S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

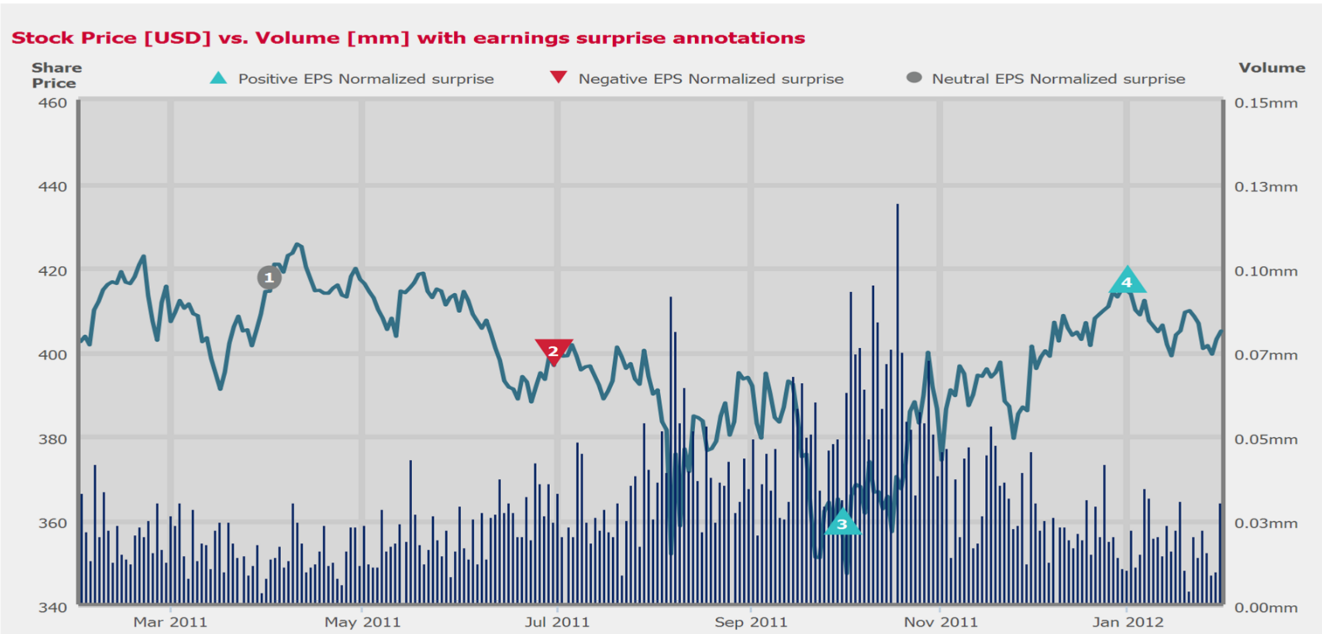
FQ1 2012 Earnings Call Transcripts

Thursday, May 10, 2012 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.99	4.97	24.56	3.95	15.95	17.34
Revenue (mm)	654.44	733.14	12.03	678.10	2746.82	2919.28

Currency: USD
Consensus as of May-10-2012 3:52 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	3.40	(0.14)	NM
FQ2 2011	4.06	2.99	1 (26.35 %)
FQ3 2011	4.04	4.41	2 9.16 %
FQ4 2011	4.29	4.43	3 3.26 %

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Call Participants

EXECUTIVES

Alan Irving Kirshner
Executive Chairman

Anne Galbraith Waleski
Executive VP & CFO

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Thomas S. Gayner
Co-CEO & Director

ANALYSTS

John D. Fox
Fenimore Asset Management, Inc.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Unknown Analyst

Presentation

Operator

Greetings and welcome to Markel Corporation's First Quarter 2012 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Tom Gayner. Thank you. Mr. Gayner, you may begin.

Thomas S. Gayner
Co-CEO & Director

Thank you so much. Good morning and welcome to the Markel Corporation 2012 first quarter conference call. We are glad that you are joining us and we look forward to your thoughtful questions about our business.

As is our custom, our Chief Financial Officer, Anne Waleski, will lay out the numbers from the first quarter, followed by my Co-Presidents, Mike Crowley and Richie Whitt, would comment about our international and domestic insurance operations. I will then discuss our investments and Markel ventures operations a bit, and then we will open the floor for questions.

