S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

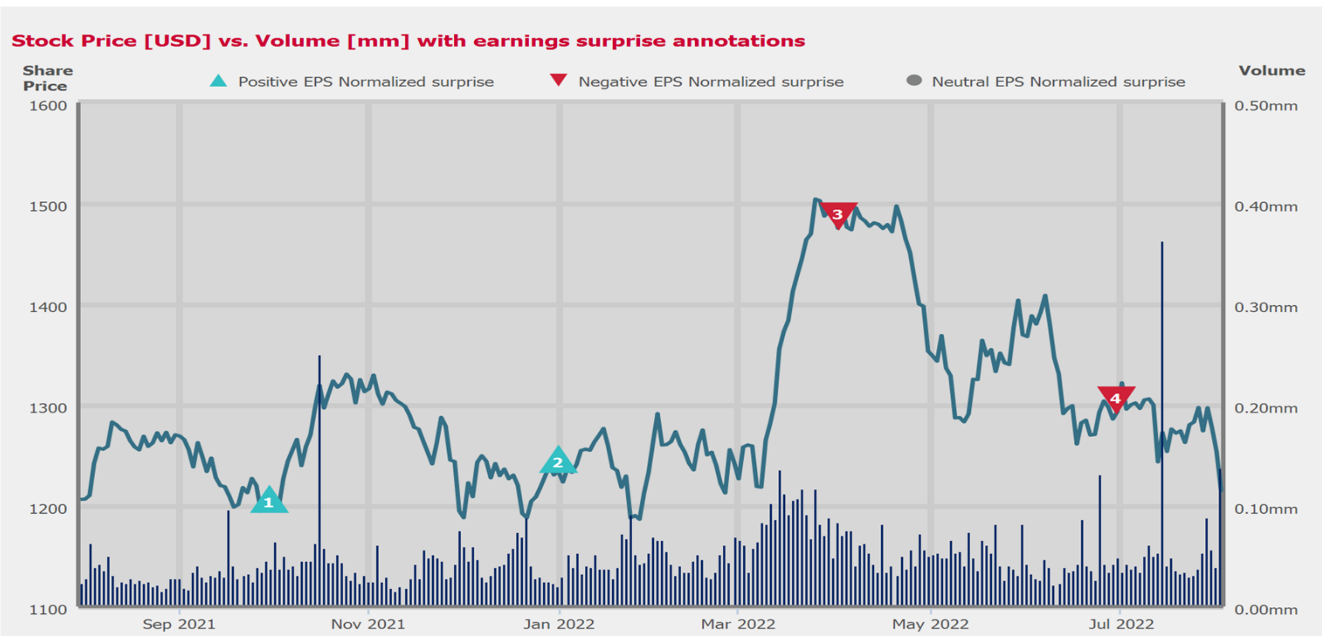
FQ2 2022 Earnings Call Transcripts

Wednesday, August 03, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	20.64	14.52	(29.65 %)	19.64	75.16	NA
Revenue (mm)	3300.32	1792.21	(45.70 %)	3190.07	11173.45	NA

Currency: USD
Consensus as of Aug-03-2022 8:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	13.28	13.79	1 3.84 %
FQ4 2021	16.10	17.01	2 5.59 %
FQ1 2022	17.00	11.34	3 (33.29 %)
FQ2 2022	20.64	14.52	4 (29.65 %)

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Call Participants

EXECUTIVES

Jeremy Andrew Noble
Senior VP & CFO

Richard Reeves Whitt
Co-CEO & Director

Thomas Sinnickson Gayner
Co-CEO & Director

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Markel Corporation second quarter 2022 conference call. [Operator Instructions].

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected into the forward-looking statements is included in our most recent annual report on Form 10-K and quarterly report on Form 10-Q, including under the captions, Risk Factors and Safe Harbor and Cautionary Statement. We may also discuss certain non-GAAP financial measures in the call today.

You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in our most recent Form 10-Q. Our Form 10-K and Form 10-Q can be found on our website at www.markel.com in the For Investors section. Please note, this event is being recorded.

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

Thomas Sinnickson Gayner
Co-CEO & Director

Good morning, and thank you, Andrea. This is Tom Gayner, and I'm pleased to welcome you to the Markel Corporation's Second Quarter 2022 Conference Call. I'm joined this morning, as usual, by my co-CEO, Richie Whitt, who will update you on our insurance engine; and our CFO, Jeremy Noble, who will speak to the overall financial results at Markel.

