Q4 2016 Earnings Call

Company Participants

- Anne G. Waleski, Chief Financial Officer & Executive Vice President
- F. Michael Crowley, President
- Richard R. Whitt, III, Co-Chief Executive Officer
- Thomas S. Gayner, Co-Chief Executive Officer

Other Participants

- Jeff Schmitt, Analyst
- Mark Dwelle, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Markel Corporation Fourth Quarter 2016 Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions.

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 captions 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.

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

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

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you so much. Good morning. It's my pleasure to welcome you this morning to our year-end 2016 conference call. We're pleased with our solid economic progress that we achieved in 2016, but we're not satisfied.

What encourages me most is that we were able to earn these returns despite ongoing hyper-competitive conditions in every market in which we compete. We also earned these returns despite some specific challenges in our underwriting results as well as from the modest uptick in interest rates that occurred at the back end of the year.

I think these results stand as a testament to the hard work, creativity and adaptability of the people of Markel. These results also demonstrate the benefit of operating diverse lines of insurance, investment and industrial businesses.

We're not reliant on any one market or industry. We continue to evolve and adapt as a corporation in the face of an ever-changing business environment. The world is changing fast and so are we. This is what we've always done and it is what we will continue to strive to do. We appreciate your long-term support and partnership as we do so.

As is our usual practice in these calls Anne Waleski, our Chief Financial Officer, will review the numbers; and then Richie Whitt, our CEO, will discuss our insurance operations; and then I'll make a few brief comments about our investments and Markel Ventures' operations. After that, we'll open up the floor for questions.

With that, let me turn it over to Anne.

Anne G. Waleski {BIO 16735457 <GO>}

Thank you, Tom, and good morning, everyone I'm happy to report that our financial performance for 2016 was strong across our underwriting, investing and Markel Ventures' operations. We are pleased with our underwriting results for 2016, especially given the continued challenging market condition that Tom mentioned.

Markel Ventures' revenue surpassed $1.2 billion, which reflects organic growth and the addition of CapTech in late 2015. Book value per share was up 8% in 2016 and reflects strong performance in our investment portfolio, driven by favorable movements in the equity markets.

Total operating revenues grew 5% to $5.6 billion in 2016 from $5.4 billion in 2015. The increase is driven by a roughly 16% increase in revenue from Markel Ventures, which is primarily due to our acquisition of CapTech, and higher sales volume from one of our transportation-related manufacturing businesses.

We dive into the underwriting results. Gross premium volume for 2016 increased 4% compared to 2015. The increase was attributable to the U.S. Insurance and Reinsurance segments, partially offset by lower gross premium volume in our International Insurance segment.

Within the U.S. Insurance segment, we're seeing higher volumes within our personal and general liability lines of business in 2016 compared to 2015. As we discussed in previous calls, the increased volume in the U.S. Insurance segment is also due in part to closing our underwriting systems one week later in 2016 as compared to the same period a year ago.

The increase in premium volume within the Reinsurance segment was due to new business and to the favorable timing of renewals of multi-year policies in our general liability and property lines in 2016.

Lower premium volume for the International Insurance segment in 2016 was due to unfavorable movements in foreign currency rates of exchange as well as lower premium volume within our credit surety and marine and energy product lines.

Market conditions remain very competitive. Consistent with our historical practices, we will not write business when we believe prevailing market rates will not support our underwriting profit targets.

Net written premiums for the year were $4 billion, up 5% from the prior year, due to increases in gross premium volume as just discussed, as well as an increase in net retention to 83% in 2016, compared to 82% last year. The increase in net retention for 2016 was driven by higher retention within all three of our segments, largely due to changes in mix of business.

Earned premiums were up 1% in 2016 compared to the same period of 2015, due to higher premium volume in our U.S. Insurance segment. Our consolidated combined ratio for 2016 was 92%, compared to 89% last year. The increase in the combined ratio was driven by less favorable development on prior-year loss reserves.

