Markel Corporation NYSE:MKL

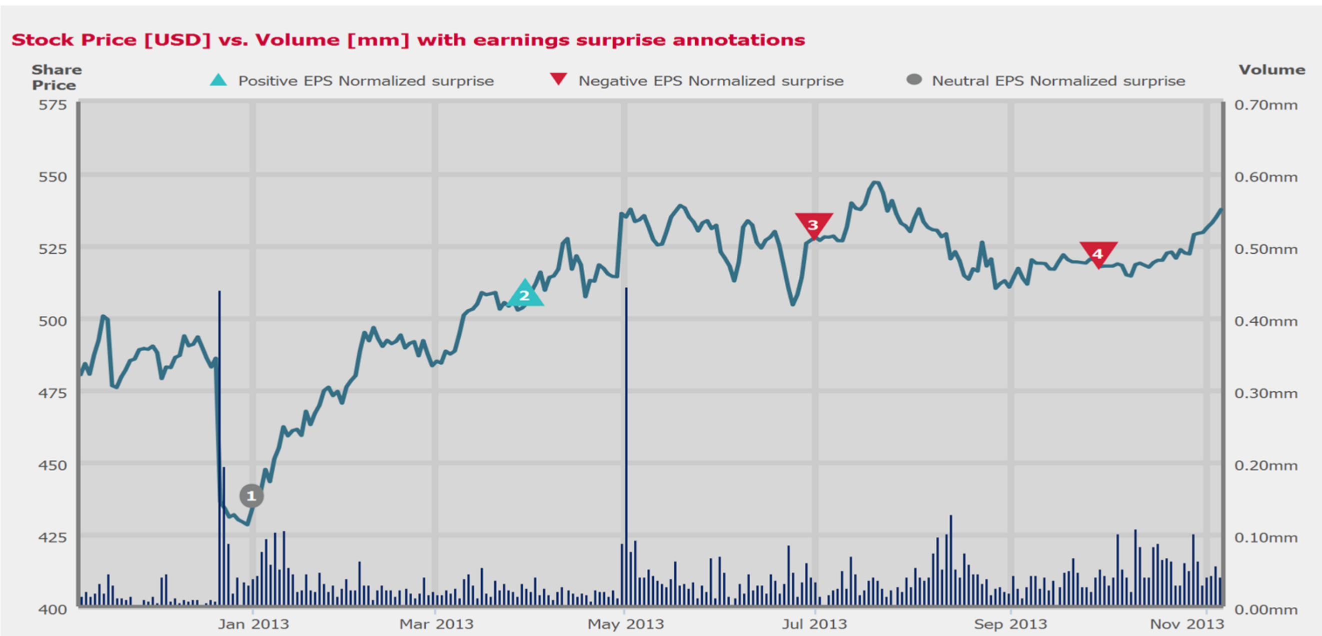
FQ4 2013 Earnings Call Transcripts

Tuesday, February 11, 2014 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	5.77	5.54	(3.99 %)	6.04	20.20	18.39
Revenue (mm)	1223.54	1279.78	4.60	1241.00	4266.84	4323.08

Currency: USD
Consensus as of Feb-11-2014 5:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	(2.81)	5.63	NM
FQ1 2013	5.47	9.50	73.67 %
FQ2 2013	5.83	5.13	(12.01 %)
FQ3 2013	6.14	4.67	(23.94 %)

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Call Participants

EXECUTIVES

Anne Galbraith Waleski
Executive VP & CFO

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Thomas S. Gayner
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Jay Adam Cohen
BofA Merrill Lynch, Research Division

John Thomas

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Matthew Berry
Lane Five Capital Management, LP

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Greetings. And welcome to the Markel Corporation Fourth Quarter 2013 Earnings Conference Call.

I would now like to turn the call over to Mr. Tom Gayner; President and Chief Investment Officer. Thank you, Mr. Gayner. You may now begin.

Thomas S. Gayner
Co-CEO & Director

Good morning. And welcome to the Markel Corporation's 2013 fourth quarter conference call. My name is Tom Gayner. With me are my colleague Anne Waleski, our Chief Financial Officer; and my Co-President's, Mike Crowley and Richie Whitt.

As always, let me remind you that 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 including 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 and on pages 5 through 7 of our press release dated February 10, 2014.

We may also discuss certain non-GAAP financial measures in the call today. You may find the reconciliation to GAAP of these measures in the press release which maybe found on our website at www.markelcorp.com under News and Events?

We are excited to tell you about the results from 2013. In a minute, Anne will give you more numbers than you'll find in a phone book, but [indiscernible] numbers can have the effect of numbing you to how much work went into producing those results.

Make no mistakes though this was a transformative year for our company on several fronts. We roughly doubled the size of our insurance business with the acquisition Alterra. We continue to profitably expand our Markel ventures operations. We enjoyed excellent returns on our publicly traded equity investments and we protected the balance sheet from credit and interest rate risk in our fixed income operations. We look forward to giving you some details on the numbers and the activities that went into that statement and as always, we look forward to your thoughtful questions.

