S&P Capital IQ

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Markel Corporation NYSE:MKL

FQ4 2011 Earnings Call Transcripts

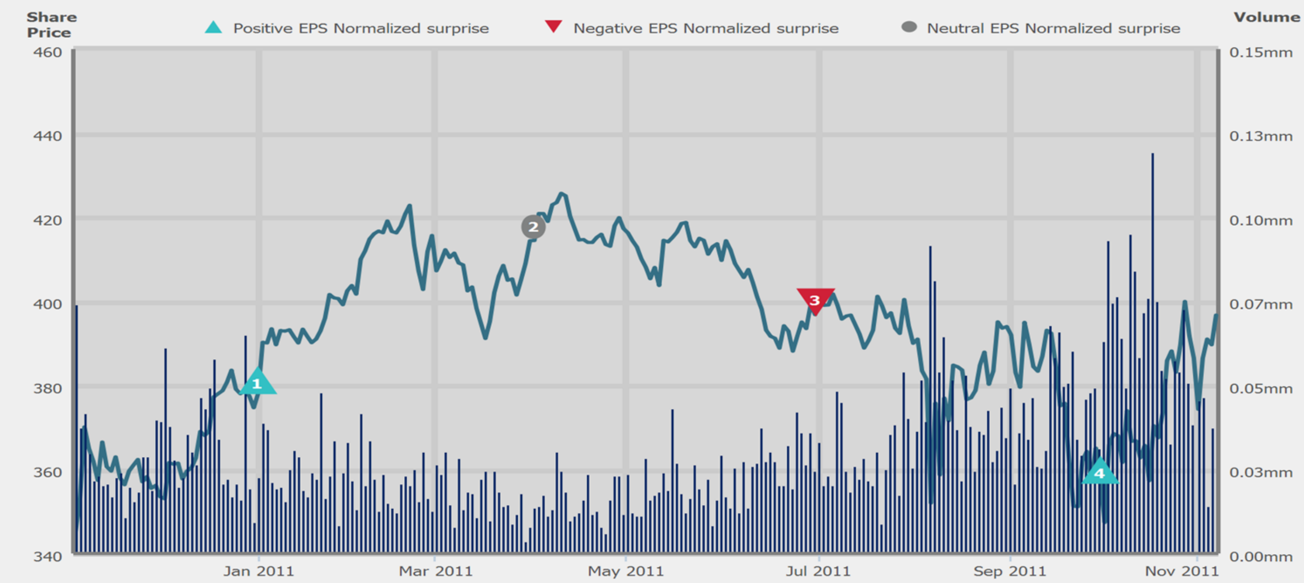
Thursday, February 02, 2012 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	4.29	4.43	▲3.26	4.42	12.12	11.73
Revenue (mm)	641.20	685.10	▲6.85	650.53	2534.96	2629.95

Currency: USD
Consensus as of Feb-02-2012 12:38 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	4.38	12.91	▲1 194.75 %
FQ1 2011	3.40	(0.14)	NM
FQ2 2011	4.06	2.99	▼2 (26.35 %)
FQ3 2011	4.04	4.41	▲3 9.16 %

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Chief Financial Officer and Executive Vice President

Francis Michael Crowley
Vice Chairman

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
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Presentation

Operator

Greetings and welcome to Markel Corporation's Fourth Quarter 2011 Earnings Call. [Operator Instructions] It is now my pleasure to introduce your host, Mr. Tom Gayner, President of Markel Corporation. Thank you. Mr. Gayner, you may begin.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you Lewis, good morning. This morning I have the dual honor of wishing you Happy Groundhog Day and welcome you to the Markel Corporation 2011 fourth quarter conference call. We appreciate you joining us, and we look forward to updating you on our progress at Markel and answering your thoughtful questions about our business.

As is our custom, Anne Waleski our Chief Financial Officer will update you on the numbers. My co-president Richie Whitt and Mike Crowley will update you on insurance operations and then I will speak about our investment operations in Markel ventures.

Before jumping in though, the rules say that I must take a little swim in the Safe Harbor. As such here it goes.

During our call today, we may make forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is described under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report Form on 10-Q and on pages 6 to 8 of our press release dated February 1, 2012.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures either in the press release or in our website at www.markelcorp.com in the Investor Information section under non-GAAP reconciliation. With that, Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thank you, Tom, and good morning everyone. I am going to follow the same format that I have in prior quarters. I am going to focus my comments primarily on year-to-date results. I will start by discussing our operational results, followed by a brief discussion of our investment results and bring them together with a discussion of our total results for the year.

Our total revenue grew 18%, $2.6 billion in 2011 from $2.2 billion in 2010. The increase was due to increased revenue from our insurance operations and our non-insurance operations which we refer to as Markel Ventures.

Moving into the insurance results gross premium volume was just under $2.3 billion in 2011, up 16% compared to 2010. This increase was due to higher gross premium volume in the Specialty Admitted in London Insurance market segment.

As of September 31st, 2011 the Specialty Admitted segment included $227 million of gross written premium from our FirstComp workers' compensation operations, which we acquired in late 2010. The increase in gross written premiums in the London Insurance market segment was due in part to an increase in premiums written by Elliott Special Risks, which was converted from an MGA operation to a risk bearing insurance division during 2010.

We also saw significant increases in premium volumes within our Marine and Energy division due in part to offering large loan sizes and an improved pricing environment.

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Net written premiums were approximately $2 billion, up 15% to the prior year. Retentions were at 89% in both 2011 and 2010. Earned premiums increased 14%, and included approximately $200 million of earned premiums in the Specialty Admitted segment from FirstComp compared to $37 million last year. The increase in earned premium was also due to higher credit premium volume in the London Insurance Market segment, compared to 2010.