In 2016, prior-year redundancies were $505 million, compared to $628 million last year. Redundancies on prior-year loss reserves during 2016 were net of $71 million or two points of adverse development on our medical malpractice and specified medical product line.

Redundancies on prior-year loss reserves in 2015 included $83 million or two points of favorable development attributable to a decrease in the estimated volatility of our consolidated net reserves for unpaid losses and loss adjustment expenses, as a result of ceding a significant portion of our asbestos and environmental exposures to a third-party in 2015.

In our U.S. Insurance segment, prior-year redundancies for 2016 were $205 million, compared to $299 million a year ago. In 2016, this segment was impacted by adverse development on our medical malpractice and specified medical product lines, as we discussed earlier during the year. We did not see additional adverse development on these lines in the fourth quarter. As a reminder, 2015 included $35 million or two points of redundancies related to the decreases in reserve volatility.

In our International Insurance segment, favorable development on prior-year loss reserves was $165 million, down from $249 million last year. This decrease in loss reserve redundancies was driven by less favorable development on our marine and energy and excess liability product lines in 2016. Additionally, 2015 included $32 million of redundancies related to the decrease in reserve volatility.

In our Reinsurance segment, we recognized $126 million of prior-year redundancies in 2016, compared to $98 million in 2015. More favorable development on prior-year reserves in 2016 was across various product lines, but the most significant year-over-year improvements were seen in our property product line. 2015 included $15 million of redundancies related to the decrease in reserve volatility.

Also worth noting, our 2016 current accident year loss ratio included $69 million or approximately two points on the consolidated combined ratio of underwriting loss related to Hurricane Matthew, which occurred in the fourth quarter, and the Canadian wildfires that occurred during the second quarter. These losses were more than offset by lower loss ratios across a number of products in all three of our underwriting segments in 2016 compared to 2015.

Now, we'll talk a little bit about the details of Markel Ventures' results. Revenue from Markel Ventures increased to $1.2 billion that compares to $1 billion a year ago. We also saw increases in Markel Ventures' net income to shareholders and EBITDA in 2016. Overall performance in 2016 was driven by higher sales volume in one of our transportation-related manufacturing businesses, improved results across our non-manufacturing businesses and the contribution of earnings from CapTech.

Both 2015 and 2016 were impacted by increases in contingent purchase consideration obligations and goodwill impairment charges. 2016 results included a $10 million increase in our contingent consideration obligation related to our purchase of CapTech and a $19 million goodwill impairment charge related to one of our manufacturing reporting units. 2015 included a $31 million increase in our contingent consideration related to Cottrell and a $15 million goodwill impairment charge to one of our healthcare reporting units.

Now we'll talk for a few minutes about our investment results. Investment income increased 6% from $353 million for 2015 to $373 million this year. Net realized investment gains for 2016 were $65 million, compared to net realized investment gains of approximately $106 million a year ago.

Net unrealized investment gains increased $242 million in 2016, compared to a decrease of $320 million in 2015. The increase in net unrealized investment gains this year was attributable to an increase in the fair value of our equity portfolio compared to prior-year end. Given our long-term focus, variability in the timing of realized and unrealized gains and losses is to be expected.

Our effective tax rate was 27% in 2016, compared to 21% a year ago. The increase in the effective tax rate in 2016 compared to 2015 was primarily due to the impact of higher foreign tax credits in 2015. As you may recall, in 2015, we recognized non-recurring foreign tax credits of approximately 8% of pre-tax income, compared to 2% in 2016. Foreign tax credits of the magnitude recognized in 2015 are not expected in future periods.

We reported net income to shareholders of $456 million for 2016, compared to $583 million a year ago. Comprehensive income for the period was $667 million, compared to $233 million a year ago. And as a result, book value per share at the end of 2016 was approximately $606, an increase of 8% since the end of 2015.

To wrap up, I'll make a couple of comments on cash flows and the balance sheet. Net cash provided by operating activities was $535 million for 2016, compared to $651 million in 2015. Operating cash flows for 2016 included higher claims payments, primarily in the U.S. Insurance segment, and higher payments for employee profit-sharing compared to 2015.