We are pleased with our ongoing economic performance. The first half results in our insurance and ventures engines show continued growth in revenues and earnings. The investment results require a little bit more analysis and thought to see the progress we're making, but I'm pleased with our results and our process.

I'll speak more specifically about investments and ventures after Richie in a few minutes. We always look forward to sharing our results with you. We continue to focus on building the long-term value of Markel in multiple dimensions. We continue to operate with the win, win, win focus where our customers are better off for having dealt with us.

Our associates, along with their families and communities are better off for being part of us, and our shareholders earn excellent returns on the capital needed to run this business. While these quarterly updates occur every 90 days, we think and act with a much longer time frame. We think about years and decades and generations rather than quarters, and we hope you share our long-term goals of building one of the world's great companies.

We thank you for your steadfast support of this journey. As the old saying goes, Rome wasn't built in a day and neither is Markel. The people who built Rome worked every day and so do we. This call is our 90-day update on this lifelong project, and we look forward to your thoughtful questions and comments.

With that, I'll turn things over to Jeremy to share our financial results.

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. As Tom's comments suggest, the first half of 2022 continues to highlight the benefits that come from our diversified 3-engine architecture here at Markel.

While growth in our insurance and Markel Ventures operations drove meaningful contributions to our operating results, the volatility within the public equity markets and the effects of rising interest rates on our bond portfolio significantly impacted our investment results this year.

Looking first at our underwriting results. Gross written premiums were $5 billion for the first half of 2022 compared to $4.3 billion in 2021, an increase of 18%. Our increased premium volume reflects new business volume, more favorable rates and expanded product offerings and was achieved across many of our product lines.

The most notable growth came from our professional liability and general liability product lines in both our insurance and reinsurance segments. Our consolidated combined ratio for the first half of 2022 and 2021 was a 90%. The 2022 combined ratio included $35 million or one point of net loss and loss adjustment expenses and $12.3 million of ceded reinstatement premiums attributed to the Russia-Ukraine conflict.

All of this was recognized in the first quarter and our initial estimates associated with this event remain unchanged. This compares to $68 million or 2 points of losses attributable to Winter Storm Uri and $19 million of adverse development arising from a change in our estimate of COVID-19 ultimate losses included in our 2021 combined ratio.

Excluding these loss impacts from both years, our consolidated combined ratio for the first half of 2022 was an 89% compared to an 88% for the same period in 2021. The increase reflects the impact of less favorable development on prior accident year loss reserves with our insurance segment, this year compared to last year, partially offset by a lower expense ratio and lower attritional loss ratio within our insurance segment.

Prior year loss reserves developed favorably by $123 million in the first half of 2022 compared to $226 million in the first half of 2021. In 2022, we experienced adverse development on certain professional liability product lines, primarily arising from unfavorable claims settlement and increased claims frequency. Additionally, for both our professional liability and general liability product lines, the impact of economic and social inflation has created more uncertainty around the ultimate losses that will be incurred to settle claims on these long-tail product lines.

As a result, we are approaching reductions to prior year's loss reserves cautiously. In general, on long-tail lines, we are responding quickly to increased loss reserves following any indication of increased claims frequency or severity in excess of our previous expectations. Whereas in instances where claims are trending more favorable than we previously anticipated, we will often wait to reduce our loss reserves until we have sufficient confidence that such reductions are warranted.

Turning to our investment results. Net investment losses included in net income of $1.9 billion in the first half of 2022. This was primarily attributable to a decrease in the fair value of our equity portfolio, driven by significant declines in the public equity markets during the period. This compares to net investment gains of $1.2 billion in the first half of 2021 attributable to an increase in the fair value of our equity portfolio driven by favorable market value movements. As you've heard us say many times before, we focus on long-term performance. We continue to maintain our investing discipline, understanding that periodic declines in the equity markets are to be expected and will result in variability in the timing of investment gains and losses. We will continue to measure investment returns over longer periods of time.