Our combined ratio was 102% for 2011 compared to 97% in 2010. Our goal is to earn underwriting profits and we are disappointed that we failed to meet that goal this year. The increase in the combined ratio was due to a higher current accident year loss ratio, partially offset by more favorable development of prior years' loss reserves and a lower expense ratio compared to 2010.

The combined ratio for 2011 included $152 million, or 8 points of underwriting loss related to natural catastrophes. Including losses from the Thai floods in the fourth quarter and losses from Hurricane Irene, the U.S. tornadoes, the Australian floods, the New Zealand earthquakes and the Japanese catastrophe, all of which occurred during the first nine months of 2011.

Our 2010 combined ratio included $17 million or 1 point of underwriting loss related to the Chilean earthquake. The 2010 combined ratio also included $75 million or 4 points of underwriting loss and 2 programs now in run-off that were exposed to losses associated with the adverse conditions in the residential mortgage market.

Favorable redundancies on prior year's loss reserves increased to $354 million or 18 points of favorable development compared to $278 million or 16 points of favorable development in 2010. The increase was primarily due to more favorable development of prior year losses in the E&F segment.

Our 2011 expense ratio was 41% that's down approximately 1 point as compared to 2010. The lower expense ratio in 2011 was primarily due to lower cost associated with our system and business process initiatives and lower profit sharing expense.

Next, I'll discuss the results of our Markel Ventures operation. In 2011, revenues from Markel Ventures were $317 million as compared to $166 million in 2010. Net income to shareholders from Markel Ventures was $7.7 million in 2011 as compared to $4.2 million in 2010. Revenues and net income to shareholders from Markel Ventures increased in 2011 as compared to 2010 primarily due to our acquisitions of RD Holdings often known as Retain Data, and Diamond Healthcare in late 2010.

Moving to our investment results. Investment income was $264 million for 2011, compared to $273 million in 2010. Net investment income included an adverse change in the fair market value of our credit default swap of $4 million in 2011 as compared to a favorable change of $2 million in 2010.

The decrease in investment income was also due to lower investment yields which, was partially offset by having a larger portfolio in 2011 compared to 2010. Net realized investment gains were $36 million in both 2011 and 2010.

Unrealized gains increased $183 million before taxes in 2011 due to an increase in the fair market value of our fixed maturities. At December 31st, 2011, we held fixed maturities of $54 million or less than 1% of invested assets, from insurers domiciled in Portugal, Ireland, Italy, and Spain. We had no fixed maturities in Greece.

We have additional $730 million or 8% of invested assets, from issuers domiciled in other European countries including Supernational. Tom will go into further details on investments in his comments.

Looking at our total results for 2011, we reported net income to shareholders of $142 million compared to $267 million in 2010. Book value per share increased 8% to $352 per share at December 31, 2011, up from $326 per share at December 31, 2010.

The effective tax rate was 22% in 2011 compared to an effective tax rate of 9% in 2010. Our effective rate in 2010 included a 11 points of non-recurring tax benefit related to foreign operations and our decision last year to permanently reinvest from those operations outside of U.S.

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Next, I'll make a couple of comments on cash flow and the balance sheet. Operating cash flow was $311 million for 2011, compared to operating cash flow of $223 million for 2010. This increase was primarily due to higher cash flows from underwriting activities in the Specialty Admitted segment and positive operating cash flow from our Markel Ventures operations.

Investments in cash at the holding company were approximately $1.2 billion at December 31st, 2011 as compared to a little less than $900 million as of December 31st, 2010. The increase in the prior year is primarily due to the issuance of debt during the second quarter of 2011 and dividends from subsidiaries offset in part by interest payments and stock repurchases.

Lastly, we have repurchased 110,000 shares of our common stock for approximately $42 million during 2011. At this point, I would turn it over to Mike to further discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks Anne, good morning. My comments regarding the North American segments for the quarter will be brief. We recognize that signals and opinions on the current market conditions are mixed. However, we are clearly seeing a property and casualty market that's in transition.

During the fourth quarter we experienced casualty rates that were flattening and property rates increasing at a modest pace. This is certainly an improvement over the rate environment that we have witnessed for a long time.

At Markel we began seeking modest rate increases in November and to-date our new and renewal business success ratios have remained relatively constant. We are carefully monitoring responses to our rate actions, and we will seek additional increases where conditions warrant those increases without jeopardizing profitable business.

Our underwriters are telling us that competition remains strong, but they are not having to "fight and claw" for every renewal. Though we are optimistic we'll have to see if this trend will continue in early 2012.

As Markel's specialty excluding FirstComp, premium was up 4% in the fourth quarter versus 2010. Including FirstComp Markel's specialty was up 24% compared to the fourth quarter of 2010. Year-to-date Markel specialty is up 3% excluding FirstComp and up 53% including FirstComp.

The main highlight in the fourth quarter at Markel's specialty was the announcement of our acquisition of THOMCO. This deal was closed in early January. THOMCO brings to Markel a terrific track record of program development and administration as well as the seasoned and talented group of associates. Greg Thompson and his team will become our admitted program division, and Greg will continue his role leading THOMCO as he has done for 32 years.

During 2012 we will concentrate our efforts on moving the majority of THOMCO's programs to Markel paper. We will begin this process in April and continue throughout the calendar year.

Other highlights at Markel Specialty include the combination and reorganization of our property-casualty and Markel risk solution units into a more focused commercial business platform. The new unit will be called Markel Specialty Commercial. This combination will result in a more streamlined operation and a more clearly defined underwriting appetite.