Before getting started, the rule says we need to repeat the Safe Harbor statement. So here 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 Statements in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures on our website at www.markelcorp.com in the Investor Information section under non-GAAP reconciliation or in our Quarterly Report on Form 10-Q. With that, Anne?

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, and good morning everyone. I plan to follow the same format as in prior quarters. I will start by discussing our underwriting operations, followed by a brief discussion of our investment results, and bring the 2 together with a discussion of our total results.

I am pleased to say that for 2012 we are off to a good solid start. Total operating revenues grew 18% to $733 million in 2012, up from $622 million in 2011. The increase is due to a 15% increase in revenue from our insurance operations and a 43% increase in revenue from our non-insurance operations, which we refer to as Markel Ventures.

Moving into the underwriting results, first quarter 2012 gross written premiums were just under $650 million, which is an increase of 10%, compared to 2011. The increase in 2012 was due to higher gross premium volumes in each of our 3 operating segments. Net written premiums were approximately $580 million, up 12% to the prior year. Retentions were up slightly in 2012 at 90% compared to 88% in 2011. Earned premiums increased 14%. This increase was driven by a 23% increase in earned premium from the London Insurance Market segment.

First quarter 2011 net written and net earned premiums for the segment were reduced by approximately $9 million of reinsurance cost, associated with losses incurred during the first quarter a year ago.

Our combined ratio was 100% for 2012, compared to 112% in 2011. The combined ratio for 2012 includes $20 million or 4 points of expense related to our prospective adoption of the new DAC accounting standards. The 2011 combined ratio included 15 points of underwriting losses related to the 3 catastrophe events, which occurred last year in Australia, New Zealand, and Japan. Excluding the impact of the prospective adoption of the new DAC accounting standards in the first quarter of 2012, and the effect of the catastrophes in the first quarter of 2011, our combined ratio improved by 1 point. This improvement was due to a lower expense ratio and a lower current accident year loss ratio, partially offset by less favorable development of prior year's loss reserve. The improvement in the expense ratio is primarily due to an increase in earned premium. The improvement in the current accident year loss ratio was due to lower attritional current year losses in the Excess and Surplus line segment and to lower attritional and large energy losses in the London Insurance Market.

Favorable redundancies on prior year's loss reserves decreased to $64 million or 12 points of favorable development, compared to $75 million or 16 points of favorable development in 2011. The decrease is primarily due to less favorable development of prior year's losses in the Excess and Surplus line segment.

In the first quarter of 2011, we resolved a significant portion of our outstanding liabilities associated with an Errors & Omissions program from mortgage servicing companies and as a result reduced loss reserves by $16 million.

Next I will discuss the results of our non-insurance operations, which we call Markel Ventures. In 2012, revenues from our non-insurance operations were $97 million, compared to $68 million in 2011. Net income to shareholders from our non-insurance operations was $200,000 in 2012, compared to $2.4 million in 2011. Revenues from our non-insurance operations increased in 2012, compared to 2011, primarily due to our acquisitions of Baking Technology Systems Incorporated and WI Holdings Incorporated in late 2011. The decrease in net income to shareholders from our non-insurance operations is a result of decreased shipments for the quarter in our manufacturing operations where we expect to see improvements as the year progresses.

Turning now to our investment results. Investment income was up 14% in 2012 to just under $80 million. Net investment income included a favorable change in the fair value of our credit default swap of $11 million. During the first quarter of 2012, financial markets improved, and credit spreads narrowed, which favorably impacted the CDS.

Net realized investment gains were $12 million, compared to $11 million in 2011. There were no other-than-temporary impairments in either period.

Unrealized gains increased $214 million before taxes in 2012, driven by increases in equity securities. Tom will go into further details on investments in his comments.

Looking at our total results for 2012, the effective tax rate was 23% in 2012, compared to an effective tax rate of 14% in 2011. The increase is primarily due to anticipating a smaller tax benefit related to tax exempt investment income as a result of projecting higher pre-tax income for 2012, than in 2011.

We reported net income to shareholders of $57 million, compared to $8 million in 2011. Book value per share increased 6% to $373 per share at March 31, 2012, up from $352 per share at year-end.

Finally, I will make a few comments on cash flow and the balance sheet. Net cash used by operating activities was approximately $64 million for the 3 months ended March 31, 2012, compared to net cash used by operating activities of approximately $9 million for the same period of 2011. The increase in net cash used by operating activities was due to increased claim settlement activity, primarily in the London Insurance Market Segment.