Our holding company had $2.5 billion of assets at the end of 2016, compared to $1.6 billion at December 31 2015. This increase was primarily the result of distributions received from our subsidiaries and net proceeds from the issuance of long-term debt during the second quarter of 2016.

With that, I'll turn it over to Richie to talk about our underwriting results.

Richard R. Whitt, III {BIO 7084125 <GO>}

Thanks, Anne, and good morning, everyone. Today my comments will focus on our three ongoing underwriting segments: U.S. Insurance, International Insurance and Reinsurance. As Anne commented, all three segments produced really solid underwriting profits in 2016. At the end, I'll also provide a brief update on Markel CATCo and a few market comments. And, of course, in the question and answer, we're happy to talk about market conditions.

So, first, I'll start with the U.S. Insurance segment. Gross written premiums for the segment were up 3% for the quarter and 5% for the year compared to the same periods in 2015. For both the quarter and the year, this increase continues to be driven by growth in personal lines, primarily the Hagerty classic car program and personal property lines, as well as our general liability lines, mainly excess and umbrella and brokerage and binding contractors.

The combined ratio for the fourth quarter of 2016 was 88%, compared to 87% for the same period last year. For 2016, the combined ratio was 93%, compared to 89% in 2015. The increase in the combined ratio for both periods of 2016 compared to 2015 is driven by less favorable development on prior year's loss reserves in 2016.

This is partially due to the redundancies in 2015 related to the decrease in the volatility of our consolidated net reserves, which Anne just discussed and we've discussed for a number of quarters now. That added three points to the combined ratio in the quarter and two points for the year. Additionally, our fourth quarter 2016 results include $18 million of underwriting losses related to Hurricane Matthew, which increased the combined ratio three points in the quarter and one point for the year.

Finally, our 2016 results were also impacted by adverse development in our medical product lines of $71 million or three points, which occurred during the first nine months of 2016. We did not record any additional reserves strengthening on medical lines in the fourth quarter.

We took significant corrective actions on our specified medical and medical malpractice product lines during 2016, including exiting certain classes, exiting certain states, and re-underwriting and re-pricing the ongoing book.

The current accident year loss ratio decreased slightly in the quarter, but is flat for the year due to lower attritional loss ratios across a number of product line, partially offset by higher loss ratios in the medical lines as well as the impact of Hurricane Matthew. The expense ratio for the U.S. segment is in line with prior years.

Now moving to the International Insurance segment. Gross written premiums for this segment were down 5% for the quarter and 4% for the year, due in part to the strength of the U.S. dollar during 2016. Additionally, we continue to experience very tough market conditions, especially within our marine and energy, professional liability and credit surety lines of business.

The fourth quarter combined ratio of 92% compares to 83% for the same period a year ago. The combined ratio for 2016 was 94%, compared to 86% for 2015. The increase in the segment combined ratio for both quarter and year was mainly driven by lower prior-year redundancies in 2016, most notably in our marine and energy and excess liability lines.

This segment also saw a benefit last year related to the decrease in estimated volatility of our net loss reserves, as previously discussed, which contributed seven points to the combined ratio for the quarter and four points to the combined ratio for the year in 2015. Those were benefits, I should be clear.

Our current accident year loss ratio in 2016 was flat for the quarter and down slightly for the year due to decrease in management's best estimate of ultimate loss ratios on various product lines. This benefit is partially offset by $12 million of underwriting losses related to Hurricane Matthew as well as higher losses in our marine and energy product line.

The expense ratio increased slightly on a both quarter and year-to-date basis, due to higher broker commissions and the write-off of previously capitalized software development cost in 2016. This was partially offset by lower profit-sharing expenses in 2016.

Finally, discuss the results of our Reinsurance segment. We continued to see growth in the fourth quarter and finished the year at over $1 billion of premium, which is up 8% for the year and 35% for the quarter. As I've discussed throughout 2016, the growth in premiums is driven by multiple large quota share reinsurance treaties within our property and general liability product lines, as well as the timing impact of multi-year deals year-over-year.