With regards to net investment income, we reported $166 million in the first half of '22 compared to $193 million in the same period last year. The decrease reflects the impact of losses recognized on equity method investments this year compared to income on equity method investments last year. Net investment income on fixed-maturity securities in 2022 was consistent with last year. The impact of higher average holdings of fixed maturity securities this year was largely offset by lower yield compared to the same period a year ago.

Beginning in the second quarter of this year, the book yield on new purchases of fixed maturity securities began to exceed the average book yield on our portfolio. Net unrealized investment gains decreased $837 million net of taxes during the first half of 2022. This reflects the decline in the fair value of our fixed maturity portfolio, resulting from increases in interest rates during the first half of 2022.

As a reminder, we tend to hold substantially all of our fixed maturities until they mature and our portfolio has an average rating of AAA.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased 30% to $2.3 billion in the first half of '22 compared to $1.8 billion in the same period last year. This increase reflects the contribution of revenues from our December 2021 acquisition of Metromont, and August 2021 acquisition of Buckner as well as strong organic growth across many of our other businesses, most notably in our Construction Services businesses. EBITDA for Markel Ventures was $250 million for the first half of this year compared to $220 million for the same period last year. The increase reflects higher revenues and improved operating results at our construction services and consulting services businesses as well as the contribution of Metromont.

Looking at our consolidated results for the first half of the year, we reported a net loss to common shareholders of $987 million for the first half of the year compared to net income to common shareholders of $1.3 billion in the same period a year ago. This was largely attributable to a year-over-year swing in changes in the public equity portfolio valuation.

Comprehensive loss to shareholders for the first half of '22 was $1.8 billion compared to comprehensive income to shareholders of $1.2 billion in the first half of '21. Again, this was driven by both the fixed maturity of public equity valuations.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $921 million for the first half of '22 compared to $813 million in the same period last year. Operating cash flows in '22 funded strong cash flows from our underwriting operations given the growth in premium volume. Total shareholders' equity stood at $12.8 billion at the end of June compared to $14.7 billion at the end of the year. Again, this decline is driven by declines in both fixed maturity and public equity valuations, as I previously discussed.

On July 1, we retired $350 million or 4.9% unsecured senior notes, which we prefunded and held in trust at the end of June. During the first 6 months of 2022, we repurchased 96,000 shares of our stock under our outstanding share repurchase program, which was just under $670 million remained at the end of June. Overall, we're pleased with the solid performance delivered by our insurance and Markel Ventures operations as we weather the impacts of volatility in the public equity and bond markets. We are confident in the quality and durability of our investment portfolio and on our ability to execute against our operating plans within our insurance and ventures businesses. We remain focused on building long-term shareholder value.

With that, I'll turn it over to Richie to talk more about our insurance businesses.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Jeremy, and good morning, everyone. As Jeremy said, I'll be discussing our insurance engine second quarter and year-to-date results. At the halfway point of the year, we are in a position to attain our 2022 goals for both production volume and profitability. Business production continues to be strong. We achieved 18% growth in our underwriting operations with total gross written premium surpassing $5 billion for the first half of the year. Within our program services and funding operations, we also had continued growth and are seeing expanding opportunities.

While we're still benefiting from a generally overall favorable premium rate environment, we have been seeing for the past few quarters some tempering of rate increases across certain product classes compared to a year ago. In addition to rate increases, our production growth has been significantly influenced by new business growth, development of new products and the onboarding of new program relationships, all while maintaining our focus on underwriting discipline. Our first half combined ratio of 90% is consistent with our 2022 underwriting profitability targets, get our overall target despite a decrease in our prior accident year loss takedowns in the first half of the year.

We are cautiously and consistently applying our conservative reserving philosophy as we and the entire insurance industry contend with the potential economic impacts of various forms of inflation. Our focus on expense discipline while we scale our operations continues to benefit our expense ratio with our first half expense ratio hitting 33%, a 2-point improvement from a year ago.

Now I'll discuss our year-to-date results within our insurance engine, which include our underwriting operations, program services and fronting operations and our insurance-linked securities operations.

So getting started with the insurance segment. Gross written premiums in the insurance segment were up 21% for the first half of the year with just over $4 billion in premium writings while earned premiums were up 20% for the first half of the year. We continue to realize double-digit growth rates across most of our major product lines, in particular, within our professional liability, general liability and programs product lines within both our U.S. and international operations.