With that, let me turn it over to Anne.

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, and good morning, everyone. Our promise to try to be a little briefer than the telephone book, I am happy to report that 2013 has been both an exciting and profitable year here at Markel.

Our financial performance for the year was strong with our investing underwriting in Markel's venture's operations all making significant contribution to our success. The challenges and the excitement generated by our acquisition of Alterra have created an environment of opportunity that is very rewarding today.

In 2013 each of our legacy underwriting segments delivered profitable growth and strong underwriting results, while the Alterra segment performed within our expectations. We have essentially completed the integration of customer facing activities and continue to make significant progress on the integration of back office systems and processes. As Tom says, we are respectful of the amount of work our associates have put forth to accomplish all that has been accomplished so far this year.

Our total operating revenues grew 44% to $4.3 billion in 2013 from $3 billion in 2012. The increase is due to a 48% increase in revenues from our insurance operations which include $853 million from the Alterra segment and a 40% increase in revenues from Markel ventures.

Moving into our underwriting results, in 2013, gross written premiums were $3.9 billion which is an increase of 56% compared to 2012. The increase was primarily due to the inclusion of $1 billion of premium from the Alterra segment since our acquisition on May 1, 2013.

As well as higher gross premium volume in the Specialty Admitted and Excess and Surplus Lines segment. The increase in the Specialty Admitted segment was driven by premiums from the Hagerty Classic order book which we began writing in the first quarter of 2013.

Within the Excess and Surplus Lines segments the increase is due primarily to the impact of more favorable rates in improving economic conditions. Net written premiums for 2013 were approximately $3.2 billion, up 46% from the prior year for the same reasons I just discussed.

Net retention was down in 2013 at 83% compared to 88% in 2012. The decrease in net retention is due to the inclusion of premiums written by Alterra. Alterra has traditionally purchased more reinsurance than Markel has.

Net retention in Alterra segment for the 8 months period since acquisition was 65%. Net retention for the legacy Markel segment was up slightly at 89% in 2013, compared to 88% in 2012.

Earned premiums increased 51%. The increase in 2013 was primarily due to the inclusion of $848 million of earned premium from the Alterra segment for the eight months ended December 31, 2013, as well as higher earned premium environment in the Specialty Admitted and Excess and Surplus Lines segments. The increase in Specialty Admitted is due to $98 million of earned premiums from the Hagerty book and continued growth as a result of the Thomco acquisition in early 2012.

Our combined ratio was 97% in both 2013 and 2012. In 2013, a lower current accident year loss ratio and lower expense ratio were offset by a lower prior accident year loss ratio compared to 2012.

The 2013 results were also impacted by the Alterra segment which added just under 8 points to combined ratio driven in part by $75 million of merger and acquisition costs and approximately $26 million of catastrophe losses.

The decrease in the 2013 consolidated current accident year loss ratio was due in part to the impact of catastrophes in 2012 and improved underwriting results within our Specialty Admitted segment in 2013 compared to 2012, partially offset by an unfavorable impact from Alterra's current year losses. The 2012 combined ratio included $107 million or 5 points of underwriting loss from Hurricane Sandy which occurred during October 2012.

The 2013 combined ratio included $411 million of favorable development on prior year loss reserves, compared to $399 million in 2012. Favorable development on prior year loss reserves in 2013 included $21 million of favorable development on Hurricane Sandy.

The benefit of the favorable development on prior year loss reserves had less of an impact on the combined ratio in 2013 when compared to 2012 due to higher earned premium volume in 2013.

The decrease in the consolidated expense ratio in 2013 was driven by higher earned premiums in our Excess and Surplus Lines, Specialty Admitted and London Insurance Market segments in 2013 compared to 2012.

The impact of transaction and other acquisition-related costs incurred by Alterra in 2013 was offset by the impact of the adoption of the new DAC accounting standards in 2012. Excluding transaction and other acquisition-related expenses incurred in 2013, the inclusion of the results of operations of Alterra had a favorable impact on the expense ratio as the Alterra segment had a lower expense ratio than Markel historically has had.

As you may have noted in the press release, we are providing additional information regarding the components of other revenue and other expenses since those two line items include not only revenue and expense from our Markel Ventures operations, but also revenues and expenses from non-underwriting activities included in our insurance operations.

Additionally, beginning with our 2013 Form 10-K, which we expect to file on February 28, 2014, we will provide additional supplemental financial information regarding Markel Ventures in our Management's Discussion and Analysis. In 2013, revenues from Markel Ventures were $686 million compared to $489 million in 2013.

Expenses from Markel Ventures were $613 million in 2013, compared to $433 million a year ago. Net income to shareholders from Markel Ventures was $24 million in 2013, compared to $13 million in 2012. EBITDA was $84 million in 2013 compared to $60 million in 2012.