We also took a myriad of concentrated actions in our assets and health units to improve the loss ratio. These changes may reduce volumes but deliver a much improved loss ratio in 2012.

In the fourth quarter the E&S segment generated growth of 12% in our core products. In the fiscal year the growth in core products was approximately 7%. This growth improved dramatically from the first quarter to the fourth quarter which is evidence that our one Markel initiative is consistently gaining traction with our agents and brokers.

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Solution activity also increased lending further support to our belief that One Markel is working and that market conditions are in a transition to a better environment. Our underwriting teams across the five regions of our E&S operation have stabilized and we now have experienced underwriters for virtually all of our products in all of our regions. We also continued the second phase of overhauling our agent's portal to improve functionality and efficiency for those agents accessing us through our website. We foresee a continued release of additional product classes available for automated pricing, underwriting, and quoting throughout 2012.

During the fourth quarter our product line leadership group completed a review of all pricing for all major product lines and as previously mentioned began implementing changes in November. We are taking a deliberate and class specific approach to pricing seeking increases across all product lines. This has been communicated both internally to all of our underwriters and to our agents.

With regard to new product development we finalized the contracted pollution coverage forum to offer us part of our binding casualty product. We believe this will be popular with our contractor risk which is one of our larger classes in the binding book.

In summary, we are entering 2012 optimistic that the rate environment is improving, confident in our underwriting teams encouraged by the growth opportunities in both specialty and E&S segments. At this time I will turn the call over to Richie Whitt.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks Mike, and good morning everybody. I'll be exceedingly brief with my comments as well as many of of trends that we discussed in first three quarter of the year really continued into the fourth quarter. Markel International generate growth rate and premiums of a $148 million in the fourth quarter and $825 million for the year ended 2011. The increases for the year, that was approximately 14%, this is adjusted for the impact of currency movements. Again this primarily represented organic growth in our marine and energy division and the ramp up of written premiums from Elliott Special Risks. Elliott Special Risks is really fully reflected in our financials at this point.

As a result of organic growth strategic acquisition such as Elliott and the continued development of our branch office network 2011 represents the most annual premium we've written since the beginning of our international operations back in 2000.

As we all know top line growth is nice but it's really all about underwriting profitability. Unfortunately, we fell short of our underwriting goal to a $124 million of catastrophe losses which included almost 19 million of Thai flood losses in the fourth quarter.

While none of these individual losses or the losses in total exceeded our risk tolerance, they still contributed to disappointing underwriting results for the year. It was a record year for insured CAT losses at about a $105 billion but I got to be honest it doesn't make it feel much better.

We've already made adjustments to our catastrophes with the underwriting strategy and we're going to continue to refine our approach as we move forward.

The biggest thing that could help us interns of making our catastrophe business more profitable would be achieving higher prices for our capacity.

Regarding pricing, January 1 renewals in London, we're up in many lines. We're seeing similar things to what Mike mentioned in the U.S. Property launch in particular were up on January 1, but I think there was a sense of disappointment as we might have hoped that given all the significant activity in 2011 we would've seen a bit more in terms of price movement at Jan 1.

We're going to remain patient and disciplined, and when are we going to put our capacity out there, when we feel like the prices are adequate. We certainly can't predict with certainty, but we believe that prices will continue to strengthen both property and we think casualty will follow as the year progresses.

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We're certainly going to be pushing for additional rate on the things we quote and we will see what happens. While we weren't happy to report an underwriting loss at Markel International and at Markel Corporation. We don't want to lose sight of the many accomplishments that our international team had during 2011.

We greatly expanded and strengthened our retail branch network and created a management structure to enhance our focus on the retail branch operations. We just recently completed a small joint venture deal in Germany, which is going to give us the opportunity to start really learning about the German market. LE special risk as I said earlier is fully reflected in our numbers at this point and it's performing extremely well, the team has done a great job.

We've added key management talents and we continue to search for and cultivate opportunity to build out our Markel International footprint and platform. We're well positioned for 2012 and we're really looking forward to it.

With that I'm going to turn it back over to Tom.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. I'm pleased to report a variety of encouraging items from the investment and Markel Ventures components of Markel. First, let's start with investments. In 2011, we earned a total return of 6.5% on our investment portfolio, fixed income earned 7.6% and equities earned 3.2%.

During the year, interest rate started low and went lower. As a consequence, we over earned the coupon rates of return on the fixed income portfolio. We continue to believe that rates are unnaturally low and suppressed by non-market forces. As we painfully observed with natural catastrophes in our insurance operations this year Mother Nature can swat manmade artifices when she chooses to do so.

Consequently, we remain cautious about what the forces of nature will do when the manmade levies protecting zero interest rates break. As such we continue to maintain shorter than usual durations in our bond portfolio. This means we forego current investment income in exchange for protecting the balance sheet of the Markel Corporation.

We are balance sheet oriented in all we do at Markel and we will continue to follow this path. We just simply do not believe in an extended period of 0% interest rate and we are acting accordingly.

On our equity investments, we earned 3.2% in 2011. While we don't manage versus the S&P 500, we do find it a valuable bogie to provide a frame of reference about what our investment return should realistically be over time.

I'm pleased to report to you that our return was a 110 basis points ahead of that index, more importantly over the two decades that we kept track of the statistics, we've outperformed it by 190 basis points per year. We certainly think that two decades of data supports our case that we add value in our equity operations both against the S&P 500 index as well as against fixed income alternatives.

Our 4 part disciplines of buying stakes in businesses with good returns on capital run by honest and talented managers with reinvestment opportunities in capital discipline at fair prices works for both public and private investment opportunity.