The combined ratio for the first half of the year in the insurance segment was 88% compared to 87% for the first half of last year. Current year combined ratio included $20 million or 1 point of net losses related to the Russia-Ukraine war versus $43 million or 2 points of net losses last year related to Winter Storm Uri. Excluding the impact from these event losses, the combined ratio increased by 2 points due to less favorable development on prior accident year losses, partially offset by a lower current accident year attritional loss ratio and lower expense ratio.

The 2022 current accident year attritional loss ratio decreased by 2 points, spread across several product lines but most notably in our general liability and professional liability lines due to the impact from favorable premium rates and our expanded premium writings in preferred product classes. The lower 2022 favorable development on prior accident year's losses was driven by adverse development in our professional liability lines, primarily in errors and omissions and financial institutions classes on accident years 2015 to 2019. Notably, these years were the bottom of the soft market, along with lower takedowns in our general liability book.

Due to the uncertain impacts from economic and social inflation, along with the potential delays in the litigation progress -- process with contested claims, we are taking a cautious approach to realizing prior accident year loss takedowns. In particular, within our longer-tail general liability products where claims are developing in line with expectations but where claims develop slowly. Higher earned premiums while maintaining a consistent overall direct and controllable expense -- spend for the first half of the year had a favorable impact on their expense ratio, driving it down by 2 points versus the prior year.

Turning next to the Reinsurance segment. Gross written premiums within the Reinsurance segment were up 7% for the first half of the year, while earned premiums were up 6%. Premium growth was driven by higher premiums in our general liability and professional liability lines from both new business and higher renewals due in part to more favorable rates, along with the impact from favorable premium adjustments in our general liability and credit and surety lines. This growth was partially offset by lower premiums in our property and workers' compensation lines.

Our property lines continue to run off as part of the transition of our reinsurance property line to our Nephila ILS operations and the decision to discontinue writing retro property business within our underwriting operations. The reduction in workers' compensation was due to the nonrenewal of a large quota share treaty in the first quarter of '22. Combined ratio for the first half of the year within the Reinsurance segment was 97% compared to 105% a year ago.

This current year combined ratio included $15 million or 3 points of net losses from the Russia-Ukraine war compared to $25 million or 5 points of net losses last year related to Winter Storm Uri. Excluding the impact from these events, the Reinsurance segment combined ratio decreased by 6 points from a year ago, primarily due to lower adverse development on prior accident year losses. Segment had 3 points of adverse loss development this year, driven by the impact of favorable prior year premium adjustments offset in part by favorable loss development in our credit and surety property product lines.

Last year, the segment was impacted by 10 points of adverse development, primarily within our property product lines, including 4 points of development related to losses attributed to COVID-19. Our ex CAT and specific events combined ratio of 94% within our Reinsurance segment for the first half of the year continues to move towards our goal of achieving a 90% or better combined ratio within the segment. We remain positive about our current portfolio and the business written in the most recent underwriting years, but with a predominantly long-tailed portfolio, it's going to take time to prove out.

Next, I'll touch on program services and other fronting operations and our ILS operations, both of which are reported as part of our other operations. As a reminder, almost all of the gross written premium within our program services and other fronting operations is ceded. Our program services and other fronting operations continue to grow with total premium production of $1.6 billion this year versus $1.4 billion last year and produced total revenues of $64 million this year, up 14% from a year ago. Margins in this area of the business remain very strong as does the new business pipeline. Our insurance-linked securities operations consist entirely of the Nephila operations.

Operations operating revenues for the year were down versus the prior year due primarily to the disposition of Nephila's Velocity MGA operations in February of this year. As a reminder, we recognized a gain of $107 million in the first quarter this year associated with this transaction. Post the sale, Velocity continues to partner with and produce significant premiums in support of the Nephila fund management operations, and we retain a minority interest in Velocity. Nephila's assets under management within its fund management operations were $8.5 billion as of June 30.

I'll finish up with a few comments about market conditions and outlook for the second half of the year. As discussed earlier, rates continue to gradually moderate in most lines. Exceptions would be CAT exposed property in lines such as aviation, terrorism, war and political violence, which have been impacted by the Russia-Ukraine war and other recent large events. Pleasingly, submissions, new business opportunities and total premium writings continue to be very strong. Inflation in all its forms continues to be a significant focus for us and the entire industry.