Revenues and net income to shareholders from our Markel Ventures operations increased in 2013 compared to 2012, primarily due to our acquisitions in 2012 and 2013 as well as more favorable results at AMF Bakery Systems. EBITDA from our Markel Ventures operations increased in 2013 compared to 2012, due in part to acquisitions and more favorable results at ParkLand Ventures and AMF.

Other expenses for the year ended December 31, 2013 also include $28 million of expenses related to the life and annuity reinsurance business, which was acquired as part of the Alterra transaction and is included in our other discontinued lines underwriting segments.

This business is in runoff and we are not writing any new life and annuity contracts. So life and annuity reserves on existing obligations are discounted using assumptions that were determined as of the date of the acquisition. Accretion of this discount is included in other expenses.

Now, we will talk a little bit about our investment results. Investment income was up in 2013 to $317 million, compared to $282 million in 2012. Net investment income for 2013 included $74 million of investment income attributable to Alterra, which was net of $58 million in amortization expense from adjusting Alterra’s fixed maturity securities to a new amortized cost basis as of the Acquisition Date.

Net investment income also included a favorable change in the fair value of our credit default swaps of $11 million as compared to $17 million for 2012. Excluding the impact of Alterra and the credit default swaps, net investment income for 2013 decreased compared to 2012, due in part to a decrease in our holdings of fixed maturities and an increase in cash and cash equivalents.

Net realized investment gains for 2013 were $63 million, compared to $32 million in 2012. Included in net realized gains were $5 million of other-than-temporary impairments as compared to $12 million in 2012.

Looking on our total results for the year, our effective tax rate was 22% in 2013 compared to an effective tax rate of 17% in 2012. The increase in the effective tax rate in 2013 was driven by higher earnings taxed at a 35% tax rate and a smaller tax benefit related to tax-exempt investment income, which resulted from having higher pre-tax income in 2013 as compared to 2012.

We reported net income to shareholders of $281 million compared to $253 million in 2012. Book value per share increased approximately 18% to $477 per share at December 31, 2013 from $404 per share at year-end 2012. The increase is primarily due to equity issued in connection with the acquisition of Alterra and $459 million of comprehensive income to shareholders.

Finally, I’ll make a couple of comments about cash flows and the balance sheet. Net cash provided by operating activities was $746 million for 2013, compared to $393 million for 2012.

The increase was driven by higher cash flows from underwriting activities, primarily as a result of the Alterra acquisition and higher premium volume primarily in our Specialty Admitted and Excess and Surplus Lines segments. The increase was also impacted by higher cash flows from the Markel Ventures operations in 2013 compared to 2012.

Invested assets at the holding company were $1.3 billion at December 31, 2013 compared to $1.4 billion at December 31, 2012. The decrease in invested assets at the holding company is primarily the result of cash paid for the Alterra acquisition, partially offset by dividends received from subsidiaries and a net increase in debt.

I'd like to close with a couple of comments regarding 2014. First, we continued to focus on growth opportunities and we completed our acquisition of Abbey Protection, a U.K. based integrated specialty insurance and consultancy group during January 2014.

Second, in 2014, we will monitor and report our ongoing underwriting operations in the following 3 segments: U.S. Insurance, International Insurance and Global Reinsurance. The U.S. Insurance segment will include all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States.

The International Insurance segment will include all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States, including our syndicates at Lloyd's. The Global Reinsurance segment will include all of our treaty reinsurance written across the company. Results for lines of business discontinued prior to, or in conjunction with acquisitions will continue to be reported as the Other Insurance Discontinued Lines segment.

At this point, I would like to turn it over to Mike to further discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. The fourth quarter results for legacy Markel North American operations, a continuation of the trends we saw in previous 3 quarters of 2013. The E&S segment had another excellent quarter with gross written premiums increasing 11% over prior year.

Combined ratio for the quarter was 77.5%, compared to 102% in 2012. Combined ratio for the year was 80% versus 93.7% for 2012. Again, all 5 regions in the E&S segment produced higher gross written premiums versus prior year, continuing the trend that started in late 2012.

As previously reported, Bryan Sanders, assumes position of President of the E&S division on January 1st and has hit the ground running. We are very confident that he has more than qualified to fill the big shoes left by John Latham who is still on board with Markel after leading the segment to a terrific year.

Again, I would like to take this opportunity to thank John for his excellent leadership over the past few years. I'm also pleased to announce that Wendy Houser has been promoted to the position of Retail President for the Mid South region based in Plano, Texas outside Dallas. Wendy has been with Markel for over 5 years and previously served as manager for the wholesale marketing team.

In 2012, she relocated from Richmond to Texas as Managing Director, Underwriting and Production. Wendy has more than 16 years of experience in the industry and we know she will do a terrific job leading that region.