Historically, first quarter is our lowest cash generating quarter as we pay employee benefits, agent incentives, pension contributions, and other items of that sort in the first quarter. We would expect cash from operations to improve in the second quarter.

Investments in cash held at a holding company were approximately $1 billion at March 31, as compared to a little less than $1.2 billion at the end of the year 2011. The decrease is due, in part, to the purchase of THOMCO in January 2012. Mike will discuss that acquisition further in his comments.

And at this point I will turn it over to Mike.

Francis Michael Crowley
Vice Chairman

Thanks, Anne, good morning. First quarter results for North American operations showed increases in gross written premiums for both the Wholesale, E&S, and Specialty divisions. The wholesale gross written premiums increased 11% over the same period in 2011 and the specialty division gross written premiums increased 10% over the same period last year.

Market conditions remained transitional with moderate increases in many lines. Rates for wind exposed property are climbing more significantly than other lines and yet some lines such as medical malpractice and specified medical remained very competitive. We see other insurance companies announcing rate increases. It is worth noting in our opinion that, in our experience, some insurance companies were announcing rate increase on renewal business are continuing to price new business very aggressively.

At Markel, we maintained the consistency of our underwriting discipline on both renewals and new business; we are seeking right [ph] on both.

With regards to the wholesale division, during the quarter, the division conducted agency council meetings for both our binding and brokerage businesses. At these meetings we always try to create an atmosphere that is conducive to candidate feedback and I am not suggesting that any of our agents on these councils were shy. They are not. The feedback that we received was generally positive and supportive of the One Markel mile. Criticism was limited and mostly centered on response times, and John Latham, President of our Wholesale Division, and his team have initiated several projects to address the concerns raised and have already reported back to council members on their efforts.

Marketing activities in the Wholesale division were aggressive during the quarter with over 388 agency visits made by our regional personnel. We continue to believe that we were appropriately staffed in the divisions at all of our regions to serve our agents and brokers.

In the Specialty division, the increase in their net gross written premiums was driven by growth in premiums at Markel American, our personal lines division; Markel FirstComp, the agriculture division; and our carrier alliance business. Offsetting some of the growth were declines in our accident health and program units.

The A&H premium fell due to our exits in several programs due to lack of profitability and Markel programs also terminated several programs for the same reason.

The significant highlight during the quarter was the closing of the THOMCO acquisition in early January. Greg Thompson and his team are a terrific addition to the Markel family.

Britt Glisson, our Chief Administrative Officer; Robin Russo, our Executive Underwriter for Specialty; and Tom Smith, Head of Sales and Marketing, corporately, are working closely with Greg and his team on the transition of THOMCO's business. The moving of this business to Markel Paper was light in the quarter but will be accelerated during the remainder of the year with the full impact of the acquisition being felt in 2013.

Also during the quarter we announced several key executive promotions. John Tyson [ph], who joined the company in 1989, was promoted to lead Markel Specialty Commercial.

Mark Nicholas, who also has been with the company over 20 years, was promoted to oversee, not only our A&H business, but our carrier alliance business and Personal Lines Division.

Audrey Hanken, was promoted the President of Markel America. Audrey joined Markel America over 17 years ago and has played a key role in building our Personal Lines business. She previously served as Head of Underwriting and Product Development.

Mary Pat Joyce was promoted to President of Prairie State, our carrier alliance business and she joined Markel in 1999 and most recently was Head of Operations with Prairie State.

Matt Parker was promoted to President of Markel FirstComp. Matt has been with FirstComp for over 5 years and most recently was Chief Operating Officer.

All of these individuals had significant experience in their respective areas and in the cases of John, Mark, Audrey, and Mary Pat, significant tenure with Markel.

Hopefully these promotions are evidence to you of Markel's ability to fill key positions from within, which is one of the defining strengths of our company.

With regards to our product line leadership group during the fourth quarter of 2011, Markel rate philosophy for 2012 was announced to communicate to all of our underwriters. During the first quarter of 2012, all divisions, Markel International, Wholesale, and Specialty, showed positive rate increases. Given the results we saw in the quarter, we are optimistic that we can meet our rate increase targets in 2012.

The pipeline leadership also initiated several processed improvement in standardization projects to streamline our closed bind and issuance capabilities. We efficiently launched Markel My PLL [ph] website to all North American Associates on March 30, establishing a protocol and standardization for underwriting guidelines across all product lines.

