Lansing, as well as a decrease in fair value of our equity portfolio, both of which were partially offset by proceeds from our May 2020 preferred shares offering. Total shareholders' equity stood at $11.9 billion at the end of September, compared to $11.1 billion at year-end. We continued to maintain the fixed maturity portfolio product the high credit quality investment grade securities with an average rating of AA. Our debt to total capital ratio at the end of September was 23%, down slightly from 24% at year-end, and we have no unsecured senior nets maturing until July of 2022.

We believe we are well-positioned to meet our ongoing capital and liquidity needs, including supporting the growth in our insurance operations. We expect to continue to see attractive opportunities in the specialty insurance marketplace. With that, I'll turn it over to Richie to talk more about our insurance businesses.

Richard Reeves Whitt {BIO 7084125 <GO>}

Thanks Jeremy, and good morning, everyone. As Tom has already said the year as we saw the continuation of the unpredictable roller coaster year that is 2020 in the third quarter. Despite all that, our insurance operations continued to grow nicely and we obtain meaningful rate increases in almost all our lines. Our third quarter was also impacted by a series of small, medium-sized cats as Jeremy mentioned for which we recorded an aggregate $101 million of underwriting losses in the quarter. And those were related to multiple hurricanes Laura, Sally, Isaias, the roadshow and the Western wildfires. As regards COVID-19 losses in the third quarter of 2020, we increased that provision to $374 million that was up from our original $325 million provision that we established in the first quarter. While we have revised many of our original assumptions with the availability of additional information in some of those have been positive, some of those have been negative, the largest driver for the increase in our direct estimates this quarter related to the UK High Court ruling on the FCA business interruption test case, that the impact of that ruling impacted our estimates within our reinsurance segment. There were also some increase is required is we now expect the impact of COVID-19 to be felt into the first half of 2021, that specifically impacts and then cancellation business. As part of the third quarter COVID-19 provision, we also recorded $50 million of estimated losses in our trade credit product line within our insurance operations and those claims, were related to indirect economic impact from COVID-19. We're not a but-for company at Markel. CAT losses over the past four years, including 2020 COVID-19 losses has significantly impacted all of our insurance, reinsurance, and ILS businesses.

As a consequence, we've missed our underwriting profitability goals over that four-year period. And as a result, we've implemented many key strategic changes over the last several quarters designed to reduce the number of but-for items that could potentially impact our future results. We believe the changes we have made and will continue to make will reduce the volatility of our insurance business results going forward. Given the strength of the current market and pricing trends and the unique capabilities we have assembled, we are bullish about our opportunity to perform and put more points on the board moving forward.

Make no mistake. We are realist, and this is insurance and but-for events are going to happen. Our goal is to lessen their impact and deliver stronger underwriting results to account for the inevitable events that will occur. Now I'd like to discuss our insurance operations, which include our underwriting operations, State National Program Services operations and insurance linked securities operations. So I'll kick off with the insurance segment. Gross written premiums for the quarter are up $96 million or 7%, compared to the third quarter of 2019. For the nine months, premiums are up $503 million or 13%.

Premium growth for both the quarter and nine months was driven by continued organic growth and rate increases in our professional liability, and general liability products along with growth in our personal lines, product lines. For the quarter ended September 30, these increases were partially offset by lower gross written premiums within certain of our specialty programs due to lower economic activity related to COVID-19 and due to active portfolio management where we have discontinued writing certain underperforming lines and programs.

We're taking the opportunity in this market to remix our portfolio to our most profitable lines of business. The combined ratio for the insurance segment was 94% for the third quarter of 2020, compared to 92% last year. That two-point increase in the combined ratio was driven by five-point increase in the impact of CAT losses and one-point of loss is attributed to COVID-19 exposures, partially offset by lower attritional loss ratio and a lower expense ratio. The decrease in the attritional loss ratio due to decreases in our general liability and property product lines driven again by premium rate increases.

The insurance segment combined ratio for the first nine months was 100% versus 94% for the same period a year ago. The six-point increase in the combined ratio was driven primarily by nine points of loss attributed to COVID-19 exposures and two-point increase from the impact of CAT losses. These impacts were partially offset by an increase in favorable development on prior accident years losses, primarily in our professional liability and product -- property product lines, and lower attritional loss ratio across several product lines due in part to premium rate increases and a lower expense ratio. Higher earned premiums for both the quarter and year-to-date within our insurance segment had a favorable impact on our expense ratio and an unfavorable impact on the prior year's loss ratio.