Recently, we held our wholesale agents binding and brokerage counsel meetings. These meetings are very important to us because of the candid feedback that we received from our best producers. I'm pleased to report that the feedback was very positive, encouraging and helpful in our efforts to improve operational efficiency and continuing to enhance our service and product offerings to our agents.

The Specialty Admitted segment results were also excellent. The decision to exit certain lines of unprofitable business and certain specific account, in addition to the Hagerty business and the continued improvement at FirstComp, all contributed to the improved results.

Gross written premiums increased 22% in the quarter over prior year and increased 34% for the year versus prior year. The combined ratio for the fourth quarter was 88% compared to 107% in fourth quarter of 2012 and a combined ratio for the year was 97% compared to 108% in 2012.

I want to congratulate Greg Thompson, Robin Russo, Matt Parker, Don Faison and the entire Specialty team on the execution of their plan to improve the Specialty Division results.

With regards to rate, we finished the year with low single-digit increases in almost all lines of business. The largest rate increases occurred in workers' compensation, casualty and management liability lines.

Additionally, we saw good growth in the number of lines of business with the largest growth in spec med, environmental and miscellaneous E&O.

Within our product line leadership group, we are fully staffed and well positioned to support all of our insurance division. We anticipate some potential rate softening in 2014, particularly at property lines. However, we believe our ability to attract new business at acceptable rate levels remains strong.

Special kudos go to Tom Smith and his team in sales and marketing for the outstanding job, they've done in 2013 in centralizing and coordinating our branding efforts across all divisions. Because of their excellent efforts, we are now one company with a recognizable brand and that is having a positive effect on all of our businesses.

Finally, I want to congratulate all Markel-Alterra associates for their hard work and terrific results in 2013.

I'll now turn the call over to Richie.

Richard Reeves Whitt
Co-CEO & Director

Thanks Mike. Good morning everybody. I'm going to start my comment with Markel International's 2013 results, then give a brief update on the Alterra integration and then talk a little bit about pricing trends.

Markel International finished 2013 with an 88% combined ratios that compared to an 89% combined ratio in 2012. Both years produced strong results driven by solid prior accident year reserve releases and relatively light catastrophe losses. Even with light catastrophe losses, producing double-digit underwriting returns in consecutive years is a tremendous achievement.

Want to congratulate William Stovin and the entire Markel International team on another fantastic year. Markel International's gross written premium improved 3% to $914 million in 2013. Areas of growth included our specialty book as well as our Singapore and Netherlands branches.

We continue to explore opportunities for international expansion. We were particularly pleased to recently see Lloyd's appointment as CEO and a renewed Lloyd's focus on overseas opportunities.

As Anne said, we close the Abbey deal in January of 2014. We are very excited to add the Abbey team to Markel International while still early in the process, the transition has been slow. We actually began to write majority of Abbey's business on Markel paper on January 1st.

Abbey adds unique retail products and services to our international insurance portfolio. And we see opportunities to grow. They are already strong franchises in legal expense and professional fee protection. We also believe there is a significant opportunity to cross sell Abbey's products with their existing retail product.

Now I'd like to give a brief update on our acquisition of Alterra. It's been approximately 9 months since the deal closed on May 1, 2013. However, it feels like much longer as integration efforts actually began in December of 2012 when we announced the deal. We've made excellent progress bringing the 2 organizations together and with every day that passes, things feel more and more like business as usual.

As Dan stated, Alterra's result have largely been within our expectation. This is an important statement as our expectations for Alterra were and still are very high. Within the Alterra segments, premium volume in the global insurance and reinsurance divisions have met expectations and were in line with prior year's volume.

Lines of business that will ultimately become part of Markel International and the Excess and Surplus lines division have also performed within our expectations. With the transition to our new segments in the first quarter of 2014, we don't expect to discuss Alterra as much as we have in '13. We will be excited however to spend more time talking about our various businesses.

Finally, I'd like to give a brief update on pricing trends in our January 1, 2014 renewals. Pricing trends were very consistent throughout '13 with modest single digits, price increase in those lines of business. We have tremendous diversification at Markel and the various areas of the specialty insurance market place in which we compete, do not all move at the same pace or at times even in the same direction.

Clearly, the most challenged pricing areas today are property insurance and reinsurance and casualty reinsurance. We saw significant pricing pressure in these areas throughout 2013 and in particular, on January 1, 2014 renewal. As a result, our January 1 property and casualty reinsurance writings were down modestly.

On the brighter side, pricing is still firm in Excess and Surplus in workers' compensation lines of business. Our many other lines of insurance fall somewhere in the middle of these 2 extremes.

There is much discussion and angst in the industry on where pricing trends are headed as Markel will continue to push for price increases where available and necessary. And we have the discipline and diversification to walk away from underpriced or marginal business.

With that, I'd like to turn it over to Tom.

Thomas S. Gayner
Co-CEO & Director

Thank you Richie. As we said earlier, we are delighted to report the 2013 results figures. In our investment operations, we are 33.3% on our equity portfolio in 2013, a similar return to the S&P 500. For the first 3 quarters, we were meaningfully ahead of that benchmark in a way that surprised me.