We also established protocols for internal communication between regions in the PLL Group. All of this is being done to improve our speed and clarity when communicating quotes and other information to our agents and brokers.

Other highlights include the addition of a contracted pollution liability policy to our binding origin, and developing a ISO claims made platform in addition to our proprietary form to meet the needs of our customers.

While still spotty, we are pleased to see continued improvement in the rate environment and growth in the number of product lines. However be assured we will not lose our focus on our sales and marketing efforts. Being in front of our agents and brokers and improving our processes and speed of delivery remain at the forefront of what we do every day.

I'll now turn to call over to Richie Whitt. Richie?

Richard Reeves Whitt
Co-CEO & Director

Thanks, Mike, and good morning everybody. What a difference a year makes. Pleased to report our solid start to 2012 at Markel International. Our combined ratio was 97% in the first quarter of '12. Anne mentioned the perspective adoption of the new GAAP accounting standards. The adoption of this standard added 3 points to International's first quarter combined ratio.

You will obviously recall that we got off to a difficult start in first quarter of 2011 reporting a combined ratio of 152% with significant statutory losses from several events around the globe, including the Australian floods and New Zealand earthquakes and the Japanese earthquakes and tsunami.

As compared to the start of 2011, the first quarter of 2012 is relatively quiet and I can tell you, in the insurance business, quiet is a good thing.

In the first quarter of '12 International gross written premiums were up 9% to $278 million. We continue to experience growth in our marine and energy division, most notably in our energy book.

We are also seeing solid growth in our catastrophe exposed property writings. Premium growth in both of these areas were aided by rising prices. We are seeing single digit price increases on marine energy and liability business and increases between 10% and 20% on average for catastrophe exposed property business. Unfortunately, the pricing environment in other areas of our book remains competitive. While prices no longer appear to be falling, competition remains strong for professional liability, equine, trade credit, and in our various retail markets around the world.

As Mike mentioned there is always some differential between new business pricing and renewal business pricing. But there has been a bigger and bigger disconnect recently as what Mike said people seem to be getting tougher on renewals but are being pretty aggressive on new business.

Our international leadership team, led by William Stovin and Jeremy Brazil, focused on growing in the areas where appropriate prices are achievable and we are working to maintain our discipline in the areas that still remain competitive. So much to the U.S. the pricing environment appears to be improving but it's far from a hard market at this point.

We also to continue to focus on profitably growing our retail branch offices around the world. Our latest offices in Rotterdam, and Munich, are settling in and are off to good starts. Our retail management team is also working to develop standardized processors and procedures to use across our retail branches in order to more efficiently write these small but profitable policy.

In summary, we are happy to be off to a good start in 2012 and we will stay patient as this market continues to involve.

Now, I turn it over to Tom.

Thomas S. Gayner
Co-CEO & Director

Thanks, Richie. As you have heard so far, there is lot of positive momentum around Markel these days and I'm glad to tell you that's true for our investments and Markel Ventures operations as well.

On the investment front, we earned a total return of 4% for the first quarter, with fixed income earning 1.3% and equities earning 11.5%. As has been the case for more quarters than I can believe now, interest rates started the period low, and then went lower. As such, we earned a total return of more than what we should expect from the underlying coupon return of the [ph] cost. We continue to believe that interest rates are unnaturally low and given that belief we continue to choose to protect the balance sheet by maintaining our bond portfolio at a lower duration than what we would naturally like.

In effect, we are incurring an opportunity cost to do so. This is consistent with our focus on the balance sheet at Markel. There will come a time when this decision should add meaningful value to our shareholders. We will be the first to point that out to you when it does.

On the equity side, we earned a total return of 11.5% for the quarter and we continue to steadily and methodically increase our equity investment commitment. It now stands at 59% of shareholders equity, up from 54% at year-end 2011. We have additional capacity to increase our equity holdings and we continue to do so as we have for the last few years. We believe that our portfolio of global, dominant, profitable companies, represent the best big opportunity to earn good long-term rates of return and, as such, we continue to steadily and methodically add them to the equity investment portfolio.

On the Markel Ventures front, during the first quarter, revenues were just shy of $100 million and are included in the other revenues line of our income statement. EBITDA totaled $9.4 million. As always, a reconciliation of EBITDA to GAAP net income is available on the website. Frankly, the first quarter EBITDA levels were below our budgeted expectations. This was due to a combination of normal seasonality, our lumpy businesses not getting as many lumps of business, as is often the case, and the exempting of the meaningful growth opportunities at certain of the Ventures company.