Moving to the reinsurance segment, a few weeks ago, we announced that we are creating one center of expertise for the global property CAT reinsurance market by close -- by closing our Markel global property CAT unit and having to fill up become Markel single point of entry for serving the property CAT reinsurance market. This move allows us to more fully leverage and fill as market leading competitive position while also generating operational efficiencies. We believe that the companies that will win in the future of those in most efficiently connect CAT -- connect risk with capital.

And this strategic move is going to help us do that in the property CAT market. Going forward, Markel Global Re will increase its focus on underwriting and growing its casualty and specialty lines under the continued leadership of Jed Rhoads, President and Chief Underwriting Officer. Gross written premiums for both the quarter end-year decreased slightly compared to the same periods in 2019. In the quarter, we saw higher gross premiums in our general liability lines due primarily to new business written, and higher rates on that business, offset by lower premiums in our workers' compensation and property lines due to lower premium adjustments and lower renewal premiums with this workers' compensation, and the unfavorable impact of renewal timing within property.

As mentioned previously, significant volatility in gross premium volume can be expected in our reinsurance segment due to individually significant deals and the timing of renewals. The combined ratio for the reinsurance segment was 116% for the third quarter, compared to 103% last year. That 13-point increase in the combined ratio was driven by three-point increase from the impact of CAT losses and a 15-point increase due to losses attributed to COVID-19. Partially offset by more favorable development on prior accident year loss reserves.

The increase in favorable prior year loss development was due to favorable development in our professional liability and workers' compensation product lines this year versus adverse development that was experienced last year. The reinsurance segment combined ratio for the first nine months was 106% versus 99% for the same period a year ago. Seven-point increase in the combined ratio was driven by one-point increase from the impact of CAT losses and a ten-point increase due to losses attributed to COVID-19. This was partially offset by a lower expense ratio and more favorable development on prior accident-year loss reserves.

The increase in favorable prior year loss development was due to more favorable development in our property product line, partially offset by adverse development on our public entity product line in 2020. Next, I'm going to touch on program services in our ILS operations.

As a reminder, amounts from our program services in ILS operations are reported within services and other revenues, expenses, within our operating results. So starting with State National gross written premium volume for State National's program service operations were down in both the quarter and year-to-date basis that was driven by the run-off of one large program and the in-force cancellation of another large program, which resulted in a one-time unfavorable premium adjustment in the first quarter of this year. While gross written premium is down as a result of these two programs we've seen encouraging new business activity and we've found a number of new programs that are coming online as we move forward. As a reminder, almost all of the gross written premium in our Program Services division is ceded.

Ceding fee revenues were also down for both the quarter in the year due to the lower gross written premium volume over the past few quarters. Moving to our insurance linked securities operations, our combined ILS operations have roughly $10.6 billion and net assets under management as of September 30th.

Revenues from our ILS operations decreased 29% from the prior year's quarter and 8% for the nine-month period. Both the quarter and year-to-date periods were impacted by lower management fees at CATCo due to lower AUM from winding down the operations, and reduction in managed these charged during the wind down. Nephila revenues were down for the quarter due to lower investment management fees as a result of some redemptions in 2020 and an increase in side pocket assets on which management fees are deferred until released. Obviously the Cats that occurred in the third quarter, we had to set up loss reserves for those, as well as pockets in that impacted management fee income. For the year, Nephila revenues are up -- with the decrease of Nephila investment management fees more than offset by higher revenues from their MGA operations. Operating expenses from ILS operations increased for both the quarter and year-to-date compared to the prior year due to the impact of a legal settlement in the CATCo operations.