Normally in a bull market run, we would underperform the index given our conservative nature. Over the years, our best relative results tend to come about in tough times rather than when prices are moving up rapidly.

In the fourth quarter, the surprise outperformance of the first three quarters started to fade as the bull market run-up did indeed start to outpace our type of Steady-Eddie, high quality company. I have no short-term market predictions, but I can tell you that we will remain oriented towards the highest quality and most dependable companies we can find as we allocate funds to equity investments. Our long-term record of outperformance stands as a testament to validity of our approach. We continue to methodically add to our equity portfolio and we expect to continue to do so.

In our fixed income operations we broke even. We earned just enough in interest income to offset the declines in market values of a bond portfolio that came about in the rising interest rates in 2013. Our legacy Markel portfolio actually earned a slight positive return, but it was not enough to offset the effect of adding the longer duration and different credit profile of Alterra portfolio on May 1, which was just about the lowest point in year for interest rates.

Given our cash and liquidity position and the fact that interest rates have risen a bit and that the yield curve has deepened somewhat, we are beginning to invest modestly in longer-term fixed income securities. I would anticipate that our duration of roughly 3.5 years to move towards a more normal 4.5 years over the course of 2014. This should help our investment income line as we pick up additional yield from this action.

We are especially focused on adding to our municipal securities portfolio given the opportunities we see in the market. In total, we earned 6.8% on our investment portfolio in 2013. I am very pleased with those results as they contributed meaningfully to the comprehensive income of the Markel Corporation.

At Markel Ventures total revenues rose 40% to $686 million from $489 million a year ago. Our share of the EBITDA from the companies rose 39% to $83.8 million, up from $60.4 million a year ago. We continue to be very excited about the ongoing growth of Markel Ventures companies and we are optimistic about organic growth opportunities as well as additional acquisitions.

The common complaints and concern about the insurance business is that the industry is overcapitalized and prices were underpressure, well that's true. This is my 24th year in the business and that seems to have been a true statement in about 21 out of those 24 years. Despite that, we've continued to compound the capital of Markel at rates in the teens over a long period of time including last year and last

5 years. I hope you don't think it's immodest of me to say that's a pretty good record, most of which was accomplished while our stock was rated underperformed.

Oh Well! We will keep doing the things we do and you can keep doing the things you do. As to what we plan to do, we will manage our existing businesses to the best of our ability with discipline and common sense. Also given the wide and widening view that we have of the world and the forward capital in our existing insurance business, new insurance opportunities, publicly traded securities, privately held businesses, expansions and additions to the business we already owned and to the increasingly robust network of people, we know, trust and have done business with.

We look forward to continuing to report the results of these activities to you in the future and now we look forward to your questions.
With that, can you be so kind as to open the floor for questions?

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Jay Cohen with Bank of America Merrill Lynch. Go ahead with your question please.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Thank you very much. I guess, one request, one question. On the request, given that you are changing your reporting format and most of us model the stuff quarterly. If you are able to, if you could kind of restate your earnings going back a couple of years quarterly just so we have something that work off of going forward on the new methodology. So, one request.

And then the question is, we don't have a lot of detail by segment with the development, it looks like overall your accident year loss ratio excluding cats was about the highest we have seen in, I don't know 6 or 7 quarters. Given some of the pricing trends in U.S., I thought it might be heading down. I am just wondering what's going on there?

Anne Galbraith Waleski
Executive VP & CFO

Jay, what's going on there is all of Alterra is in the current accident year. So when you do the acquisition, there is no concept of prior year to push back to.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Specifically because Alterra is now fully included or more fully included in the earned premium, that's been elevating it relative to the past 6 quarters?

Richard Reeves Whitt
Co-CEO & Director

Well, we are reporting, one, 1 18 [ph] combined on the Alterra segment. Obviously a chunk of that is we are working on building a consistent margin of safety like we've always done in other acquisitions. So that's adding significantly to the current accident year as well. So, I mean, and as Anne said, there is no prior accident year when we buy a company and so we've been working, getting reserves in the right bucket, getting things to a confidence level that we are comfortable with, all that's flowing through the current accident year on Alterra.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That makes sense. I appreciate that. I do remember the Markel International acquisition and there was a year or 2 where you did have elevated accident year numbers and obviously that resulted in favorable development years later but I understand the strategy.

Anne Galbraith Waleski
Executive VP & CFO

And Jay, as regards the restatement we will go back and restate all of the periods that we show in the reports next year.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's awesome. Is that as you go or can you do that ahead of time and give us kind of a runway?

Anne Galbraith Waleski
Executive VP & CFO

It will be as you go.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Nothing you can do ahead of time to help us because otherwise we can't really model it going forward if we don't have the year before.