So, I think I've talked about this in the past, it's going to be a little lumpy. 8% up for the year is not surprising, given some of the larger contracts that we added to the portfolio during the year. I wouldn't expect next year – we would be hoping for sort of 3% to 5% growth depending on if we had a stable market in Reinsurance.

The combined ratio for the Reinsurance segment was 87% for the fourth quarter of 2016, as compared to 83% for the same period a year ago. The combined ratio in 2016 was 87%, compared to 90% last year.

Favorable development on prior-year loss reserves in 2016 was $3 million higher in the quarter and $28 million higher for the year. For both the quarter and the year, we experienced higher loss reserve takedowns, primarily in our property product line.

This favorability is partially offset by the impact of the decrease in the estimated volatility of net loss reserves. We'll get to stop talking about this after this year...

Anne G. Waleski {BIO 16735457 <GO>}

Yeah.

Richard R. Whitt, III {BIO 7084125 <GO>}

It's so exciting. Which contributed eight points in the fourth quarter of 2015 and two points for 2015.

The current accident year loss ratio in 2016 was flat for the quarter and down slightly for the year, due to lower attritional loss ratios in 2016 as well as lower ultimate loss picks across multiple product lines in 2016.

This favorability was partially offset by the impact of Hurricane Matthew, which added eight points in the quarter and two points for the year. 2016 results also include two points related to the Canadian wildfires that occurred in the second quarter of 2016.

Finally, the 2016 expense ratio for the Reinsurance segment increased in the quarter and for the year, primarily due to higher profit-sharing expenses in 2016 as compared to 2015. That's a good reason for expense ratios to go up by the way.

Finally, I'll end up with a couple of comments on market conditions in Markel CATCo. I have very little to add from the last couple of quarters regarding pricing and competition.

Mike and I obviously are available to answer questions in the Q&A. All markets remain extremely competitive. Hurricane Matthew had little or no impact on Florida property insurance or reinsurance pricing or property pricing in general.

Pressure on pricing continued during the January 1 renewals. However, most lines could probably be described as flat to down 5% versus larger reductions in prior years. However, that's very dependent on the line of business. It's all over the map but there does appear to be some stabilization.

Finally, I'd like to make a few comments about our Markel CATCo operations. Assets under management ended the year at $3.6 billion, up from $2.6 billion at the end of 2015. We have seen an increased demand from both cedants and investors heading into 2017.

From the standpoint of impactful catastrophic losses, CATCo successfully navigated a pretty challenging 2016, posting solid returns for its investors. Also, just as a reminder, Markel continues to invest roughly $200 million in the Markel CATCo funds.

So, with that, I'd like to turn it over to Tom. Thank you.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Richie. Anne gave you the detailed numbers. So I'll just add some color commentary, what I consider to be some of the key points, on our investment and ventures operation.

First, we earned 13% on our equity investments during the year, which exceeded the S&P 500 return of 12% by 100 basis points. More important than any one year though is the longer-term record. With the 2016 results on the books, we now enjoy a 27-year record of excellent equity investment returns with that 100-basis-point advantage in place for 27 years now.

While there has been and will continue to be volatility in these results, this is an outstanding result and we think it's reasonable to suggest that our disciplined, rational, longstanding approach to investing works.

Also I think it's important to note that, in my opinion, public equity markets offer more opportunity than many of our other capital allocation choices in today's environment. It is difficult but not impossible, witness (22:04) the SureTec acquisition, to find attractive acquisition opportunities in our insurance and venture operations at good prices.

Public equity pricing is more dispersed than what we generally find in insurance or private equity markets. That volatility of stock prices creates opportunities and we continue our practice of steady-eddie dollar cost averaging into equities. I expect this to continue into 2017.

In our fixed income operations, we continue to own a very high-quality portfolio, with a duration and currency profile that is roughly matched to our insurance liabilities. For all of 2016, we earned 2.4% in local currency terms. While the mark-to-market price of that portfolio dropped a bit in the fourth quarter, with rising interest rates the reinvestment of new funds took place at higher rates.