Speaking to private opportunities, 2011 was a very productive year for Markel Ventures. For 2011, revenues came in at about $317 million versus a $156 million a year ago. EBITDA was $37 million an 80% plus increase compared to the $20 million in 2010. As always a reconciliation of EBITDA to net income is available on the website. We added Weldship, a manufacturer of tube trailers that serves the industrial gas market during the fourth quarter and we continue to have active discussions under way with others who would like to join Markel.

We continue to build reputation as a great home for passionate business people to build their organizations and we will report to you our progress as it occurs. I'd like to point out that given the lower level of interest rate in general our investment income line which is interest inhibit income declined from

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$273 million in 2010 to $264 million in 2011. That’s not surprising. It’s just the math of lower interest rate coupled with our decision to protect the balance sheet by owning predominantly short term rather than long term bonds.

The invested income line is a gross pre-taxed number that doesn’t take out interest expense taxes for depreciation, or amortization. As such I think it’s comparable to and I am comfortable with adding the growing EBITDA line for Markel Ventures to get engaged of what is happening under the hood at Markel. When you do that the combination of these two items grew from $293 million in 2010 to $301 million in 2011.
By the way we also had gains of $36 million in both years that are not included in those numbers. I think the fact that this number grew at Markel in the face of lower interest rates and tough overall business conditions should provide you with a sense of optimism about your company. I'm also optimistic about our outlook and I look forward to speaking with you in future periods to update you as we continue down this path and augment the way in which we can create value for the market. With that I will stop and open the floor for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Arash Soleimani from Stifel Nicolaus. Please proceed with you question.

Arash Soleimani
Stifel, Nicolaus & Company, Incorporated, Research Division

Hi, good morning. I have a couple of questions. Are you guys still seeing competition from standard carriers and if so how big of an impact do you think that's going to have on the cycle turn going forward?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

We are continuing to see competition from standard carriers, and it remains to be seen what that competition will look like. We don't discount it, while the market is in transition we expect to see continued competition from the standard carriers.

Arash Soleimani
Stifel, Nicolaus & Company, Incorporated, Research Division

All right, thanks. My next question is, have you determined the impact of the new back accounting yet on book value or?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

We are going to implement prospectively effective '11 as required, and we expect to see an unfavorable impact of approximately two points from the 2012 expense ratio.

Arash Soleimani
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. But [indiscernible] since you are doing it prospectively as of now, right?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Yes, that's correct.

Operator

Thank you. Our next question comes from the line of Mark Hughes from Suntrust Investment. Please proceed with your question.

Mark Hughes

Yes, thank you. Good morning. The expense ratio you think of two points had the underlying expenses, will they hold relatively steady or can we expect some improvement there.

Francis Michael Crowley
Vice Chairman

I think we anticipate some improvement Mark. Obviously our gross return is growing, earned premium is growing and those help a lot. We are also obviously working on the expense side of the equation as well. So, yes, we would expect our expense ratio to improve a bit in 2012.

Mark Hughes

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All right. The other expenses were up a bit this quarter compared to the other revenue. Was that an anomaly, what should we expect going forward?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I don't have handy what that is, my gut instinct is it's coming out of the increased acquisitions in the Markel Ventures realm relative to their increased revenues. But we can follow-up offline if you want and get you a more specific answer.

Mark Hughes

I think it had been running, the expense ratio, in the recent quarters, I guess relative to revenue is more like 80, high 80s, would we expect it to return perhaps to that kind of a level, again, relative to other revenue.

Francis Michael Crowley
Vice Chairman

We don't think about it that way. Let me make one qualitative comment and I would advise you to speak with Anne to get the details on this. As I said earlier, our focus in this call and every other call in the history of Markel Corporation, we are balance sheet oriented and I would suggest to you that that applies to the Markel Ventures operations as well. So in purchase accounting and then accounting for the transaction that are involved, we tend to be somewhat heavy handed and try to be conservative as possible to have the best balance sheet presentation possible, and if that's at the expense of income statement so be it. So, given the acquisition activity and the completion of purchase accounting and that sort of thing, that would probably be disproportional in the fourth quarter but I encourage you to follow-up with Anne for the details on that.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Yes, we also as we moved our assets from non-risk to risk bearing you may see some shift there. But like I said, we can take it offline and I can give you the specifics.

Mark Hughes

All right. And any comments you can make regarding where you see a reserve redundancy, you have the great fourth quarter releases, a very good year in2011.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

The reserve redundancies in prior years have predominantly been in the professional and product liability lines as well as casualty programs, for years between 2004 and 2009.

Mark Hughes

What do you think about that going forward?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I would expect to continue to see prior year redundancies given our conservatism in reserving. It is possible you could see the amounts flat now.

Francis Michael Crowley
Vice Chairman

Yes, Mark, I guess, I would add, we talk about this probably every year. We try to make sure at the end of the year the balance sheet is as at least conservative as it was at the end of the prior year. We have been very consistent in terms of how we set loss reserves and our confidence in the loss reserve. But as Anne

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said, the reality is, there is just not as much room in the last few accident years as there were in probably the '08, '07, '06 accident years. So, the reality is, I think over time, unless you start seeing price increases and we hope we are starting to see price increases, you would expect those numbers to continue to trend down.

Operator

Our next question comes from the line of John Fox from Fenimore Asset Management. Please proceed with your question.

John Fox

Okay. Thank you. Good morning everyone. First for Tom. Tom, could you kind of give us an outlook given the acquisitions you made in the fourth quarter and then possibly you made one in January. Maybe an outlook for Ventures revenue for 2012?