Anne Galbraith Waleski
Executive VP & CFO

That's not something we are planning to do.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

All right. Thank you.

Operator

Our next question comes from the line of John Thomas with William Blair. Go ahead with your question please.

John Thomas

Hi. Could you disclose the reserve development number for Specialty Admitted in the quarter?

Francis Michael Crowley
Vice Chairman

[indiscernible]

Anne Galbraith Waleski
Executive VP & CFO

[indiscernible] in the quarter the favorable reserve development was $24 million for Specialty Admitted and a piece of that was from Hurricane Sandy and the other piece of that would be flowing out of the workers comp business.

John Thomas

Okay. And then, Alterra, there was no prior year reserve development in the fourth quarter, it was all accident year?

Anne Galbraith Waleski
Executive VP & CFO

Right. Again, there's no real prior year concept in the first year of an acquisition, so it all falls into the current year.

John Thomas

Okay. And then Specialty Admitted, what would you say about how workers' comp is compared to last year on a loss trend?

Thomas S. Gayner
Co-CEO & Director

Well, as we said before, we changed our mix of business in the workers' comp. Geographically, we moved out of Southern California in a lot of ways. We've moved into more profitable states and we've also been aggressively getting rate in a number of states. As they have executed as I've said a number of times on the call, exactly according to the plan to improve the results for first comp.

John Thomas

All right. Thanks.

Operator

Our next question comes from the line of Mark Dwelle with RBC Capital Markets. Go ahead with your question, please.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

yes. Good morning. Sorry, if I'll just echo what Jay Cohen said earlier on even if you had a full-year number that gave us an idea of where the sector totals were for a full-year basis? It would give us a little bit better idea of understanding the comps as they develop throughout the year.

My first question I guess is really, Richie, you were commenting on the property and reinsurance and casualty reinsurance and you had said that they were down modestly. Are you referring to the price or the volume of premiums that you renewed at January 1?

Richard Reeves Whitt
Co-CEO & Director

That was really more talking about the volume that we renewed. I mean, depending on what you want to talk about the property insurance, property reinsurance, casualty reinsurance. I mean, you are talking anyway from 5 to 15. I would say, off in terms of price on average and there is always outliers on each side of that. And we saw things that were off 25 and 30 and we said, thank you, and things that we saw that were of less, we try to get on so. But I think the other people who have been saying 5 to 15 is sort of the average and the pricing was off. I think that's probably what we were seeing in those areas.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's helpful. And then on the prior period development, since you just gave us the Specialty Admitted, would it be possible for you to give us either the full year or the quarterly totals for the other 3 segments? Obviously, zero was Alterra, but for -- I guess the London Market and the E&S?

Anne Galbraith Waleski
Executive VP & CFO

Right. For E&S, it was $64 million for the quarter and $40 million for the quarter.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

$40 million is 4-0?

Anne Galbraith Waleski
Executive VP & CFO

4-0, that's correct.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Thank you for that. And last question I had, Tom, I just wanted to verify I don't think there were any acquisitions in Markel Ventures that added in during the fourth quarter other than previously announced ones obviously to the extent that they continued. There are no new ones in the fourth quarter, is that right?

Thomas S. Gayner
Co-CEO & Director

Yes. I think I'm looking -- Eagle closed late in the third quarter, so there would have been some contributions during the fourth quarter that would not have been there a year ago.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Correct. Okay. Thank you. That's all my questions.

Operator

Our next question comes from the line of Bob Farnam with Keefe, Bruyette & Woods Incorporated. Go ahead with your question, please.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Thanks. Just to continue on the Ventures question. So can we basically take a look at the fourth quarter and use that as a run rate excluding the idea of having additional M&A and whatnot, but is that a comfortable run rate from there?

Richard Reeves Whitt
Co-CEO & Director

As far as any other basis of judgment that sounds good to me.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And it looked like in the fourth quarter, the margin in Ventures had dropped down a bit. Was there anything that was driving that?

Richard Reeves Whitt
Co-CEO & Director

Most of that is just mix. I mean, different businesses have different levels of profitability to them and also little bit of seasonality but I wouldn't read too much into it.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And now that you have broken down some of the other income, revenue on the -- MGA revenue looked like a drop from last year to this year, so what was the driver in that?

Richard Reeves Whitt
Co-CEO & Director

That's where we've made acquisition of MGAs and then we will start converting them to been underwritten on Markel paper. So the MGA revenue goes away and you start seeing it showing up in our underwriting results. So that will continue and the next time we buy an MGA, it will go up a little bit and then start to come back down immediately as we put it on our paper.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Right. Okay. And for the Alterra segments I know you basically say, you can't show prior year development that it's all baked into the current accident year. Can you just give us an idea, a ballpark, what the prior year development would have been if you could have booked it as prior-year development?