Higher operating expenses is so fixated with the growth in our Nephila MGA operations and start-up cost associated with our large part operation. I'll finish with a little bit of market commentary and obviously happy to pick that up when we get to questions. The trends that we've been discussing in the previous quarters continued in the third quarter. We can -- we see continued price momentum in almost all lines and we believe that this 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 as a result are all likely to persist throughout 2021. We also believe our businesses will benefit as the economy recovers from the impact of COVID-19 while large and medium-sized businesses have shown resilience to the economic disruption, small businesses which are meaningful part of our portfolio have definitely been adversely impacted. To sum it up after a brutal start to the year with COVID-19 losses. We now have an opportunity to finished 2020 with an underwriting profit. We're going to need to push hard over these last nine weeks to achieve that goal.

I want to thank all of our market employees who've worked so hard under difficult conditions to give us this opportunity. I want to thank you for your time today. And now I'd like to turn it over to Tom.

Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Thank you, Richie. In our investing operations, we earned 2.8% on our equity portfolio and 5.4% in our fixed income holdings for a total return of 3.8% after all allocated expenses and FX effects. I am pleased with positive returns in the current environment. Strategically, I believe that the most important role for investments at this point is to preserve and protect the balance sheet of Markel. Given our views about the general level of trade-offs between risk and return on offer today, we believe that our current focus on high quality and liquidity preserve options to make different investment decisions in a different environment.

The opportunity cost of our staff, it seems very low to me. We don't think that we would get paid appropriately for taking meaningful credit, duration for many other types of risk right now. As such, we'll stay relatively liquid and ready and able to deploy cash more aggressively when we see the opportunity to earn appropriate returns and compensation for doing so. In our Ventures operations, I want to be clear. The news is excellent. The managers and teams of the Ventures businesses continued to respond superbly to rapidly changing and disruptive business conditions. I am grateful and amazed at their skills, professionalism and dedication to their associates in their customers.

For the first nine months, revenues and Ventures grew 28% to just over $2 billion compared to $1.56 billion a year ago. EBITDA for the nine months increased 29% to $284 million compared to $219 million a year ago. This record setting financial performance was broad based. While this is the first full quarter of results from our most recent acquisition of Lansing building products, the entire group demonstrated resiliency and the value of diversification. We operate an array of different industrial and service businesses that are market leaders in what they do. They serve a wide variety of customers and experience economic cyclicality and variability from many factors.

We would normally expect volatility from their results. Not unlike what we experienced from our investment portfolio when we look at short term timeframes. With that said, I think this year's results stand as a dramatic validation of the value of Markel Ventures to the overall purpose and future of the Markel Corporation. For your reference, I checked my notes from the third quarter year-to-date conference call from five years ago in 2015. And that year, we reported revenues from Markel Ventures of $784 million for the first nine months and EBITDA of $76 million.

I don't remember the exact economic circumstances and conditions of 2015. But I'm pretty sure I didn't include dealing with a worldwide pandemic. Our efforts to build an enduring and resilience system at Markel continue to unfold. I'm hopeful that the evidence we've offered you this morning about our short-term and long-term progress provides you with some confidence in our win, win, win mindset as we seek to build one of the world's great companies. With that, Emily, if you'd be so kind to open the floor, we love to answer some of your questions.

Questions And Answers

Operator

We will now begin the question and answer session. (Operator Instructions).

First question comes from Phil Stefano from Deutsche Bank. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah. Thanks, and good morning. Just going back to the insurance business in the premium volume, I guess I was surprised that the growth is decelerated from the second quarter, and it feels like part of the explanation that is that we're taking the opportunity in the market to remix some lines of business, maybe you can help us think about the extent to which this pressured top-line growth, how long may this remixing take. And look -- Just given the opportunity in the market and the extent of pricing, what are your early thoughts on 2021? Why would we not see double-digit growth next year?

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Sure. Thanks, Phil. Yeah. Third quarter, there were a lot of different things impacting the third quarter, but one in particular was -- I mean, we are taking the opportunity to remix and really focus on growing what we call our green classes that our most profitable classes. So we've been very aggressive I think this year in terms of moving away from business if it wasn't meeting our profitability goals, closing some of those down, closing down programs that -- We didn't see meeting our goals. And some of that's starting to add up, and that impacted in the third quarter.