As I discussed last quarter, going into '22, we had already baked more inflation into our pricing and loss reserving. As we enter the second half of the year with continued signs of inflation, we have adopted an even more cautious approach. As it has always been our philosophy, we will respond quickly to potential adverse trends and are going to be slow to recognize positive trends until they can be confirmed. Most of our products pricing basis is impacted by inflation, and this helps to some extent to offset claims trend.

However, we are not prepared to rely on this to maintain rate adequacy. We are going to continue to push for what we believe are must-have rate increases. We believe we are going to have success pushing for these rate increases as all responsible and disciplined insurance market participants must pursue rate increases to stay ahead of claims inflation. Given everything that is happening right now, I now believe that favorable market conditions will continue through the second half of the year and in 2023, but we have entered without a question, a more nuanced phase of the current market cycle. We see overall market conditions as presenting opportunities, and we believe we're well positioned to execute in the second half of the year and beyond.

Thanks for your time today and turn it over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie, and good morning. For those of you who are on the phone, we hope the call is proceeding as it is designed to do. We're getting reports that there are problems with the webcast. We're looking into that, and we are proceeding to get this tape-recorded, and we will do our best to make sure that indeed took place and give a broadcast out as soon as we put Humpty Dumpty back together on that. So with that, Markel Ventures, let me shift back to the planned program. Markel Ventures produced record revenues of $2.3 billion, up from $1.8 billion and more importantly, record EBITDA of $250 million compared to $220 million last year. As you all know, we operate a diverse set of businesses and operate in many different industries. The diversification adds to the resilience and long-term success of Markel. I am very proud of our operators who continue to run the Markel Ventures companies amidst the challenges of continued supply chain tangles, inflation, labor shortages and endless complexity.

Every single item on that list is real, and I suspect that will continue to be the case for the indefinite future. I think their performance in the face of these unrelenting challenges speaks volumes about their talent and dedication. No one knew 3 years ago what it would be like to run a business through wave after wave of disruptions in every aspect of life. Despite the lack of knowledge and a proven playbook, I can report to you that your team continues to find ways to serve their customers and their associates and report record financial results. I could not be more proud of them. While we always have some businesses with headwinds and some with tailwinds, I find the ongoing results produced by the Markel Ventures companies to be extremely gratifying.

These results continue to validate and demonstrate the value of our decentralized and autonomous approach. We work hard to find the best people and businesses we can and let them build their companies for the long term. Over the last several years, I've spoken repeatedly about the high prices in the marketplace for businesses like those that comprise Markel Ventures. I've said that we might not be able to find great acquisitions in this environment, and yet we've been able to consistently add to the roster of Markel Ventures in recent years. I'll reiterate my comment about how hard it is to find acquisitions right now, but I will report to you that several of our companies are working on adding to their businesses from their base of knowledge of people and opportunities that they know.

It's a great thing for Markel that people already on our team, proven winners who have deep industry expertise, can find and welcome additional people and businesses to the family. I'm excited about our ability to continue to grow and extend our Markel Ventures companies in a disciplined and economically fruitful way. Our culture and lengthening track record continue to spark conversations that should serve us well. On our investment engine, we reported losses during the first half of 2022. Jeremy gave you the numbers, but I think it's worth the effort to unpack the list of debt. On the front of the income statement, we reported net investment losses of $1.9 billion through the first half of 2022 compared to a gain of $1.2 billion in the first half of 2021.

Both of those numbers are largely unrealized and just displayed the normal volatility we expect from both equity and fixed income markets. Even after the first half drama of the worst first half for the S&P 500 in 50 years, we still have an unrealized gain on our equity portfolio of $4.2 billion. While that gain is down from $6.2 billion at year-end 2021, I think it's fair to say that our long-term track record of earning excellent returns in our equity portfolio remains true. The rebound in equity markets in July might foreshadow the other part of what the word volatility means when we tell the third quarter results. We'll see.