We remain optimistic about meeting our annual goal, since the seasonality will improve as the year goes on, and we have good order [ph] books and backlog in some of the lumpy businesses. Also the growth initiatives, and the associated expenses will continue, but they should begin to bring appropriate revenues and profits with the passing of time.

Additionally, just after the quarter ended, we added Havco to the Markel Ventures family. Havco is the leading manufacturer of wood floorings for the trailers, tractor trailer, and has a multi decade history of leading market share and profitability. Havco is led by Bruce Bader, and a well-established management team that will be staying and leading Havco into the future. We are proud of the ongoing continuity of management at all of the Markel Ventures companies, and are glad to welcome Bruce and his team to the family. I am confident it will earn fine rates of return on our capital.

In order to give you some frame of reference about the magnitude of the growing Markel Ventures operations, I will tell you at this point, the annualized revenue run rate of Markel Ventures should approach $500 million, and we continue to expect double-digit EBITDA margins from the collection of these businesses.

Please remember that the Safe Harbor statement that I started out with, I hope that information is somewhat helpful as you consider the size and scale of this growing component of value creation for Markel shareholders.

To summarize, we are optimistic about what is going on at Markel these days. As Mike and Richie reported, we are seeing better insurance markets, and we are continuing to refine and improve on every aspect of our operations. We are off to a great start on the investment side, and we look forward to reporting this full year of operations from the Markel Ventures group of companies.
We appreciate the long-term nature of our shareholders who are interested in owning a successful long-term business and we now look forward to your thoughtful questions. With that, I will open the floor for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Mark Hughes from Suntrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

The expense ratio in the Specialty Admitted was up a bit year-over-year. Is that higher level going to be sustained going forward?

Francis Michael Crowley
Vice Chairman

There were 3 things that were unusual in the quarter. The DAC expense which Anne talked about. We had some severance in the quarter and we had the write-down of some systems in the quarter.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

So the DAC would be sustained perhaps, but the others not?

Anne Galbraith Waleski
Executive VP & CFO

That's correct.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Of the increase, how much was the DAC? I'm sorry if I missed that.

Anne Galbraith Waleski
Executive VP & CFO

For specialty admitted? Hang on 1 second. I'm shuffling some papers around. You can expect that the DAC piece will be larger in the first and second quarter than it will be in the later half of the year. So it's about 4 points on specialty admitted in the first quarter.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Okay. Then, the London current year losses were quite low, as low as they've seen in some time. I know that's a volatile business. Any reason to assume that will change? Current accident year, should we keep it at 67%?

Francis Michael Crowley
Vice Chairman

There's a couple things going on there. We've, over the last few years, added some businesses that have fairly low loss ratios but maybe slighter higher expense ratios and the 2 that I'm thinking about are Elliott Special Risk and ATrade [ph] Credit businesses. They have low loss ratios but higher than typical expense ratios. So there's a bit of a mix thing going on there. Also, it was a very quiet quarter in terms of catastrophes, so that also is impacting things. So I think it was a good quarter in terms of the current accident year. I don't know that we could expect that every quarter going forward.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Any thoughts on pace of favorable development going forward? It's down a little bit year-over-year but still at a very healthy level. What can you say about that?

Anne Galbraith Waleski
Executive VP & CFO

I think we expect it to continue to be healthy. So I'm not expecting any big differences in the future quarters.

Francis Michael Crowley
Vice Chairman

the only thing I'd add to that, Mark, is the market's been softening for 5, 6 years now. So while we always attempt to establish a fairly consistent margin of safety, with the market margin shrinking, I think it's likely, unless the market starts to tick up, which we think it's starting to, those things will continue to drift down.

Anne Galbraith Waleski
Executive VP & CFO

A little bit, yes.

Operator

Our next question is coming from Jay Cowen from Bank of America Merrill Lynch.

Unknown Analyst

It's Allison [indiscernible] actually. Just a follow-up to the last question, in part. I don't know is it possible at this point for you to give maybe more a little bit more specifics on the DAC accounting change and how it’s going to come through rest of the year. I think you said something in the queue about $43 million over 9 months. We got $20 million in the first quarter. Is it that $23 million we should look forward for the next couple of quarters and how should we look at that? And then also I don’t think I heard it, if you could talk about the favorable change in the swap this quarter that added the $11 million to investment income. I’m sorry I don’t have the quarterly history, but just I’m sure that's lumpy, but how you might be thinking about that if there is anything you can put around that?