Also in the third quarter, July 1 is a big date for us and we had a really good July 1. August-September, they tend to be less busy months for us and that sort of continued this year. So all in all, I'm very pleased with the growth we showed in the third quarter, giving all the moving parts and all the things we are doing. Also, it's fair to say, the economic struggles had impacted I think small business to a greater extent and maybe larger businesses. And we saw the massive amount of stimulus that was put into the economy in the first six months, that wasn't there in the third quarter, and I think some of that had been used to pay premiums in the first two quarters by some businesses.

So we saw a little bit of that in the third quarter. But I'm not particularly concerned about it. We've seen a few of our numbers so far for October, and I would tell you, they're very strong. So you say, why wouldn't we grow double digits in 2021? That's certainly going to be our goal to grow double digits in '21.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay, got it. And sticking with insurance, and understanding and appreciate that you're not a but-for company. But when I look at the underlying loss ratio, but for CAT losses in COVID, there was a pretty good improvement in that attritional performance. Can you help us thinking about the potential contributions of rate versus trend, any COVID frequency benefit from a lack of economic development, and the remixing the business. Presumably, that's going to have a benefit as well. So if you could just kind of bifurcate all these moving pieces to help us understand what's going on here.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

I'll do the best I can. We've gone to a point where our year-to-date rate increase is a double-digit, low double-digits at this point. So rate is certainly a part of it. The remixing is also a part of it. We are growing the most in the lines of business that we, again, call our green classes which are our most profitable classes. We are shrinking classes and you saw that some in the third quarter that we haven't seen the profitability that we would like to see. So all those things are at play. And yes, we saw very nice decrease in the attritional loss ratio so far in the year. And the goal -- the goal is to make sure, but-for events don't stop that from being what the result looks like as we go into 2021. So unfortunately for the last four years, there has been a lot of CAT events that has prevented what has been some pretty nice underlying performance. It's prevented that from showing up in our combined ratio. And so we've been taking a lot of steps to mitigate and hopefully reduce the number of those, but-for events.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. Last one for me and then I'll requeue. I was just hoping you could provide a little context on your appetite to grow reinsurance in the potential outlook for one-one.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Well, obviously now Markel Global Re is going to be focused on casualty and specialty lines. And we do think there is an opportunity in the casualty and specialty lines to grow. We're seeing rate increases. I talked about we're seeing increases in our general liability reinsurance programs and some of that some of that is obviously new business we're writing. But a lot-- Some of that increase is also just underlying rate increases in the primary business.

We're going to be cautious that we haven't seen the profitability we have wanted to see, in those two areas over the last couple of years. So first and foremost is making sure it's profitable, and once we are convinced it's profitable, we'll look to grow it in this environment.

Q - Phil Stefano {BIO 18965951 <GO>}

Got it. Thank you.

Operator

Our next speaker is Jeff Schmitt from William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, good morning. Could you speak to the M&A environment for Markel Ventures. I guess I'm wondering if the tough economic conditions are just sort of creating opportunities where some targets may be temporarily impaired looking for a partner. I don't know if you do those types of situations or other opportunity is popping up here in this environment.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Yeah, thanks, Jeff. This is Tom. I would say there is a lot of M&A being done, but not at prices that we're going to do it. Frankly, over the last three or four years, we've not made a lot of outgoing calls or solicited things, but some businesses have been attracted to that the long-term nature of Markel's, we have grown almost in spite of ourselves. We observe a lot of transactions. And we're rubbing hair off our heads, scratching our heads looking at the valuation. So I think circumstance you lay out will probably happen someday, but we're to kind of watching the freight go by.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And then on the Lansing acquisition, obviously revenue's up a ton from that deal, but profits at Markel Health Insurance were up a lot too. Is that from Lansing, I guess with building products is that-- or is that struggling now and so we could see profitability pickup quite a bit next year from that.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Yeah, I want to reiterate that. That profitability has crossed the board. So, yeah, everybody is feeling COVID in one way or another. But again I just take my hats off to the managers and people at the Markel Ventures operations. They've done a -- Just grateful and amazed are the two words that accurately describe the circumstance. So that's not concentrated in any one place. Obviously, the revenue pickup is pretty big with Lansing because that is a business where, I mean, its distribution kind of business.