Francis Michael Crowley
Vice Chairman

Well, sure. The acquisition in January which the TOMCO insurance side, that's not part of Markel ventures. But for instance you look at fourth quarter the other revenue line which is marginally described that market you mentioned, so if you timed by four that wouldn’t be wildly wrong for the existing set of businesses we own. We are basically we are talking to people [indiscernible] Markel family over the course of the year. But you can start off with that. Then the other specific statement I made about the Markel ventures revenues in this year over statement as well. I encourage you to look at that reconciliation EBITDA to net income and what we have talked about the disposition of double digit percentages of EBITDA from the firm revenue line. We expect that to continue to be the case. And you can see the progress on a regular quarterly basis.

John Fox

Okay. Thank you. And then I had a question on THOMCO probably for somebody else. Is it possible to quantify that impact, and I guess it’s going to be in this specially admitted line.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, and THOMCO placed about $160 million of premium in 2011.

John Fox

Okay, so you would bring that on to your paper.

Richard R. Whitt
Co-Chief Executive Officer and Director

Not all of it in 2012. We do plan to convert the majority of their programs over time to Markel Paper. We are starting in April. You are not going to see a $160 million in 2012. It’s going to be a sort of a progression as the year goes by.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

It’s about $60 million.

Richard R. Whitt
Co-Chief Executive Officer and Director

Our debt gaps today would be 60, but that depends on filings and all sorts of things in terms of how quickly we can get those programs moved.

John Fox

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Right, okay. That's very helpful. This is probably a dumb question after 2011, but what do you guys when you underwrite consider to be "normal cat load?"

Francis Michael Crowley
Vice Chairman

The normal cat load? That's an interesting one. I hope it's something less than a $150 million which is what it was this year.

John Fox

It was 8 points, I...

Francis Michael Crowley
Vice Chairman

Yes, now 8 points, we would think 8 points - I mean as I said you would agree at least the same they believe this year was a record cap year at a $105 billion. So it's really kind of has the 2005 and 2011 swap from unit grade, 1 and 2. No, 8 points, I think we did a reasonable job of managing our cash fee exposures and I would be very disappointed if we had another eight point kind of year. I think I would have to go look John, but I think typically when you run 2 to 3 points a year would be my guess.

John Fox

Okay. I'm just wondering if you could talk about the balance sheet philosophy with over a billion at the holding company and you know the rate of return on - on the bonds being low as Tom described for good reasons. Your yield on your bonds is much lower than your interest expense on your debt and you have a lot of cash. Your premium surplus is low-- the ration is low. So why issue debt and how are you thinking about the cost of your debt in the balance sheet at this point?

Richard R. Whitt
Co-Chief Executive Officer and Director

You can either correct on each and every one of your points so in the last couple of months I would say that tempo of activity at Markel continues to pick up the pace. So in terms of deploying net capital and fully recognizing what it costs, our internal insurance operations can and are growing. We have done a couple of acquisitions on the insurance side. We have done a couple of acquisitions on Markel Ventures and we also repurchased some stock and we are going to have to be open minded about doing all of those things and every single dollar which we spend it on any one of those four items has been something that we think earns pretty good rates for return and we will productively using that capital, and we see a lot of things in front of us that it's nice to have ammo when we're planning about this.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Yes, good morning. Few questions. The rate of growth in the E&S segment was significantly higher in the fourth quarter than what we had seen in a while and I guess after your comments that you hadn't really began pursuing rate aggressively in sort of the midpoint of the quarter, I was curious what accounted for kind of the additional run-rate in the quarter.

Francis Michael Crowley
Vice Chairman

Well, this is Mike. I just attended two of our agents counsels meetings down in Florida and the basic feedback that we are getting from the agents is the fact that the one Markel decision was the right decision. We have the right underwriters in place in the field. They are pleased with what they are seeing

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with Markel. They say that our breadth of product is at least if not considerably larger than most of our competitors. There are a lot of factors that are playing into our growth. And we clearly getting some more rate is part of it in the fourth quarter. But as you mentioned we really didn't start going after some rate increases and they were modest rate increases until November. But we are just seeing traction in the one Merkel model. Our efforts are paying off. We feel good about it. The feedback we got from both our binding and our brokerage agents was very positive and the job we have to do now is just to continue that momentum.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Would you characterize that then as new business wins or just expansion of business with existing clientele?

Francis Michael Crowley
Vice Chairman

I think both.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, fair enough. With respect to THOMCO, could you talk a little bit about sort of what lines of business and what sort of products are involved there that you hope to bring over the books over the course of 12 & 13.

Francis Michael Crowley
Vice Chairman

They have a number of different programs and not all of these will be a part of Markel Papers, but they have a program for child care centers, social services, medical transportations, senior living, fitness clubs, health control operators, inflatable rentals, and some others. The medical transportation program is their largest.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Is the underlying product though, is it you know commercial multi policy or is it something you know commercial auto would become?

Francis Michael Crowley
Vice Chairman

Yes, it's more package business. Okay, package business just like our mix specialty business and you probably that, Mark, there's a lot of - there is a lot of complementary programs there with the child care and social services and some of the other things. It really is a nice fit.

Richard R. Whitt
Co-Chief Executive Officer and Director

Imagine Mark, if you would the Pittsburgh Steelers were in the Super Bowl and they won, and you had a parting with inflatable rental you'd want to make sure your operator has insurance, TOMCO would be the provider of accident insurance.

Unknown Executive

I'll look forward to getting some of that next year hopefully.

Francis Michael Crowley
Vice Chairman

It's consistent with what we've done before in the specialty segment.

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Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. My last question, you mentioned the share repurchases for the year. Was there any portion of that was in the fourth quarter?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

There was a portion of that in the fourth quarter and that number is $8.9 million to roughly $9 million about 25,000 shares.