Anne Galbraith Waleski
Executive VP & CFO

yes, I just don't think we have a good number to give you in that space. I think the best thing around Alterra is what Richie was sort of referencing. If you take out the transaction cost and look at CATS, they performed in line with expectations, taking into consideration that we're building some margins around the loss reserves to get them to the level of conservatism that would match ours.

Richard Reeves Whitt
Co-CEO & Director

yes. And I guess the other thing I would say, Bob is we've taken, let's say it was 3 quarters now, we've been using these three quarters to sort of hit the buckets where we think they need to be, not necessarily concerned about, is it prior year or is it current year. But how do we feel about the reserves on casualty, how do we feel about the reserves on workers' comp, how do we feel about reserves on reinsurance. So we're trying to line the buckets up right now. So, I'm not even sure how meaningful current year, prior year would be because we're moving reserves around to get the buckets where they need to be.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Right. And moving the buckets, I mean, basically has the reserve moves been as expected when you made the deal initially?

Richard Reeves Whitt
Co-CEO & Director

yes. I would say pretty much as we would have expected it. In total, yes, in total, certainly, when you get down to some of those individual classes, yes, we've had to move some things around. But to this point and I may have said this last quarter, the biggest surprise has been the lack of surprises.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Thank you, very good. Thanks.

Operator

Our next question comes from the line of David West with Davenport and Company. Go ahead with your question, please.

David McKinley West
Davenport & Company LLC

Good morning. Anne, couple of questions for you. The tax rate you mentioned 22% for the year, Q4 looked quite a bit lower than that, can you talk about what impacted the effective tax rate in Q4?

Anne Galbraith Waleski
Executive VP & CFO

yes, I think David, the biggest change in the fourth quarter just going from an estimated to an actual. So, I don't know there was any specific event. It's just been a matter of taking the calculation to an actual calculation.

David McKinley West
Davenport & Company LLC

I guess somewhat over accrued in prior quarters?

Anne Galbraith Waleski
Executive VP & CFO

Right, exactly.

David McKinley West

Davenport & Company LLC

Okay, all right, very good. And then somewhat of a clarification, I think you mentioned the impact of the credit default swap on net investment income. Did I get this right, was it a positive $11 million this year versus a positive $17 million last year?

Anne Galbraith Waleski
Executive VP & CFO

That's correct.

David McKinley West
Davenport & Company LLC

Okay. Do you happen to have what the Q4 impact was?

Anne Galbraith Waleski
Executive VP & CFO

Of the credit default swap, I don't have that handy data, but I am happy to call you with it.

David McKinley West
Davenport & Company LLC

Okay. I can probably back it out of -- I am sure it's in the Q3...

Anne Galbraith Waleski
Executive VP & CFO

I don't think it should be a material number frankly.

David McKinley West
Davenport & Company LLC

Okay, very good. And then Richie, you mentioned in your comments that you basically have been pleased with how things have developed at Alterra. With a year of integration activities could you kind of look back and talk a little bit about where you've maybe got your biggest pleasant surprises and where you see the biggest challenges having been?

Richard Reeves Whitt
Co-CEO & Director

Well, I think the biggest -- and Mike or Tom might want to kick in here. I think one of my most pleasant surprises has been how well the business has held up. I mean, the second you announce the deal, everybody, all of your competitors are going to look to see if there is some way they can take advantage of the transition that you're in the middle of and the volume has held up extremely well, the key people that we desperately wanted to keep and stay with us. And you would have expected some attrition on both of those items and I would say both of those have exceeded my expectations.

In terms of challenges as we continue to go forward, we have to hold on to that business and if there is a more competitive environment as we move forward, I think everybody is saying the same thing there. So we've got the challenges everybody else faces there. We've got to continue to make these people want to be part of Markel Corporation, but of course that's a challenge we have everyday with all of our employees. And then I think as Anne said, I think on the front end of the business, the client facing, I think we've got that settled down very nicely. We still have work to do to settle the dust on our processes, on our systems, sort of the back-end of the business.

Francis Michael Crowley
Vice Chairman

David, it's Mike. I will add to that, I think the people at Alterra have done a wonderful job, staying focused on their clients. And I'll also tell you in my travels around and involvement with a number of the large agent brokers that we didn't do that much business with before that the reception has been terrific from the agents and brokers. And I think we've got a wonderful opportunity with the new expanded lines that we have to grow the business.

Thomas S. Gayner
Co-CEO & Director

And David, I would like to add from the investment point of view there have been several corrections about the accounting of prior years and different buckets and all that kind of stuff. Well, there is one big giant bucket in the investment department from called cash and that all came in with the Alterra investment portfolio and they have been very pleased with the way that we are able to recraft the Alterra portfolio and turn some of the things that would not be going forward assets with Markel into cash and reallocate that. That has been a smoother and better process than might have originally been expected.