So revenues are disproportionately high compared to EBITDA relative to the rest of the Markel Ventures set of businesses. The returns on capital will be similar, but it's crossed the board. The group is doing very well.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And just one more on the insurance segment. I guess, the NPWT growth, I think, you referenced in the queue is that a program that was put it into run-off there. I think it affected the retention amount. What program was that, or what was the size of that program?

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Well, we put a handful of programs in lines of business into run-off that we're not performing. The particular one that I think that was mentioned there was being referred to, it was a program -- it was a program for municipals and it had a heavy property exposure in it that had really not performed well. And so, we chose to walk away from that. I think the impact in the quarter was $20 million-$30 million if I'm not mistaken.

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

Not -- not so much gross yet. I mean, -- I think it's for a period of time until that program transitions were sort of serving in the front of capacity, so it influences the net retention versus what we've seen so far on the gross written premium. But--

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Yeah, Jeremy is right. We are still running that for the next carrier at this moment. So it hasn't impacted our gross that much at this point, but we're not retaining it net. So over time, that will come through as well.

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

And that's a good example where I think we will find the opportunity to kind of make up for that premium reduction by focusing on the profitable classes that we're seeing opportunities.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Right. Okay, thank you for the color.

Operator

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

Q - Mark Dwelle {BIO 4211726 <GO>}

Hi. Good morning. A couple of questions. The reorganization or change in the property reinsurance business that's going to Nephila. Can you just talk about that in a little more detail? In particular, I guess what I'm curious about is, is that effective for one-one? Is it effective immediately? And in general terms, about how many millions of premiums are impacted, kind of, maybe using this year's year-to-date as a run rate or something like that.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Sure. Sure, Mark, it's effective for one-one. So no one-one business will be renewed on Markel's books. And if those clients are interested, Nephila will offer renewal quotes on that business. It's about $200 million of premium. It's obviously CAT-driven premium that, to the extent, it is renewed. It will renew within the fill of funds. Obviously, what that does for us in terms of Markel's balance sheet is it removes that volatility from Markel's balance sheet. And as we go forward, to the extent, we want to take CAT risk. It's a cleaner option, I think, to do it from within the Nephila funds, to invest in the Nephila funds. It shows alignment with our investors.

It's very easy to calculate how much capital on allocating to CAT, it's whatever the investment is. It makes that makes that math simple. And then, obviously, Nephila with its management of roughly $10 billion of AUM. They have market presence, market cloud that we just -- we're never going to be able to achieve at Markel Re. So the logic just make too much sense in terms of making that move.

Q - Charles {BIO 15023094 <GO>}

Thanks for that. Now, the logic did seem to make quite a bit of sense. On that same topic, or generally in that same topic, with the legal settlement you've now achieved in CATCo does that accelerate or change any of the timeline on finalizing the run-off there.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

No, the run-off is really dictated by the settlement of the contracts with Siemens and the team there has made terrific progress settling suddenly with seen I think we're down to about $1.2 billion of AUM, which I think is I don't know, $1 billion or $2 billion or so down from the beginning of the year. So they've made great progress, as is always the case, you know that last bit takes a while. So they're working really hard to do it. But that settlement really is unrelated to how long it will take to return all assets to the investors.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And then the other question that I had. You provided a very helpful table in the queue related to the various COVID related charges that you took. There are few items within that table, though where it showed effectively a negative charge. Were those just reclassifications between the insurance and reinsurance segments or was there some actual release of reserves or take down of reserves associated?

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

Hey, Mark. It's Jeremy. There were a few pockets actually where we reduced our reserves from initial expectation. Some of that we saw in our US property relative to our initial sort of reserves also within our international book in the UK relative to business interruption. We kind of commented about the sort of the contract that we're putting some reserves up in our reinsurance line associated with the FCA Test Case, but we really haven't seen the frequency of claims reporting for some of business interruption relative to our initial expectations there. So there were a couple of situations where we release reserves netting against those increases.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay, that's helpful.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Yeah Mark, I tried to kind of allude to that, my comments. I mean obviously we took our best shot back in the first quarter and coming up with reserves for COVID. Obviously, since then we've learned a lot more, and my guess is we'll continued to learn as we get through this because we've never seen this situation before. As a result of those learnings, in some areas we felt reserves could come down, in other areas, we felt reserves needed to go up. And my guess is that, that will probably continue as we go forward, we'll continue to adjust as we learn.