Operator

Our next question comes from the line of J. Cohen from Bank of America/Merrill Lynch. Please proceed with your question.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just one follow up on THOMCO. Have the margins - the underwriting margins for this business historically been in line with what Markel has produced?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

The answer would be, yes. Obviously, they have written with other insurance companies and they have their own pricing and own pricing models. But we're comfortable that the business will be underwritten with the same guidelines and the same conservatism that we write other lines at Markel Specialty.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Did interest expense tick down a little bit? I don't see there was a big change in the debt outstanding--seemed to do go up a little bit. I'm wondering what's behind that-- in your fourth quarter I'm talking.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

In fourth quarter? Yes, I'm not sure Jay. but we can pull the details out on that and I can pick it up with you outside of this.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

One thing the expense ratio—all of being equal-- a two point increase in the expense ratio because of the change in accounting for DAC and that goes into 2013 as well, correct?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

No. That should all be in 2012.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just in '12?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Right.

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Operator

Our next question comes from the line of Matthew Barrie from Lane Five Capital Management. Please proceed with your question

Unknown Analyst

Okay. Mike, question for you about FirstComp quickly, I may be covering old ground. I apologize if that's true. So FirstComp this year, a nice little bump up in revenues as you guys can play with, obviously at this point not profitable, and I was right on Specialty Admitted. So what I was hoping you could explain to me is a little bit about the reason for FirstComp's lack of profitability, your plans for addressing it, and the time line on that. And maybe if you could give me just by way of explanation something of the compare and contrast with FirstComp and the rest of the businesses in Specialty Admitted so that we can think about how FirstComp will shake out compared to the other business in terms of long term profitability track.

Francis Michael Crowley
Vice Chairman

When we acquired FirstComp we knew what the worker's compensation market looked like and we knew that this would be a transition to the levels of profitability that would satisfy us to unfold. They followed that, I mean they grew more this year than we had anticipated, because they moved into couple of new states where they were successful, they continue to manage the California exposure well.

It's a challenge, the worker's compensation market is incredibly soft, they have the issue with the various state regulars depressing the ability to price the comp the way we would like to. At the same time, we were successful and getting our cross sell efforts underway with the FirstComp sales people with FirstComp agents, and we continue to drive growth in the whole specialty division by selling some of our other Markel specialty products to the FirstComp agent. I think we have appointed several hundred FirstComp agents out of 400 that we've identified at this point sell other Markel products.

We clearly are in constant discussions with the FirstComp team and this is a transition process in terms of their success and our loss ratio and it's just going to take something.

Unknown Analyst

Okay. And do you have a sense of the rough time line for moving that forward and how do you think profitability will shake out.

Francis Michael Crowley
Vice Chairman

I could give you a timeline if I knew what the market was going to do. But it's got to be a continuous transition and I think that the –

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, I mean I would add to that, maybe it's a tough market and I take what the results the FirstComp right now are probably more about the market than what FirstComp I think they're doing about everything we could ask them to do. They were able to grow the business a little bit moving into some other states, they did de-emphasize in California. California is great when it's rolling and it's terrible when it get to the bottom. So what they have done is they have really diversified. They are diversifying the book away from California which I think is going to take some of the cycle out of their book going forward. The other thing we have been doing this year and we still got a little ways to go, we are getting them in line with our reserve and philosophy. And so that's a bit of a drag at the moment. In terms of the result they report, but they are moving in the right direction and you know probably ahead what our expectations were at this point.

Unknown Analyst

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Okay, that's very helpful. And then one thing this is a fairly general question. In terms of Merkel International and the expansion under way over there and exciting things going on the journey and I think we retail branches and so on. Outside of the U.S. do you see that the places that you are going into, do you see underwriting standards are above or below the U.S. in general and so do you consider the international markets right for pickings or a tough way to expand?

Francis Michael Crowley
Vice Chairman

You know, it's amazing to me. It doesn't matter where you go in the world the markets are competitive. Now, some may be slightly less competitive than U.S. and some are actually more competitive than U.S. if you can believe that. But it's amazing how global, the insurance market has become and they are all fairly competitive, but what we've gone in and try to do is go in with good teams that know that market and know what sort of price they need to be able to make an underwriting profit, and we are starting it small. We are not going in there with a big splash, we are going with small teams and looking to build to $20 million, $25 million of volume. It's a safe strategy that we are pursuing, but I wouldn't kid you, there is no ripe for the taking markets out there right now. We are certainly hoping they are changing but I wouldn't say any are ripe for the taking.

Operator

Our next question comes from the line of David West from Davenport and Company. Please proceed with your question.

David McKinley West
Davenport & Company, LLC, Research Division

Hey good morning. Firstly, you will follow-up as we are talking about FirstComp a little earlier. Could you talk a little bit - I know state by stae this can vary, but in general you gave some great color about other pricing trends, but what about pricing trends in general and the workers comp area.

Francis Michael Crowley
Vice Chairman

We are not seeing a lot of movement there right now David. We expect to follow the market at some point, but we are not seeing a lot of movement. What FirstComp has done is as I said earlier they are trying to move to state for the opportunity to get more favorable rates in their mind. It's the right thing to do, moving out of California, reducing some of that exposure is the right thing to do. So I think that keep in mind they write very small workers compensation policies and I think as the market does move in their direction we could see a significant improvement there. They are trying to find states where there is opportunities for them to write the kind of policies that they write on the small businesses and startups at a price that - where the rates in their favor are simply more competitive than they—not competitive but better in terms of us getting an underlying profit than in other states.

David McKinley West
Davenport & Company, LLC, Research Division

Very good and then kind of switching over to the THOMCO deal. You mentioned they did about $160 million related premium.