Our first half negative return of 20.6% trailed the S&P 500 return of 20% -- negative 20% by a smidge. Our returns compare very favorably to the NASDAQ 100 index first half return of negative 29.2%, and our 30-plus year record continues to be excellent. As one additional point of reference, we talk a lot about long term around Markel. Specifically, we often use a 5-year time frame to measure ourselves as well as calculate incentive compensation. Five years ago, the unrealized gain in the equity portfolio was $2.7 billion. Today, as we stated, stands at $4.2 billion, even after the worst first half start for equity markets in 50 years. Add on here are 2 other data points from the 2017 second quarter 10-Q. Our earned premium back then was a little over $2 billion during the first half of 2017 compared to $3.6 billion in the first half of 2022. We also reported revenues of $638 million at Markel Ventures in 2017 compared to the $2.6 billion we just reported for the first half of 2022.

As the great philosopher, Sheryl Crow said, every day is a winding road. She's right, the road winds, but at Markel, it seems to lead up and to the right over time. Equally, if not more important, the difference between realized and unrealized gains and losses often seems to get muddled with the way GAAP accounting works these days. The vast, vast majority of our reported gains in 2021 and reported losses in 2022 were unrealized.

We don't encore champagne when the numbers are extraordinarily good as they were in 2021, nor do we despair of the negative results of 2022. Another way of thinking about the distinction between realized and unrealized gains and losses is to think about which of our equity holdings have hope compared to those that are hopeless. I remain hopeful about our high-quality portfolio of companies earning good returns on capital, run by managers with equal measures of talent and integrity, with reinvestment opportunities and capital discipline at fair prices. We don't always get our analysis right, but we do always think about every equity we buy and own using this 4-part test. We've consistently followed this time-tested method for decades. I think the drop experienced in the first half of '22 revealed that many companies should be deemed to be relatively hopeless. The money is gone. Some high-flying stocks that wouldn't be categorized as meeting our 4-part test came crashing back down to earth, and I wouldn't hold out too much of, they'll make it back into orbit.

We do not own any securities in that category. I've categorized our portfolio as a pot of congealed hope and not hot mess of helplessness. I like our hands. In fact, we are not selling a high-quality equity securities, we're buying. When you put it all together, the market downturn we've experienced so far in 2022 creates a good economic opportunity for Markel. This is precisely the sort of environment where our 3 engine architecture really shines. Our insurance engine continues to produce solid profitability and cash.

Our ventures engine continues to produce solid profitability and cash. Also, our recurring stream of dividends and interest income actually increased to $198 million compared to $188 million a year ago. You can find those details in footnote 4D in the 10-Q if you'd like to tie up those numbers.

Rising interest rates may cause an unrealized mark-to-market loss in our bond portfolio. That is simply a matter of math and timing.

It will reverse flow following the same map and passage of time. There are no credit losses in the portfolio. The loss will amortize back to even as each bond matures. As to recurring interest income from our bond portfolio, rising interest rates, coupled with ongoing investment of the cash flows produced by our businesses, are starting to power rising investment income. The yield on new bond purchases exceeds the yield on matured bonds now.

It has been years since we've seen that fact. Similarly, our dividend income continues to grow driven by the combination of companies we own increasing their dividends and are continuing purchases of more equity securities. The combined thrust of our 3 engines powered our allocation of capital during the first half of 2022.

We purchased roughly $200 million of additional equity securities. We also repurchased roughly $125 million of Markel common stock, and we repaid $350 million of long-term debt. To summarize, I'm pleased with our recent results. We're enjoying excellent results in our insurance and ventures engines, and I think we're creating solid results in our investment engine, even though it might not look that way at the moment.

Our 3 engines are producing cash and capital. We're combining those cash flows with courage and conviction by investing in all aspects of our business in ways to continue to build the growing value of the Markel Corporation. Thank you again for your ongoing support and commitment. We cannot build this company without you, and we appreciate you. Now we welcome the chance to answer your questions.
And with that, I'll turn it back over to Andrea, and hope we're still connected.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Mark Hughes of Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You're concerned about inflation. I wonder if you could -- I think you've kind of touched on this, but I'd be interested if you could expand on it. How much is based on increasing costs that you're actually seeing within your own book or whether kind of broader inflationary pressures that are driving it or whether there are kind of specific categories that you think might impact you over time that you're focused on that are influencing your more conservative posture here?

Richard Reeves Whitt
Co-CEO & Director

Mark, I'll take a shot at this, but I'll throw it open to the table here to see how I do. Yes. I mean we are concerned -- I mean the CPI inflation is one thing, and we saw the 9.1% or whatever it was in this most recent month. And that clearly has an impact.