Q - Mark Dwelle {BIO 4211726 <GO>}

Of the total bucket of sort of $375-ish million, is most of that still in IBNR at this point or has there been significant pay downs relative to that through certainly some of the event claims I would think out paid at this point.

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

Yeah, certainly, Mark. I don't know if you're right to hand. But I think more than half of that is still an IBNR. So we've seen -- Certainly, we've seen increased claims reporting from the encouraged standpoint, and we've had some settlement activity, but there's still a significant amount of that that's sitting in IBNR. And it's a good example. The amount that have been put up in the third quarter at principal we all in IBNR.

Q - Mark Dwelle {BIO 4211726 <GO>}

Understood, thanks for the answers. Appreciate it.

Operator

Our next question comes from John Fox from Fenimore Asset Management. Please go ahead.

Q - John Fox {BIO 18976738 <GO>}

Thank you. Good morning, everyone.

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Hey, John.

Q - John Fox {BIO 18976738 <GO>}

Richie, I'm curious what your expectation is for State National. You mentioned some new programs coming on. When do you expect that would start growing again?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

I think it will, those were big programs that came off in the first quarter. And it's, we probably talked enough about it. One of those programs was very much an opportunistic program. And when that company receive their upgrade of their ratings, they no longer needed State Nationals' program services fronting capabilities. So (inaudible) that is going to go away. The other one was a little surprising to us, not so much that it went away, but how it went away, that on a cut-off basis and that premium all just moving to the new carrier. But we've seen a number of new programs coming on.

Unfortunately, none of those have been quite as large as the two that went away. But we'll start to see premium ramp up from those new programs and more importantly, we really like the activity we're seeing. And I think it's just what's happening in the market. It's a very interesting, exciting time in the market right now. There is a number of new players trying to get themselves setup to hopefully take advantage, I guess, of the conditions. And by plotting services is a very attractive way to get going quickly. So we were receiving a lot of inquiries.

Q - John Fox {BIO 18976738 <GO>}

Okay, great. And you mentioned probably not a quote. But you have not met your underwriting goals over the last few years due to the cat losses, and now you're remixing the business. So I'm assuming you're aspiring to a higher underwriting profit. Can you share like what you are thinking about in terms of when you're mixing the business, and what type of combined ratio or is it premature for that?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

John, given the rate increases we are seeing, given the interest rate environment that Tom and the team are having to content with. We think we need to be around the 90 combined, and I'd love to see it lower. But I think it's got to be something around the 90 because we just can't put the pressure on Tom and team to generate returns in this low to no-interest rate environment.

Q - John Fox {BIO 18976738 <GO>}

Right. Okay, great. Thank you. And then, I understand there was of settlement in a lawsuit. And so maybe you can't talk about some of this. But to the extent that you can, what is the run rate expenses of the profitability at ILS Investment Management segment?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Well, I'm going to -- It's not going to be an exact quote from Mr. Noble. Mr. Noble and I were talking the other day, and unfortunately I don't think I've seen a run rate quarter yet. There's just been a lot of noise, unfortunately. But here's where we are, John. I think we have had success in attracting new AUM for January 1. So that will be coming on board for 2021.

Q - John Fox {BIO 18976738 <GO>}

Okay.

A - Richard Reeves Whitt {BIO 7084125 <GO>}

So the two things that impact our ability to make to create a return in ILS are the amount of AUM, and how many losses we have. Well, we can't do much about the number of losses. Although I would tell you the last four years have been brutal.

But rates are going up substantially. So I think that business is going to be better priced. I know that business is better priced going forward, giving us a better opportunity to earn on that for our investors and thus earn fees. So really, there really hasn't been a good run rate quarter yet, but I think going into '21. We've got some momentum, both in terms of rate increases were receiving. And so the profitability of the business we're writing and investors signing up to invest in the funds.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

And John, if I could tag on to Richie's answer because there is one very, very important nuance that, I think, often gets lost in the communication of how this business works, and it's newness to Markel. So when Richie talked about the losses that occur, in the old days, when we were writing that business on our balance sheet, that would be dollar-for-dollar, our capital that would have a loss and show up in the combined ratio, the business we write. This is where we're managing other people's capital. So the loss ratio really has a profound but indirect effect on the management and performance fees. So there is exponential returns on our capital when industry losses come in more -- at lower levels than would have been the last couple of years. And to Richie's point about, we haven't seen a normal run rate. We've not been in an environment where you start to see kind of what your normalized expectations of management and performance fees that Nephila has indeed earned over many years, and we would expect to normally describe the business.