Francis Michael Crowley
Vice Chairman

In excess of that. Yes.

David McKinley West
Davenport & Company, LLC, Research Division

In excess. What did Markel formally account for that prior that position?

Francis Michael Crowley

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Vice Chairman

We didn’t close the deal until January.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

No, no, we didn’t write any of that business through the acquisition.

Francis Michael Crowley
Vice Chairman

Oh! No, we didn’t write any of the business pre-acquisition. They were all with us[indiscernible] competitors.

David McKinley West
Davenport & Company, LLC, Research Division

And then Tom a quick question for you. There was some modest contemporary impairment charges in the quarter. What constituted those charges?

Unknown Executive

It’s in the main form of accounting. I reference you to this reference letter to the SEC about this topic. If you want to see some other point of view that’s problematic, but there is the rule. There’s nothing that I am worried about economically.

David McKinley West
Davenport & Company, LLC, Research Division

Very good. The European investment that’s what you mentioned in the press release that really have nothing to do with it?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

That had nothing to do with it.

Operator

Our next question comes from the line of Kevin Shields from Pine River Capital. Please proceed with your question.

Unknown Analyst

Good morning and thank you for taking my call. I have two quick questions. Number one, what percent of the book are you receiving price better than trend and for this piece of the portfolio what is the persistent fee say versus the average of the portfolio of the total.

Francis Michael Crowley
Vice Chairman

Wow, price better than trend, well, I would say in general you should probably think in terms of trend, that's three to five, and I would say in very, very few places right now are we getting price increases better than trends. But for the first time in a long time we’re probably getting prices a lot of - well a lot in some places that at least equal trend. I think we’re shooting for 3 to 5 in some places and if they stick we can find some more in it. So pretty difficult question, but I would say the industry in general hasn’t been getting anything close to trend in the several years it seems like in the transition that Mike talked about we’re starting to see some price increases this might be around trend and hopeful by the time we get on this call with you next quarter maybe we can talked about some prices that may be exceeding trend. I think that’s the probable the best I can do one answer on that.

Unknown Analyst

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Okay. And for the second question and you that last cost trend range of 3 to 5. Can you maybe flush it out for your major sort of lines of business like Fire and Allied, Worker's Comp, Marine other...

Unknown Executive

That's really hard. But I would say in general just in very, very general we will tend to think of your liability lines at the higher end to that and particularly your professional liability lines and then your property and other thing probably at the lower into that but that - that's a very general statement.

Operator

Our next question comes from the line of Ron Bobman with Capital Return Investments. Please state with your question.

Ronald David Bobman
Capital Returns Management, LLC

Somebody made the comment earlier on the call that basically FirstComp was sort of ahead of where you expected to be. How much of that was refereeing to sort of the transition pace or profitability? I was wondering...

Unknown Executive

That was as far as top line.

Ronald David Bobman
Capital Returns Management, LLC

As far as top line. Okay. So it's not indicative of I think there was an earn-out on the acquisition whether that earn-out is sort of on track to the earned or not any internal net? That's the only question.

Unknown Executive

Yes, the earn out was really on the opening balance sheet and at this point-- its nothing at this point what the calculation which I have but its this is workers comp business so it takes a while to develop, so that could change. But the earn out was really about the snapshot balance sheet the day we caught it.

Operator

[Operator Instructions] Our next question comes from the line of [indiscernible]. Please state with your question.

Unknown Analyst

Yeah, good morning guys. Just a couple I don't want to kind of ask all about FirstComp on the call, but couple of quick ones regarding I mean what states are you guys diversifying away from California. I know you would talked about some better premium growth there and some diversification any clarity will be helpful.

Unknown Executive

We went into Louisiana in trying to remember what the other state—Alaska? I think Louisiana and Alaska. Seems like there might have been one more. Also I mean what the team has been doing is you know where they see better profitable states they you know pushing harder in those states and trying to grow the business there. They have been raising prices, obviously, as a lot of people have in California particularly in the areas where we have not seen good performance. So you know to some extend we are shrinking California or what you are writing in California is a rate and then in other states where we are happy the pricing environment we are trying to grow in those states. So it's really a portfolio balancing exercise if these guys are working - I think they are doing a good job.

Unknown Analyst

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Understood. Now, I just want to make sure wasn't some of the more problematic states that other people had talked about you know like in Illinois or potentially in New York and I would assume you guys will be targeting the more profitable and want to double check.

Alan I. Kirshner
Executive Chairman

And we have lot of confidence in there in FirstComp's management making those decisions. They really have a very strong culture of metrics and understanding their business, and we have a lot of confidence that they - the move they make will be in the right state.

Unknown Analyst

And then I guess a quick on the reserves side, for first time. I don't know if I did the math right, but I think for the year I mean there is a little bit of adverse development from that business and I know you guys have a different reserving philosophy and just curious I mean is that any particular accident year or is it I mean sort of across the board to just get it up to your reserving philosophy.

Unknown Executive

Yes, I won't guarantee, if we had to do - we would all do it enthusiastically in a New York minute and the point I want to make is that if you look at any deal we've done in mark down we've always had the practice—whether it be more likely to be redundant or deficient in our reserve rate and that always have a time lag associated with it. Where the reserve philosophies are harmonized across the various Merkel units. 2011 - We know right now that those reserving philosophies and levels are being harmonized, but we can see and feel and taste and touch the business sense of writing and intelligence pursuing your business that to have a great deal of confidence in it and in the course of time this deal like all the other deals we think will work out for our hallmark of shareholders.