The other thing that we have a close eye on and they're starting to become evidence of is the social inflation aspect, which really, really addresses probably more of the severity aspect. We're watching both. And coming into the year, we were thinking hard about both, and we sort of baked more inflation into our claims trend, depending on the line of business. We're doubling down on -- I don't know if we're doubling down on that, but we are definitely going to be even more conservative as we go through the rest of the year, just given the signs that we're seeing out in the macro environment. We are probably on average, and it depends by line, but we're probably on average, 6% plus in terms of what we're thinking in terms of trend right now.

We haven't really seen current accident years misbehaving. The development that we saw in professional liability, in particular, E&O and financial institutions that was sort of in the trough of the soft market years, the 15 to 19 years. But everything trends forward. And so we have to keep an eye on the more current years, and we're just going to be more conservative as we approach those years until we have a better sense of things.

Thomas Sinnickson Gayner
Co-CEO & Director

And Mark, this is Tom. I think to some degree, part of your question would reflect is, right, how much you've seen in actual bills that you're paying in claims today versus what are you putting up there and factors for what we expect to happen in the future? And the answer is mix, but we would quantify it.

But I think Rich's point, and this is the kind of thing that we have communication with our frontline underwriters about all the time is why are rate increases necessary when we've had these rate increases and our current bills perhaps don't show that quite so much. It's our job, senior managers see round the corner a little bit. And what we're communicating and working with our frontline underwriters with is -- look, the storm is coming.

So just to make sure we get ahead of it rather than to try to catch up with it after the storm is already there. So I don't have a quantification for how much is the current year bill versus what we're preparing to be cautious for going forward. But rest assured, it's both. And that's on the insurance side.

On the venture side, the feedback loops are different. So we do see current data of what a ton of steel cost is, what an hourly wage rate is, and we need to make sure that we work hard to preserve the margins to make sure we can continue to serve our customers. Because the whole point of the way this worked is we try to make our customers happy, and we try to be there for them the day after that, the day after that and the year after that.

And in order to do that, we need to run a profitable business. So the timing and feedback loops are different in the insurance business compared to the pension businesses. But the point is this is a top-of-the-page topic on both sides of the house.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Understood. Tom, you talked about the rates continuing to gradually moderate in this environment, at the same time, submissions, new business still up strongly. What drives that? Should -- is that a little bit of a -- should those things be moving in tandem? Or why is submission growth being pretty strong even as rates are moderating?

Richard Reeves Whitt
Co-CEO & Director

Yes. It's -- I'll be honest, it's a little surprising to me particularly with signs now that the economy is starting to slow down a little bit, given what's been happening with rates and the Fed's actions. I look at it this way. We grew roughly 20% in the first half of the year. We have the flexibility to -- and we'll be talking -- we are talking to our underwriters about this. 20%, that's great, but 15% and getting rate increases is better. And so we're in an enviable position at the moment, in that we are growing, and we're going to be talking and are talking to our underwriters about really, let's talk about rate adequacy, rate margin in areas where we have solid rate adequacy and solid rate margin.

Let's look to grow in areas where we believe that's getting closer to the sort of Mendoza line. We're going to be cutting back. I said it's a more nuanced part of the market and hard markets, you're all out writing. That's not the market we're in now. We're going to be looking at rate adequacy at a very granular level. We'll continue to push forward in areas where we think that's attractive and in areas where we think it's getting too close, we're going to be pulling back.

Operator

[Operator Instructions] And our next question will come from Mark Dwelle of RBC.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A few questions. Maybe first, kind of building, I guess, on the last question, kind of just talking about some of the nuances in the pricing environment.

If the pricing is slowing, are you seeing that as an indicator that pricing has reached a degree of adequacy on a fairly broad basis? Or is it that there are beginning to be competitors who are becoming more aggressive in trying to capture share or capture new volumes?

Richard Reeves Whitt
Co-CEO & Director

Yes. I think you got to look at it line by line, Mark. As I said, there's lines where there's clearly rate adequacy. And yes, certainly, there's competition coming in and starting to compete away some of that adequacy, not all lines got to the same level of rate adequacy.