The second thing I would like to point out is sort of a secondary effect of the Alterra acquisition is that the size of deal we would look at in Markel Ventures is aided and improved and increased by the total size of the Markel balance sheet. And we are just getting to look at better quality, larger more substantial companies that have more runways than would have been the case in the past. That also comes about because Markel Ventures in and of itself is going down the learning curve and we learn and there are things that in retrospect I wish I would have done differently or lessons that we take, but there is just no way to get from here today without making some mistakes and going down learning curves, but I am very pleased with the way that that process is going. And it has been accelerated by the Alterra acquisition.

The third thing I think about as I look around the people this table and I think about what we have been through personally and professionally and just sort of strapping ourselves in the cockpit in the last year to get this done and the accomplishments beyond the people that are just in this room. It's been a very energizing thing for the Markel Corporation and it's how stars emerge and you find out the capabilities and what people can do and that bodes very well for the future of the Markel Corporation.

Richard Reeves Whitt
Co-CEO & Director

Good thing is nobody threw up with the extra Gs when we strapped ourselves in the cockpit.

David McKinley West
Davenport & Company LLC

Good to hear. Thanks so much.

Operator

Our next question comes from the line of Ron Bobmen with Capital Returns. Go ahead with your question please.

Ronald David Bobman
Capital Returns Management, LLC

Thank you. Well I was in a car with Richie once this past year and I almost threw up -- but I don't …

Anne Galbraith Waleski
Executive VP & CFO

We've all been there.

Ronald David Bobman
Capital Returns Management, LLC

But he wasn't the driver. So anyway. I had a specific question about -- I think I heard you say Worker's Comp and that you had some favorable development. Of course correct me if I'm wrong, but if I am right could you repeat the number if you provided it? And am I right in assuming that effectively that came from the FirstComp business?

Richard Reeves Whitt
Co-CEO & Director

It’s all FirstComp. Yes.

Anne Galbraith Waleski
Executive VP & CFO

It did come from FirstComp but we don’t have that number broken out.

Ronald David Bobman
Capital Returns Management, LLC

Okay. And if I remember correctly when you bought FirstComp you also maybe somewhat in similar fashion to Alterra, you brought the reserve processes and levels to a Markel size. And I was wondering how this favorable developments sort of compares in magnitude to any increase that you may have done closer to the acquisition date of FirstComp? And that's it for me, thanks.

Thomas S. Gayner
Co-CEO & Director

Yes. You know what Ron, it interesting I mean yes we did work on the margin of safety when we immediately upon the purchase of FirstComp. But one thing you have to remember about FirstComp when we purchase them is most of their business was MGA business. So there really wasn’t that significant level of reserves on the purchase date. So I would tell you most of the reduction we've taken now are actually business has been written post the acquisition and that and we're starting to see nice redundancy come out of that business.

Ronald David Bobman
Capital Returns Management, LLC

Great. Super. I hope it continues. Thank you.

Thomas S. Gayner
Co-CEO & Director

Thanks Ron.

Operator

Our next question comes from the line of Matthew Berry with Lane Five Capital Management. Go ahead with your question please.

Matthew Berry
Lane Five Capital Management, LP

Richie, you mentioned a range of experiences with rates across different lines of business. And I just wanted to refer back to historical experience, which has been at times when the market is softening, you tend to experience an increase in competition from new entrants into some of your market. You have moved out of other perhaps larger markets, and so I am thinking that when things harden people leave the Specialty and Excess and Surplus lines and get back to their original business.

So with those 2 different dynamics in mind, I know different things move in different directions at different times. But are there any particular lines of business which you tend to focus on because they are bellwethers or foreshadow a broader weakening of rate across your broad portfolio?

Richard Reeves Whitt
Co-CEO & Director

I don’t know if there is any that are necessarily bellwethers. I think what we are seeing in reinsurance market is the influx of the insurance-linked capital. That clearly is having an impact and as I kind of said in my comments, actually E&S market is holding up very nicely and we saw what we've seen during 2013, more people pulling back in the E&S market as well as benefits from the economy improving.

So I think you have to look at each of the pieces of the market on their own there. And obviously the reinsurance market is challenge right now because of this influx of new capital. The E&S market is pretty solid and hopefully that will continue. And as I said our other markets are somewhere in the middle but I would say in all 5 of our divisions we feel very good about where we fit in terms of our underwriting and our pricing.

Francis Michael Crowley
Vice Chairman

And I think -- Matt, this is Mike. With regards to E&S division, we continue to see organic growth in the fourth quarter which continues to be encouraging.

Matthew Berry
Lane Five Capital Management, LP

Okay. That’s all for me. Thank you very much.

Operator

Our next question comes from the line of Jay Cohen with Bank of America Merrill Lynch. Go ahead with your question please.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Actually my question was answered. Thank you very much.

Operator

Mr. Gayner, there are no other questions in the queue. Would you like to make closing comments?

Thomas S. Gayner
Co-CEO & Director

See you next quarter. Thanks so much. Bye-bye.

Operator
Thank you. This will conclude the teleconference. You may disconnect your line at this time. Have a great day.