Over time, the volatility of returns diminishes almost completely and we end up earning the coupon from our bonds. This has been and will continue to be our consistent approach. It's also worth noting that we continue to maintain a very liquid and conservative balance sheet that gives us the opportunity to deploy capital when we see opportunities to do so.

On the Markel Ventures front, we had a spectacular year. Revenues grew 20% from $1 billion to $1.2 billion, and EBITDA grew 81% from $91 million to $165 million. 2016 was a year in which our cyclical businesses enjoyed the good parts of their respective cycles. Our steady-eddie businesses continued to churn out solid results and we had some improved results at some units where we previously had faced challenges.

I would also note that, in 2016, this revenue growth and EBITDA improvement took place in a very capital-efficient fashion. We didn't buy any new businesses, although we tried to, and in fact we dividend up money from Markel Ventures to the holding company during the year.

My point is that the collection of Markel Ventures' businesses are cash flow businesses that are quite capital-efficient. The fundamental nature of them is different than what is the case in our insurance business, and their cash flows can be earned with much less of a tie into their balance sheets than what would be the case in an insurance or financially-based business.

In a perfect world, we'd be able to continue to add to our Markel Ventures' lineup of businesses, and we tried in 2016. We were outbid in several cases during the year, and that's okay. We continue to look and see potential deals, add profitable and interesting businesses to Markel. We think it is more important to remain disciplined and we're extremely pleased with how managers of the various Markel Ventures' companies ran their businesses in 2016.

All-in-all, as I said at the beginning, we are pleased but not satisfied with our economic performance in 2016, and we look forward to facing the challenges of 2017 and beyond. Markel enjoyed some spectacular competitive advantages, mainly a group of talented, dedicated and creative people, and a long-term time horizon as we make business decisions. Those factors have combined to produce wonderful economic results over a long period of time, and we continue to believe that we'll continue to do so.

With that, we thank you for your long-term partnership to shareholders and we look forward to answering your questions. Denise, we'll open the call for questions, please.

Q&A

Operator

Thank you Mr. Gayner. And your first question will come from Jeff Schmitt of William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi. Good morning, everyone.

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

Morning.

Q - Jeff Schmitt {BIO 19747235 <GO>}

It looks like the investment management revenue jumped to close to $34 million in the fourth quarter. What sort of caused that jump and how do we think – is there seasonality there? How do we think about sort of the run rate of that?

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

Yeah. Sure, Jeff. Yeah, there's a lot of seasonality to that. We've taken the accounting position in terms of treatment of that. That is basically the performance fee that CATCo earns at the end of the year if they generated profits for the fund investors.

So it's roughly 10% of the profit is the amount of that performance fee. And we wait until the stroke of midnight on December 31 to be certain nothing has happened somewhere in the world before we recorded that income. So, that can be a very volatile number from year to year based on what catastrophes occur, but it's basically 10% of the profit we create in the fund.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. Great. And then, on the medical line, some of the issues that you're seeing there, is this driven by the litigation environment? I mean, are verdicts on the rise or is this more medical cost inflation is picking up, or a combination of the two?

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

I think it's probably more suits being filed and that suits getting further and ending up with more damages being awarded. In the past maybe those suits would have been dismissed earlier. Now they're getting further, and so they're incurring more legal expense. And then some of the suits are actually ending up in verdicts for the plaintiffs. So, that market changed, I mean, the biggest issue we had there was in the correctional medical facility market. We've withdrawn from that market given the rapid deterioration in it.

And the other areas where we were also having some heartburn such as contract staff, and things of that sort, we've looked at the types of doctors we're covering and we've refined that, and we've refined prices and attachments and all those sorts of things. So we feel good about what we've done and it was nice to see no development in the fourth quarter and we're just going to continue to monitor it.

Q - Jeff Schmitt {BIO 19747235 <GO>}

And are you seeing this sort of a more active litigation environment beyond medical? I mean, are you seeing in other lines as well?