Unknown Analyst

I appreciate that and I know your history as far as reserving is concerned but I guess $6 million doesn't seem like a lot to me and if you are moving around those reserves maybe in the form of a more recent one I mean like that would be certainly be useful from our end. The other question I just wanted to ask about quickly about is catastrophe exposures and I know you guys have said you had taken a step back and kind of looking at what you thought about cash but do you have any specific metrics that you look at. I know you have mentioned getting price increases, you certainly would be more willing to may be deploy some capital for cap exposure, but just trying to get a sense of you know way you will think about that business going forward.

Unknown Executive

Well, yes, obviously like all the people probably that write this business we have a lot of metrics we looked at. And you, know without getting into too much detail we clearly look at our 1 and 250 return period numbers. We do extract methods and just add up the TIV we have gotten gates around the the coasts for wind, we look at the cresta zones in California and make sure we are comfortable and we are not overloaded in particular cresta zones. So we have a lots of metrics we look at, but you know the big thing we are doing right now is just continuing the focus on that mixture we feel like we are making the appropriate moves and we are looking to increase pricing because we believe you know this business needs more price given the sort of events we saw on 2011. So you know I think we have made a lot of changes since 2005 in Katrina and we believe we improved the methodology and approach significantly, but it's always evolving and we're always going to keep looking at it and trying to continue to improve because you know when you write catastrophe business you never want to get too comfortable. So we are always looking and trying to get that.

Operator

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

Jay Adam Cohen

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BofA Merrill Lynch, Research Division

Yes, thanks. Just one quick numbers question. Do you happen to have the statutory surplus as of year end?

Unknown Executive

No, we don't have that yet Jay. It could be a couple of more weeks on that.

Unknown Analyst

Okay. I guess more philosophical or theoretical question. The make up of your earnings between accident year and prior year developments, clearly much different than other company its far different. I mean, potentially you are not making money on an accident year basis if we exclude the favorable development. I think even if I had I wouldn't be and clearly there has been a history of conservative reserving at the company, but are you set where you would expect at least that making money on an accident year basis. In other words, if you feels as if you are being overly conservative or maybe the world just has to catch up to you. What you think is closest to the truth?

Unknown Executive

Well, I would say you know I don't know that you can get the numbers out of our annual report. I think you can. I would say that what you just described has been consistent for Markel for throughout time. We are very conservative on the current accident year and then over time I think develop we allow that to come down. And that's just the way we always done it. I think I mentioned earlier there is no question that 2011 accident year is thinner than 2010 was, and thinner than 2009 was. We still did everything we could to price it to an underwriting profit, but you know it's not going to be what 2010 was or its not going to be what earlier years were.

Unknown Analyst

It sound like 2012 is going to be even worse because you are still not-- your price increases aren't yet keeping up with claims inflation. Ongoing pressure there, ex-catastrophes.

Unknown Executive

Right, I guess the thing I would say there is you estimate trends just like the estimate a lot of other things. The things I think has probably surprised a lot of people in the last few years. This trend has been somewhat benign, but trend you name it. On trend on our development factors we are going to be conservative on all of it and watch it, and our hope and expectation would be that it comes down over time.

Richard R. Whitt
Co-Chief Executive Officer and Director

And the one thing I would add, Jay, in terms of the philosophy, obviously the accounting that was one issue which you rightly raised, but the good news is that we did get the cash on day one. Regardless of whether we recognize the income from it this year, or subsequent years. These dollars do flow into the investment portfolio and start creating returns for the shareholders.

Unknown Analyst

Absolutely, and I guess one last point/question on this. I had other companies tell me that they try to get their accident year numbers as close to accurate as possible because that gives them some insight into pricing so if we are way off either way it will give us misinformation on how we should be pricing the business. It doesn't seem to be impacting yield-- you are pricing from what I hear inthe markets pretty consistent and you are not way too high or low. Is that due to an inaccurate statement that an accident year number has a lot of information content relative to how you price the business going forward?

Unknown Executive

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I mean they are certainly linked, Jay, and I think part of why it works for us is we have done it a long time and we have done it consistently this way. We talk a lot about margin of safety and we talk about the fact that there is margin of safety in our loss reserving that we may take a slightly different view as we sit down to really come up with a pricing methodology. So you know there might be a slightly conservatives than our reserving pick than there would be in our pricing pick and we spend a lot of time taking about those two numbers to make sure they are not disconnecting, but so they could be different, but we don't want them to [indiscernible].

Unknown Analyst

That's a helpful answer. Thanks a lot guys.

Operator

Our last question comes from the line of Ron Bobman from Capital Returns. Please proceed with your question.

Ronald David Bobman
Capital Returns Management, LLC

Thanks for taking the followup. Two questions. I think the Greenburg, eight call yesterday I think twice he made comment about the E&S casualty market. I think you he used the word an area of stress or severe stress. And if you would describe the large portions of E&S casualty market experiences and stress. That was the first I heard of it that described you know has an extreme and then I also noted I think, and I haven't heard any of the Markel's on the call today and I am I right and is this the new procedure for the calls?

Unknown Executive

We didn't hear the Greenberg comments, so we can't comment on it. I really don't have to address that and this is in line for 1 year now, 1.5 year. We are here and does the Markel's I can trust you, I can assure you are listening as well and we will coach us as soon as we walk out of the room.

Unknown Analyst

Okay, but how just generally would you describe E&S casualty as a stress segment?

Unknown Executive

The only comment that I would make is that - that we are not seeing significant price increases in the E&S casualty market at this time.

Operator

There are no further questions at this time. I would like to turn the call back over Tom Gayner for closing comments.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you very much. We are glad you were with us and we look forward to catching up with you soon. Take care.

Operator
This concludes the teleconference. You may disconnect your lines at this time. Thank you for your participation.

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