Q - John Fox {BIO 18976738 <GO>}

Okay. Well, let me prompts another question. So if I think about traditional Asset Management, which everyone on the call is familiar with, you would take average AUM times of fee. If I do that, I get about 140 basis points on the Nephila revenue annualized. And that would be my revenue and then expense, profit margins and invest margins about 30% on average. So but it sounds like there is a third dimension, which is the amount of loss, CAT losses loses. Also--

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Well, here's the thing. So like traditional Asset Management. If you were talking about a company that manages mutual funds, where performance fees have historically not been part of it, your math is exactly that. It's assets under management times the management fee, minus the expenses. Boom shakalaka. There is a profitability in the 2.0 version of investment managers, and there's plenty of them out there. That's only part of the equation. Then there is another variable of performance fees, based on how well you did for your investors. And that's the aspect that I've just highlighted here.

Q - John Fox {BIO 18976738 <GO>}

Yeah, okay. So it's three dimensions, not two.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Correct. So, John, obviously given the last four years, there hasn't been a lot of performance fees earned because there has been pretty above normal or above previous normal CAT activity. So that's impacted it. And also, this business is highly leverageable. At $10 billion of assets under management, it would look very different under $12 billion or $13 billion or $14 billion of assets under management, because we really don't need to add a lot of additional cost to manage that.

Q - John Fox {BIO 18976738 <GO>}

Right, sure.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

We can scale of the business pretty substantially.

Q - John Fox {BIO 18976738 <GO>}

Right. Okay. Thank you, that's good clarification. Bye.

Operator

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

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah, thanks for the follow-ups. Richie, I mean the 90% combined ratio goal that you had talked about, I assume that that's a reported number that includes CATs and all of the but-fors?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Yes. It has to include CATs and but-fors. Yeah, we need to get to that sort of level I think given the interest rate environment.

Q - Phil Stefano {BIO 18965951 <GO>}

And how do you think about the dynamics of pricing versus where you stand today and getting there over the next couple of years?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

I feel very bullish about that. I think we talked with the first set of questions about the improvement in the underlying attritional. So I think there's more room for that to improve it. And we've obviously we've been working very hard to reduce volatility from CAT losses. So I'm bullish as we go into '21.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. And the last one is a numbers question on Ventures. Can you help us frame the contribution that Lansing could have over the next couple of quarters or what we could expect maybe there is some seasonality to the business as we think about the revenue growth into mid 2021?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Yeah, I think when you look at the quarter, given current business conditions. That's reasonable run rate kind of revenue thoughts that you should have. Typically, seasonality building products tend to slow down a little bit in the winter time, but we're not seeing that right now, just things housing related are quite hot. But we'll see how it goes. And we've not owned it long enough to really give you any seasonal pattern. Other common sense will tell you that, construction tends to be more warm weather than cold weather.

Q - Phil Stefano {BIO 18965951 <GO>}

I didn't see a standalone Lansing number, is that something you have at your fingertips for the benefit in the quarter?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

No.

Q - Phil Stefano {BIO 18965951 <GO>}

Alright. Thank you.

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Part of Markel Ventures, that's stocking the whole thing.

Operator

Our next question comes from Charles Gold[ph] from Truist. Please go ahead.

Q - Charles {BIO 15023094 <GO>}

Hello, gentlemen. I have a why-not instead of a but-for. Ventures (inaudible) you've been facing horrific conditions whether they're fires or storms or COVID, and yet you have maintained (inaudible) equity in the company during this horrific period. Over my many decades in this business, I've seen many companies that had share repurchase plans, not buy when the price was low, but buy when the price was high. And I know you're very attuned to value when you make that decision. But the sky's -- if the sky's are not perfectly blue now, but it seems like you are envisioning times when they're going to get a lot bluer then they are. Currently, the pricing is good, Ventures is doing well. You feel good about all the insurance arms.