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

We've been wondering when we would just call that trend, when trend would pick up in the business. And there's probably been some pickup in trend, but it hasn't been tremendous. So I don't see a huge difference in that regard. Mike?

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

No, I agree. I agree.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. Thank you.

A - Anne G. Waleski {BIO 16735457 <GO>}

Thank you.

Operator

The next question will come from Mark Dwelle of RBC Capital Markets. Please go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah. Good morning. Just a few questions. With respect to the CATCo, I mean I understand that most of the increase was because of the performance fee. So I'd ask the question in this way I guess, the normal run rate of revenues in that was kind of $7 million to $8 million. So the whole increment over that kind of core quarterly run rate was all the performance fee?

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

Yeah. Pretty much, Mark. Yes.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay.

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

Now obviously we're getting more management fee because assets under management had grown. But that happened during 2016, so the full effect really hasn't been felt in the management fee numbers. So we would expect management fees to go up in 2017 some. And then performance fee is going to be what performance fee is at the end of the year.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That makes sense. The second question, you commented about the reinsurance premiums in the quarter. Were there any actual new contracts in the quarter or these are just the continued benefits from contracts written previously? I think that most all of them were quota shares, so just kind of continue to roll through the numbers.

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

Yeah. No, there were some new contracts. I mean, the plus 8% or whatever we were for the full year in Reinsurance, it masks a lot of surgery we were doing on the portfolio, so to move away from areas we felt were too competitive and try to move on to deals that we felt were better priced.

So net-net, we were up 8%, but there were a lot of accounts we moved away from and there were a number of accounts we moved to, to try to optimize the portfolio as best we could.

Q - Mark Dwelle {BIO 4211726 <GO>}

Is the character of the book still primarily a liability-oriented book or has there – well, I guess, to say has the property been the portion that's been dialing down?

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

Yeah. No. There has been some effort to increase the percentage of property a little bit in terms of the makeup of the portfolio. But it's roughly 60% casualty and professional, and then specialty lines like surety, things like that, and then 40% property.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That's very helpful. Thank you. Since you mentioned surety, maybe a few comments or observations about SureTec?

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

Yes. Well, we're delighted to welcome John Knox and the SureTec team to Markel. I'll say, that was a very quick courtship. We were introduced back late in the year, and we were able to spend some time together here in Richmond and then got to spend some time when I went down and spent some time with John and his team in Houston. And very quickly, we all felt like it was the right fit for both organizations.

As you know, Mark, I mean we don't do any surety other than we do some surety reinsurance. We do no primary surety. And this was a team that, I mean, just had fabulous results ever since their founding. And they're our kind of guys in terms of that underwriting discipline and the way they think about the business. So we're delighted to add surety to our portfolio of products.

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

Yeah. I wanted to add. Again, this is a spectacular example of where the culture of Markel really pays dividends over a long period of time. So John Knox contacted us directly, made the trip up here. Richie and I went to Houston. So we were able to sit down principal-to-principal and work this out very quickly. And it's delightful to be approached by someone of his caliber and quality, and we see that on the venture side and we see it on the insurance side, and it's the sort of thing that validates our approach to doing business.

Q - Mark Dwelle {BIO 4211726 <GO>}

Can you provide any kind of – I mean, it's great. Can you provide any kind of ballpark kind of census data, sort of ballpark of premium revenues, ballpark of historical combined ratios, anything like that?

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

Well, premium revenue is $75 million to $80 million, I think, in 2016. Combined ratio is very attractive, looking about mid-70s to 80%. So, a significant underwriting profitability in the book.

And obviously, John and his team have done a great job growing SureTec, but we just believe bringing them into the Markel fold and introducing them to our contacts, use of our balance sheets, we think there's a huge opportunity even in a very competitive surety market to continue to see profitable growth.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. I appreciate the answers. Thanks very much.

Operator

And ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back over to Mr. Tom Gayner for his closing remarks.

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

Thank you very much for joining us. Consider those the closing remarks. We'll see you next quarter. Thanks.

Operator

Thank you, sir. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.