Anne Galbraith Waleski
Executive VP & CFO

Okay and relative to the DAC question its about 4 points in the first quarter I mean that swag would be you could take 3 points in the second quarter then 2 points and 1 point and it may move around a little bit, but that would be a reasonable swag. Relative to the credit default swap, it has moved around a fair amount quarter-to-quarter. The markets just moved in enough of the right direction this quarter that we ended up with a pretty positive outcome.

Alan Irving Kirshner
Executive Chairman

Nothing really add to that, but the history is that every quarter there is movement it would net towards zero over time.

Operator

Our next question is coming from Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

I was wondering if you could touch a little more on the comments you made about new business being a lot more competitive. I’m assuming that’s been a change over the last couple of quarters. Just curious if you could touch on what areas that you're seeing that increased new business competition. Is it by class or is it small versus medium or what was that? [indiscernible]

Francis Michael Crowley
Vice Chairman

Scott, it's Mike. I don't know that we're seeing an increase over the last couple of quarters. What my point is, what we are seeing and is that our underwriting discipline is consistent on new business as it is on renewable business and what we are seeing when we read the press releases we are seeing comments by competitors saying that they are raising rates and we see and we hear from our agents and its fully at across the board large, small whatever, but particularly on the business that we are in which is medium size to small risk. We hear from our agents that some of the carriers that have been very aggressive in the past and during the soft market are raising rates substantially on renewals and yet we see them in the marketplace, where we compete with them, being very competitive on new business and not following the same philosophy. So, it's not, I don't see the aggressiveness on new business has not increased in the quarter. It has been aggressive. I'm just pointing out the difference between our underwriting philosophy and maybe some others.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, that's clear and then just wondering if you could touch on whether you are seeing any big changes on policy terms and conditions over the past few months as the markets improved a little bit, any movement there?

Francis Michael Crowley
Vice Chairman

Nothing of real significance.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. The other thing I had was just a couple of numbers questions, where there any catastrophe losses in the quarter?

Anne Galbraith Waleski
Executive VP & CFO

There were nothing of any materiality. There were a couple of the tornados that had been classed as catastrophes, but nothing material in the numbers.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay and just one another thing the Markel ventures you talked about some of the seasonality of the business, so now based on the collection of businesses you have now, is Q1 going to be the seasonally weakest or softest quarter and it improves in the second and third quarter. How should we think about the seasonality of the business top and bottom line?

Thomas S. Gayner
Co-CEO & Director

Our strength so far as the Q1 is indeed the lowest quarter we have seen in the bill [ph] through the year.

Operator

[Operator Instructions] Our next question is coming from Meyer Shields from Stifel Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I think this is a question for Mike. I think you noticed $14.5 million first comp related loss, was there any adverse reserve development?

Anne Galbraith Waleski
Executive VP & CFO

No, I don’t think so. I think mostly it came out of just where we are tearing in their loss ratio. The reserves are held in there pretty good?

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. So this is just booking in the past market levels.

Francis Michael Crowley
Vice Chairman

I think the other thing you got to think about, Meyer, is, last year as we are bringing that business on California with relatively small portion of it. Now that we are keeping a 100% of the business, California is kind of fully loaded in there and our California loss ratio, just because what the California market have been the last few years, we are carrying higher loss ratio there. But we have been raising prices, when we have been working really hard on California. So, we are optimistic they will come down in the future, but California we are carrying at a pretty high loss ratio.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, that’s helpful. Tom, I’m not sure you had phrase this question, but whether it’s the Buffett rule or something similar to that, are you worried about, in general, equities or equity prices getting a hit if the associated taxation realized gains or dividends changes over the next year?

Thomas S. Gayner
Co-CEO & Director

Not really. I mean, the number of factors, the number of variables that go into what a given price of any given equity is going to sell for in a given day is about $1 million. So, while those might be bad factors, I don’t think they are the exclusive drivers on why things sell for what they did. So, we tend to be bottom up people rather than top down people. If we worry about the Buffet rule, the changes in tax, it goes on and European politics, etc., etc. I think you would go in a hole and never do anything. And I don’t think that would be the productive way to proceed.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, and one more question, if I can. I think we started with a discussion on agency feedback on One Markel, some positive, some negative. Was growth in the quarter impacted, I would say on the negative side at all because --

Francis Michael Crowley
Vice Chairman

I would say, it was impacted on the positive side. Really the feedback on the One Markel results. And we're seeing almost all of our large wholesale producers books grow with us. They are a couple that haven’t, one because they lost a lot of business themselves but we got -- I might not have worded as well as I could have, just trying to be candid. Really, the only negative response was just trying to help us continue to speed up our response to them in terms of quote bind issue. But the response on the One Markel and the availability of all Markel products to these agents and brokers has been terrific.