If you look at things like commercial auto, I would question if it ever got to rate adequacy. So it is going to be a line-by-line sort of analysis. And there's no question, just the fact that rates were going up has brought people back into the market, either making the assumptions or believing that there's rate adequacy where they're trying to compete. And I would say, in some areas, yes, there's certainly solid rate adequacy there. In other areas, I don't see it and don't understand why people would be increasing competition in those areas.

Mark Alan Dwelle
RBC Capital Markets, Research Division

In Professional Liability, where you added a little bit to reserves? Is that a line where rates are still below adequacy or the reserve add was more a byproduct of loss trend accelerating faster than you might have expected?

Richard Reeves Whitt
Co-CEO & Director

The years that we saw the development were really the bottom of the soft market and financial institutions was one of the areas we mentioned. I don't know what the cumulative rate change would be on financial institutions from that point in time, but it's significant. And I do think financial institutions and there's various classes even within financial institutions.

I do believe, for the most part, that has gotten to rate adequacy. And so I'm not as concerned about the more current accident years, but we are going to be watching carefully if rates come off in those areas. D&O. D&O was sort of the poster child for rates going up and rates are starting to soften there and come off in some places. We're going to be extremely careful in D&O to make sure we don't go below rate adequacy on that portfolio.

Mark Alan Dwelle
RBC Capital Markets, Research Division

That's helpful color. I appreciate that. The second question is, during the quarter, you engaged in some share buybacks. It's not that you've never done those before, but it's definitely a little bit less common appearance.

Can you just talk about how you're thinking about buybacks kind of what prompts you to get into the market? What prompts you to hang back really just a refresher because it's not something that we've seen real lately?

Thomas Sinnickson Gayner
Co-CEO & Director

Sure. Mark, this is Tom. And you're correct. The pace and amount of share repurchasing we're doing is more than we've ever done at Markel before. And I'll talk -- again, as you say, refresher, the capital allocation, triage and philosophy here is the first thing we want to do is invest in organic opportunities in the businesses we're already in.

If we've got an insurance opportunity or ventures opportunity, where we're already there, and there's the opportunity to invest capital and grow good returns with proven winners inside the tent. We're going to do that first. The second thing we would look to do is acquisitions of additional ventures or insurance companies. Third thing we would do is to purchase public equity securities. And the fourth thing that we would do is when we look at all those opportunities, and Markel stock meets that test of business producing good returns on capital run by management's equal measures of talent and integrity, with capital discipline at a fair price and Markel stock comes up, meeting all those 4 things, we're going to do that, too.

And we can do all 4 of those things at the same time. We do them 1, 2, 3, 4 but it might be the circumstance where all 4 are happening simultaneously. And I would say we're in one of those environments right now. So we're just trying to be rational and make rational decisions and what a rational decision leads me to at the moment is to say we are buying some Markel stock. So we did.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful on that. And then one last question. This is, I guess, particularly for you, Tom, and it could well be that the answer will be very similar to what you just said.

But you commented for several quarters that the pricing is very high to do acquisitions in the ventures realm. I know you've never sold a ventures unit. But should you consider being a seller? You've had many of these businesses for quite a long time. You bought them well. They've ripened nicely. Is there a time to harvest? Is there any -- is there ever a time to harvest? Maybe you can just talk about how you think about those.

Thomas Sinnickson Gayner
Co-CEO & Director

Sure. The great news is harvest happens every day in the ongoing operations of the business and the cash flows they produce. So we're not buying things to turn around and sell them. We're buying things to operate them and build them and see them grow and produce more cash, and that's indeed what they're doing.

We do not sell the business, and we don't look to because we think one of the features of culture and ethos that we have. And one of the reasons why people want to join Markel is because they share the dream of building something wonderful for a long period of time as well, not just trying to ring a bell and then everybody leaves and starts over somewhere else. The building of Markel is meant to be a generational thing, generation after generation. It's been 3 generations already. We're working on generation 4.0.

We look forward 5.0 and 6.0, and that doesn't involve selling because harvesting doesn't need to happen from selling, harvesting happens from running a good business every day and putting the cash in the storehouse and then applying that cash to further growth opportunities.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner
Co-CEO & Director

Well, thank you very much. We appreciate you sticking with us through the technical difficulties of the webcast. We'll try to figure out what happened there and get that out in a replay fashion and look forward to connecting with you soon. Thank you so much. Goodbye.

Operator
The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.