Why not take the handcuffs off the statement that you're not open to buying shares back. Today, you've got cash, I believe of $4.5 billion. I've never seen -- if that's correct. I haven't seen that ratio to value of the company in your history. Why wait for the last cloud to clear to have the ability to pull the trigger if you choose to do so. It doesn't mean you have to, in the last quarter of the year, but you would have told the market that you want to have that arrow back in your quiver, and you may or may not use it.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

Alright, Charles. This is Tom. Thanks for the question. And really the long-term in the pull, from my point of view, is the regulatory and rating agency environment that we continue to need to be sensitive to. So in the environment which we continue to be in, the current growth rate of what we're experiencing in our insurance business has regulators and rating agencies being very particular about the amount of capital we have and the form in which it is held. So we continued to work with them to try to make them as comfortable as we possibly can, and that's an ongoing process.

And at the point where the growth rate slows down a little bit, that will actually free up sort of the regulatory capital and rating agency capital that we need to be sensitive to for the insurance business. But other than that, I agree with everything you said.

Q - Charles {BIO 15023094 <GO>}

Well, then the other signal would be insiders and consider doing heavy buying since they see things going so well.

A - Thomas Sinnickson Gayner {BIO 1896932 <GO>}

From your mouth to God's ear.

Q - Charles {BIO 15023094 <GO>}

Just give me the phone call. I can make it happen.

Operator

And our next question comes from Bob[ph] Farnam at Boenning & Scattergood. Please go ahead.

Q - Bob Farnam {BIO 15005467 <GO>}

Yeah. Hi there, good morning. Just maybe one more question for Richie on the reinsurance segment. Obviously, if you included the CAT losses. I think you look at life, now you had a cumulative loss over the last 10 years and so. I suppose, but-for CAT events have been pretty sizable. It seems to me that by consolidating the property CAT business tuned to fill that you are going to be reducing a lot of the volatility in that segment. So my question is more -- if it's going to be looking more like casualty and specialty going forward. What -- how has that performed, and how far away from that 90% combined ratio are those pieces?

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Yeah. It has not performed as well as it needed to, Bob, is what I'd tell you. I can't remember this question it was, but I said, before we grow it, we're going to make sure we've got it at the right price at the right level of profitability. And we're seeing really nice rate increases on the primary side. Not all of that has flowed through to reinsurance yet. So we're going to be watching that really closely, but I am bullish on our opportunity to get that to a great -- to a good profitability level.

But I think it is -- I think reinsurance is a little behind primary at the moment. And so we're going to keep working on it. And once we are comfortable. You'll see us growing.

Q - Bob Farnam {BIO 15005467 <GO>}

Okay. My point is, for reinsurance, we take $200 million of the property CAT out, maybe take a lot of a catastrophe losses out. So that kind of get that -- kind of a way to back into what the other pieces have oddly performed over time. I think, obviously, the COVID, you probably consider that covering the casualty and specialty or is that considered cat. How are you noticing that--

A - Richard Reeves Whitt {BIO 7084125 <GO>}

That's mostly coming out of the property policy is not entirely but mostly.

Q - Bob Farnam {BIO 15005467 <GO>}

Okay. Alright. Yeah, so is that the right way to think about it, it's going to remove a lot of the CAT exposure, the CAT losses.

A - Richard Reeves Whitt {BIO 7084125 <GO>}

Yeah.

Q - Bob Farnam {BIO 15005467 <GO>}

I think premium out, may be give you a run rate of the reinsurance sector going forward.

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

Yes. And what I would tell you is, if you do that math, that combined ratio has not been good enough. And -- the market had been softening for probably going on eight to ten years. So we have been increasing rates, so at least the last two years. And I think it's on the right track. But it's not where primary is yet. And that's why you haven't seen growth there yet. Growth is available. We don't want it until we are absolutely positive at the profitabilities there.

Q - Bob Farnam {BIO 15005467 <GO>}

Alright. Understood. Thank you.

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 Sinnickson Gayner {BIO 1896932 <GO>}

Thank you very much for joining us. Thank you for your long-term support. We look forward to connecting with you again next quarter. Thank you, do well.

Operator

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