Operator

Our next question is coming from the John Fox from Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

I have a few questions. One, thank you for the disclosure on the accounting change. That's appreciated. In specialty, I was under the impression that last year you were going to put some reserves up at FirstComp or bring it up to Markel standards for about $30 million last year, and of course it's in this quarter this year. So, is my impression that that's last year wrong or is there something else going on there in terms of bringing it up to Markel standards in addition to what Ritchie said about California?

Francis Michael Crowley
Vice Chairman

Two things there, John. When we purchased FirstComp, we put some reserves up to get to the historical reserves where we thought they needed to be and in line with our more likely than not redundant and margin of safety philosophy. In all their lines of business at Markel as we go forward, we build in a margin of safety on the loss reserves, on the loss ratio because things happen. So, that is part of their more likely redundant than deficient philosophy to have that margin of safety as we move forward. So, there's 2 pieces there...

What we needed to do when we bought -- but on an ongoing basis we will continue to put a margin of safety on FirstComp just like we do at all our businesses. That could potentially decrease -- the amount of the margin could decrease as we become more comfortable with that business but it's no different than what we do everywhere else, I guess I'm saying.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And is there anything else in this segment, I mean, if you add back the 14 they wrote at an underwriting loss, are there other lines of business or any other trends that are significant there?

Francis Michael Crowley
Vice Chairman

No, nothing really. We feel good about it. We're getting price wherever we can. And with regard to FirstComp, I mean they are focused on improving pricing, they're focused on their risk selection, they're focused on their agency client management and they're also focused, as Ritchie mentioned, on their geographical mix. They went in 2 new states, Louisiana and Alaska, last year and then we saw some nice growth there. So, no, I don't think so.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And then THOMCO is in that segment? I thought I heard that's going to impact next year?

Francis Michael Crowley
Vice Chairman

Now, very little of the THOMCO business transitioned in the first quarter. We will be transitioning those programs that are moving to Markel paper during the course of the year. Some of bigger programs are later in the year. Their largest program, I think we start transitioning in September. So, we won't feel the full impact. I think what we've said in previous disclosures was that we expect about $60 million direct to hit in 2012 with the full impact of the acquisition hitting in 2013.

John D. Fox
Fenimore Asset Management, Inc.

Okay. So that's like an MGA situation rolling under your paper?

Francis Michael Crowley
Vice Chairman

Right, exactly.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And then for Tom Gayner, for Ventures, I believe Havco was in the second quarter, is that right?

Thomas S. Gayner
Co-CEO & Director

That's correct. That didn't close until April.

John D. Fox
Fenimore Asset Management, Inc.

Okay. Did you close anything in the first quarter?

Thomas S. Gayner
Co-CEO & Director

No.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And so the acquisitions line in the cash flow statement is really for THOMCO?

Thomas S. Gayner
Co-CEO & Director

Right, correct.

John D. Fox
Fenimore Asset Management, Inc.

Not for Ventures?

Thomas S. Gayner
Co-CEO & Director

Correct.

Operator

Operator Instructions]

Our next question is a follow-up from Meyer Shields from Stifel Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

All right. Just a brief one. When we look at the underwriting profit or the generating profit in the discontinued lines, is that sort of sporadic or is there some sort of ongoing theme that we should look for?

Thomas S. Gayner
Co-CEO & Director

That is going to be very sporadic. Those lines are discontinued. It is really legacy reserves that are now running off. And I think the small positives you have seen sporadically over the last several quarters is really just the more likely redundant and deficient philosophy of Markel playing out as we are settling our those legacy reserves. We are seeing bits and pieces of redundancy. So, I would not even attempt to project what that could look like going forward.

Operator

There are no further questions at this time. I would like to turn the floor back over management for any further or closing comments.

Thomas S. Gayner
Co-CEO & Director

Thank you very much. We look forward to updating you next quarter. See you soon.

Francis Michael Crowley
Vice Chairman

Bye bye.

Operator
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation.