S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

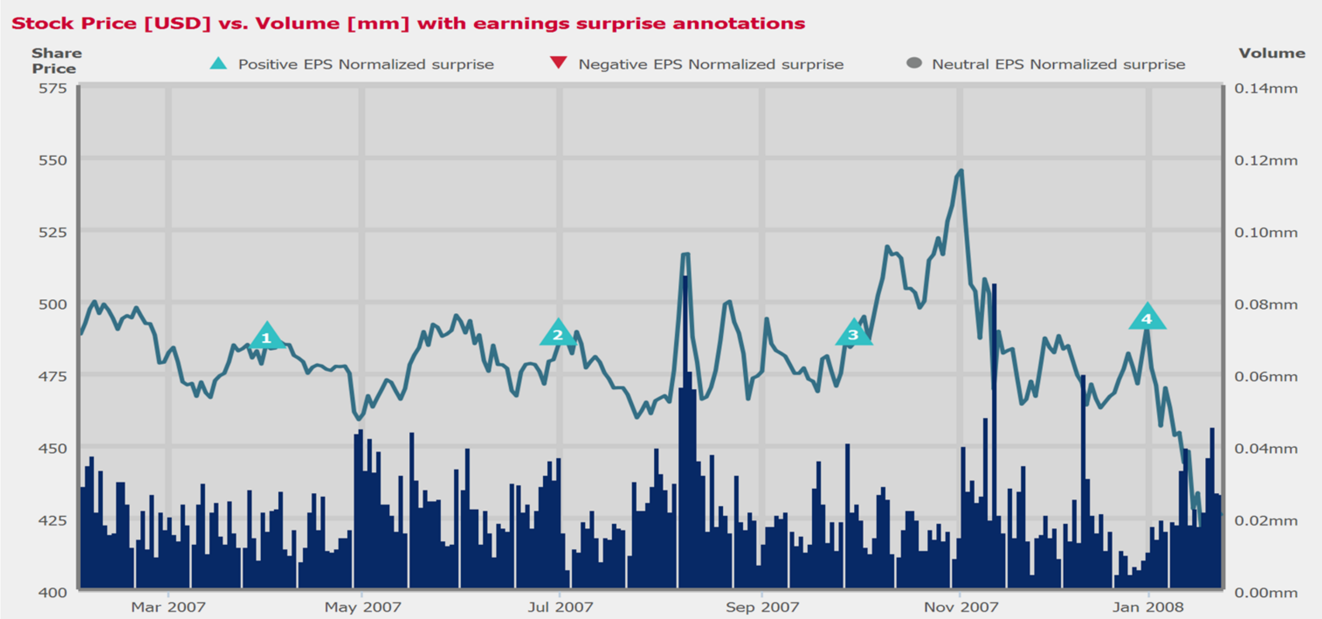
FQ1 2008 Earnings Call Transcripts

Thursday, May 01, 2008 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2008-			-FQ2 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	7.63	7.54	▲(1.18 %)	7.50	29.47	28.42
Revenue	-	-	▲(1.15 %)	-	-	-
Revenue (mm)	583.16	576.43	-	573.45	2285.94	2256.33

Currency: USD
Consensus as of May-01-2008 2:16 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2007	8.24	9.22	▲11.89 %
FQ2 2007	8.59	8.79	▲2.33 %
FQ3 2007	8.29	9.26	▲11.70 %
FQ4 2007	8.60	9.77	▲13.60 %

Table of Contents

Call Participants

EXECUTIVES

Anthony F. Markel

Paul W. Springman

Richard Reeves Whitt
Co-CEO & Director

Steven A. Markel

Thomas S. Gayner

ANALYSTS

David West
Davenport

Elizabeth Malone
KeyBanc

Jay Cohen
Merrill Lynch

John Fox
Fenimore Asset Management

Meyer Shields
Stifel Nicolaus

Unidentified Analyst

Presentation

Operator

Greetings, ladies and gentlemen, and welcome to the Markel Corporation First Quarter 2008 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Steve Markel. Thank you. Mr. Markel, you may begin.

Steven A. Markel

Thank you, and welcome to our first quarter conference call. 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.

Our quarterly report on Form 10-Q, which is filed on our website at www.markelcorp.com also provides a reconciliation to GAAP of certain non-GAAP financial measures, which we might discuss in our call today.

The first quarter was very challenging as the insurance marketplace continues to be very competitive, and in spite of pricing pressures we continue to earn good underwriting profits, albeit somewhat less than in prior periods.

The investment world is also turbulent and our results here are less than we would like. We believe we are well positioned to earn solid investment returns over the long term. The net effect of these items is that book value per share declined slightly, just under 1% in the first quarter.

In addition to our first our quarter results, we are also pleased to announce that Tony Markel is becoming Vice Chairman and will provide a more strategic focus on the company and that Paul Springman is our new President and Chief Operating Officer. Paul has been an important part of Markel's management team for many years, and the expansion of his role and responsibility is a very natural progression, and we're very confident in his ability to lead us into the future.

We will follow a similar format to prior periods. In just a few minutes, Richie Whitt, our Chief Financial Officer, will review the financial results for the quarter. Tony Markel will make a few comments and turn it over to Paul Springman, who will make his first operating report as President and Chief Operating Officer. Tom Gayner, our Chief Investment Officer, will follow Paul with the investment discussion, and I will wrap things up and deal with the questions and answers, and allocate them to the appropriate people.

With that, Richie, jump into the financial results, if you will.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Steve, and good morning, everyone. I'm going to follow the same format as past quarters. I'll start by discussing our underwriting operations, follow that up with a discussion of our investment results, and then bring the two together with a discussion of our total returns in the quarter.

As Steve said, really two key issues are impacting our first quarter 2008 results. The first is the increasingly competitive insurance market, and the second is the turbulent financial markets and their impact on our investment portfolio.

Looking at the underwriting, due to increased competition in virtually all of our markets, gross premium volume declined 9% to $570 million in the first quarter of 2008. Net written premiums also decreased about 7% to $510 million. However, retentions were higher at 89% in the first quarter of 2008 compared to 87% last year. We continue to look at all of our reinsurance contracts and look for opportunities to increase retentions where appropriate. Earned premiums decreased 6% to approximately $500 million compared to the first quarter of 2007.

Switching to our combined ratio, we reported a combined ratio of 92% in the first quarter of 2008. This compared to 87% in the first quarter of 2007. This increase was primarily the result of a higher current accident year loss ratio of 65%. This was due to price decreases as well as some adverse property losses experienced in several of our business units in the first quarter of 2008.

We estimate that the property loss impact in the first quarter of 2008 was about $10 million or 2 points on our combined ratio. The 65% current accident year compared ratio compared to about 59% current accident year loss ratio... sorry, not combined ratios compared to a 59% current accident year loss ratio in 2007. The increase in the 2008 current accident year loss ratio was partially offset by higher prior years' favorable redundancies of about 9% in the first quarter. These primarily were in our excess and surplus line segments, in our Markel Shand and Markel Essex units.

Our expense ratio increased slightly to 36% from 35% in 2007. This was primarily due to the lower earned premiums previously mentioned and to slightly higher compensation expense.

Turning to our investment results, average invested assets increased about 4% to $7.8 billion in the first quarter of 2008 compared to 2007. Investment income decreased slightly to $76 million from $77 million in 2007. This decrease was due to an unrealized loss of approximately $4 million on a credit default swap. In the fourth quarter of 2007, Markel Corporation sold credit protection on a portfolio of fixed income securities. The presence of this contract on our balance sheet and the associated accounting will add volatility to our investment income results in future periods.

Realized losses were $56 million, primarily comprised of a $72 million write-down or other than temporary decline from the fair value of ten equity securities and one fixed maturity. Approximately two-thirds of the write-downs were securities in a loss position that we were… that we no longer had the intent to hold until recovery. We had, in fact, begun reducing these positions in order to reallocate those monies to other investment opportunities. The other one-third of the write-down represented securities that had a fair value of less than 80% of cost for more than 180 days. The most significant write-down in the quarter was $36.7 million on our investment in Citigroup.

Unrealized gains also decreased $77 million before tax in the quarter, primarily due to declines in our equity portfolio. Tom will go into further detail in his comments momentarily.

Putting our underwriting and investing results together, looking at our total results for the first quarter of 2008, we reported net income of $34 million compared to $99 million in 2007. Book value per share, as Steve alluded to, decreased approximately 1% to $263 per share at March 31st.

Just two quick comments related to the balance sheet and cash flow. Regarding cash flow, operating cash flows were approximately $50 million in the first quarter compared to operating cash flows of $65 million last year. This decrease was primarily related to the decrease in volume in the first quarter of 2008. Related to the balance sheet, I want to just say that we do have some debt maturing in May of this year, $93 million of debt will be maturing. Our current plan is to use cash of the holding company to retire this maturity.

At this point, I would like to turn it over to Tony.

Anthony F. Markel

Thanks, Richie. I'd just like to echo Steve's very positive and justifiable remarks concerning the implementation of succession of Paul into the President. So before I turn it over to our new President and Chief Operating Officer for elaboration on the operations in the first quarter, I want to totally express my confidence and enthusiasm for Paul's promotion and the future of our company.

As Executive VP over the last seven years, Paul has participated in all of the operational issues, decisions, strategy, and management, and over the past 15 months, has all but assumed the full mantle of leadership as I have dealt with issues surrounding my wife's illness and subsequent passing. As a result of this total involvement, the transition to Paul's leadership on a daily basis should be virtually seamless, and I look forward to working with him in my new capacity as Vice Chairman.

So, Paul, on your first official day as President, over to you.

Paul W. Springman

Thank you, Tony, and good morning, everyone. You've just heard Steve and Richie report our numbers for the first quarter and in a few minutes, Tom will take us through our investment results. But before I begin with the operational report, I would like to take just a moment to personally thank the Markel Executive Committee, our Board of Directors, and our almost 2,000 worldwide associates for the personal vote of confidence and the opportunity that's recently been given to me.

I've been at the company long enough to realize what makes us different, what makes us special, and most importantly, what makes us profitable. I look forward to the challenge to help take this organization to the next level.

Now, let's get back to our business results. As you heard a few minutes ago, our combined operating ratio for the first quarter is 92% which represents eight solid points of underwriting profit. That's the good news. The bad news is that that's up slightly from our 2007 for the reasons that, Steve and Richie mentioned, and our gross premium volume is off by 9% over the first quarter from last year.

However, when looking at the gross premium volume numbers a little bit more closely, more than half of this premium is attributable to discontinued businesses from our alternative risk transfer unit, which we identified during the latter part of 2007 as unprofitable. There is no doubt however, that we face softening market conditions and increased competition both of which accelerated during the first quarter of this year.

Consequently, our margins are narrowing, but our underwriters do have their focus, as it has always been, on providing profitable solutions to our customers and clients that ultimately serve all of our interest best in the long run. As far as that competition is concerned, in addition to our year-in and year-out Excess and Surplus Lines, we are seeing a heightened presence from standard carriers, increased capacity, and increased risk appetite from Bermuda, and the expansion of London Syndicates, who in the last 12 to 24 months have become very visible in the US marketplace.

Simply put, there are many more sellers than buyers in today's market and prices have reacted accordingly. According to one major insurance trade association, commercial property and casualty rates fell by 13.5% in the first quarter while Markel's pricing has not decreased by quite that margin. The direction is clear and it is trending downward.

In spite of that, as I mentioned previously, we are delighted with the eight solid points of underwriting profit from the quarter and we are extremely pleased that this is the eighth consecutive quarter of underwriting profitability at Markel International. So you may be asking yourself, how is Markel coping with today's marketplace?

Let me talk about the short run first. We’ve improved our service levels in virtually every one of our business units primarily through better utilization of technology. We are trying to make it easier for our customers and clients to sharp the Markel product portfolio. Let me give you just a couple of examples. At Markel Essex, we've combined our contract property and contract casualty binding authority units during this first quarter, giving our broker clients one point of entry, and hopefully, better ease in buying products on both sides of the aisle.

At Markel Shand, we’ve implemented an automatic renewal process streamlining the handling for our broker clients, as well as our underwriters, so both parties can concentrate on larger, more complex, new business opportunities.

And at Markel Underwriting Managers, we are in the process of expanding our excess and umbrella portal, giving our brokers and their customers 24/7 access to the vast majority of our classes of business that we underwrite and entertain, so those clients can indicate, quote, bind, and issue their own policies on prearranged and predetermined guidelines and prices set by the company. We also continue to introduce new products on a rapid pace each quarter at Markel Global Marine and Energy, our newest division located in Houston, Texas.

As far as the longer term is concerned, we've recently launched what we refer to as our Atlas initiative. The Atlas initiative has four objectives. First, sell more products through Markel's existing wholesale broker network by migrating our company to a regional underwriting office concept. Second, to streamline our internal processes and focus on cost efficiencies. Third, improve our internal workflows in every unit and adopt a best practices approach where appropriate through the implementation of one common system. And fourth, to expand the opportunities for our associates inside the company, primarily in the form of learning new products and services.

All of this is predicated upon the basic assumption that being physically closer to our clients and customers will result in better service, and better service will result in more sales, and ultimately profitable growth for the company.

The prototype for this new Markel approach will be launched during the third quarter of this year in Dallas, Texas. We hope to open our doors for business in the fall, and begin quoting accounts with January effective dates. We will use this approach to expand and reorganize Markel over the next few years. Realistically, this will have negligible impact on our results in 2008, and minimal impact in 2009. However, it is a long-term growth strategy, the benefits of which should become evident relatively soon.

These are indeed interesting times but we remain committed to underwriting profitability, and ensuring that our fire, power expertise are in place until such time that more favorable market conditions exist. I look forward to your questions during our Q&A session at the end of presentations. And now I'll turn it over to Tom Gayner.

Thomas S. Gayner

Thank you, Paul, and good morning. The total investment return for the first quarter of 2008 was a negative 0.3%. The components of this return were positive 0.9% in fixed income and negative 5.4% for equity.

So far in 2008 we are actually outperforming the S&P 500 index, which started the year with a decline of 9.4%. For 2007 and 2008 together, we are only modestly behind the index, even though we have only limited exposure to the currently popular commodity sectors and large exposure to financial and consumer related firms. Included in these returns with an 'other than temporary impairment' charge of approximately $72 million.

I would like to talk about this charge for a moment. We have always carried our investments at current market values, and recorded and disclosed any changes in those valuations in our book value and comprehensive income disclosures. Under the accounting rules for 'other than temporary impairments', we show certain market value changes in the income statements. It is worth noting that this is a one-way street. Only declines are reflected in the income statement, not any increases. Subsequent increases and gains in market values will show up in the income statement, only when the securities are actually sold. All changes, up and down, will continue to be reflected in book value and comprehensive income, as has always been the case at Markel.

Approximately half of the total write-offs relate to our shareholdings in Citigroup. This has been a disappointing holding, as the company stumbled badly and did not manage the risks and day-to-day activities of its business well.

While new management is now in place, and the capital base has been augmented, the decline in the stock price and the circumstances caused us to recognize the loss on our holdings in our income statements. Fortunately, at the peak, our exposure to Citi was only 3.7% of the value of our equity portfolio. And it is a mistake from which we can both recover and learn. The other holdings, which comprised the bulk of the write-downs include Home Depot, Marsh & McLennan, and Comcast.

While these three firms have been disappointing investments, their underlying businesses are showing positive trends and in my opinion, they are not permanently set back. While it’s clearly no fun to report any negative numbers ever, they are part of the normal course of investment markets, to manage the investment portfolio in a sound productive manner, which is appropriate for us as an insurance company. It's a little easier to see the productive part of that statement, when you look at the longer-term measures such as our results over the last five years. Over that timeframe, we earned positive returns in both fixed income and equity of 4.4% and 11% respectively.

Starting in the summer of 2007, financial markets entered a period of turmoil with the blow-up of a few sub prime mortgage hedge funds serving as the detonator caps of a profound financial storm. Major institution after major institution has reported massive write-offs from ill-fated forays into a variety of overly complicated and unsound investments.

We did not stray into this area in search of extra yields or extra returns. Although clearly we don't get everything right, and we make some mistakes along the way, our unwavering long-standing emphasis on quality in all of our investing activities has served us very well through the stormy period and we do not face the troubles you see reported in the headlines.

Our emphasis on quality accomplished the most important goal for Markel. We protected our capital and maintained the balance sheet to support the insurance activities of the company. That stance continues to be the case, as it always will.

At the end of the first quarter, our allocation to equities stood at a lower-than-normal 66% of our total shareholders' equity, as we remain highly protective of our capital. By policy, our maximum allocation to equity would be 100% of shareholders' equity, and 80% would be a typical exposure level. That allows for a meaningful margin of safety to absorb equity market volatility, and still earn the higher long-term returns we've historically enjoyed from our equity investing activities.

Our lowest ever allocation to equities over the last 20 years was approximately 50% in 2000, when we couldn't find enough good ideas which met our investment discipline. Time and subsequent results justified our defensive and stubborn stance in the late '90s. Today we see and believe that there are many productive long-term investment prospects. The very good news amidst the current market environment is that this is a rare opportunity to upgrade the quality of our holdings at attractive pricing.

The very best companies are on sale, and we are building the portfolio of which we can be proud. We are prudently invested and investing in a list of proven long-term financially successful global powerhouses, while maintaining an above-average level of margin of safety to acknowledge the heightened volatility and uncertainty of the current marketplace.

The world continues to grow and develop and we are in a number of wonderful businesses at attractive prices that will benefit from this inexorable trend. In general, we have chosen to participate in this worldwide growth through companies with intangible brand values, manufacturing networks and intellectual expertise rather than direct commodity exposures.

While this puts us out of pace with certain turbocharged sectors of the market, we think we will enjoy long durable and tax efficient returns from this approach. In our fixed-income activities, we remain committed as always to high-quality bonds that match our insurance liabilities in both duration and currency. Over time that should lead to the results of earning the coupon and that does indeed continue to be the case.

As always I look forward to answering your questions and with that let me turn it over to Steve.

Steven A. Markel

Thank you, Tom. I don't have a whole lot to add, but both insurance and investment markets are proving to be very challenging. At Markel, we have both the financial and the human resources necessary to capitalize on opportunities that will inevitably come our way in this environment. It is typically turbulent environments like these that we in fact see our best opportunities for the future.

With that I would like to open the floor to your questions.
Question and Answer

Question and Answer

Operator

Thank you. [Operator Instructions]. Our first question comes from the line of John Fox with Fenimore. Please proceed with your question.

John Fox
Fenimore Asset Management

Hi, good morning, everyone. I have a number of questions. One is could you just give us a little more information on the credit default swap, and I assume that… you disclosed it's on the close to 2014, so I assume there is going to be this volatility, I guess quarter-to-quarter for quite some time. Can you just talk a little bit more about the risk there and the accounting for that?

Thomas S. Gayner

Sure, John. I will talk about the risk and invite Richie to chime in on the accounting for it.

John Fox
Fenimore Asset Management

Okay.

Thomas S. Gayner

In the fourth quarter of last year, as credit spreads widened we thought that the opportunity existed to say that that was not the normal environment, and we paid what we thought was a pretty attractive rate online where people gave us cash money today to insure against these defaults of 100 credit securities. Those 100 credit securities we selected from amidst the bonds that we already own. So it was a handpicked list of things that we had done our own credit work on. Mark-to-market accounting exists for that and will continue to be the case. We've absorbed… I don't know how much detail, Richie wants to get into, but actually a reasonable portion of potential loss through the first quarter is because... while we were early in precisely timing the point at which credits spreads would narrow rather than widen. Subsequent to quarter-end, they've actually narrowed in a bit and we would have a positive treatment from that. But if we get the cash upfront, earn interest on it, and I'll let Richie add anything on accounting.

Richard Reeves Whitt
Co-CEO & Director

Yes, John, just as Tom said, it's mark-to-market accounting. We received $30 million upfront from the counterparty to take the risk, the limit, if you will, we sort of thought of it as credit insurance. As the limit that we put out was $50 million, and that limit is exposed for the next seven years. So the max we could lose on it was $20 million. The current mark-to-market or the mark-to-market at the end of March was $37 million, so from the end of March forward the max we could lose would be another $13 million. But we felt very comfortable and still do feel very comfortable with 100 names in that portfolio. And clearly you have to mark-to-market, but the only time we pay is when there is actually a credit default.

Thomas S. Gayner

And in the meantime, we do get the income on the $30 million that we got on day one of the deal.

John Fox
Fenimore Asset Management

Right. So you would pay if any of the 100 securities default that you would have to pay on that particular one?

Thomas S. Gayner

Actually there is a deductible associated with it that gives us a little margin of error in that as well, but so many due, the answer is yes.

John Fox
Fenimore Asset Management

Okay. And then, so if I want to think about what your portfolio is throwing off in terms of interest and dividend income, you reported $76 million, and there is a non-cash charge, for lack of a better term, of 4 million from the CDS.

Thomas S. Gayner

Correct.

John Fox
Fenimore Asset Management

So throwing off about $80 million a quarter of recurring investment income.

Thomas S. Gayner

Correct.

John Fox
Fenimore Asset Management

Okay. My second question was, you alluded to us a little bit, Tom, on the other than temporary, is it your policy if something is under 80% of cost for 180 days, to just take it to 'other than temporary', even if you're not selling it?

Thomas S. Gayner

Yes. That has been our policy historically.

John Fox
Fenimore Asset Management

So a security that you mentioned on this call, Marsh Mac, which is up very strongly so far this quarter, only two months to go, but if that gain continues that would be written back up through OCI in the second quarter?

Thomas S. Gayner

No, only if we sell it, it’s [inaudible] street right in town.

Richard Reeves Whitt
Co-CEO & Director

Yes. You're correct. It would be unrealized.

John Fox
Fenimore Asset Management

So it would be unrealized through book value not through the income statement.

Thomas S. Gayner

Correct.

Richard Reeves Whitt
Co-CEO & Director

Correct.

John Fox
Fenimore Asset Management

Okay. And was there anything... you mentioned the $10 million in property. Were there any particular weather events or it was just widely dispersed?

Thomas S. Gayner

John, it's interesting. The first quarter often tends to be a bad property quarter, we obviously have a winter month.

John Fox
Fenimore Asset Management

Sure.

Thomas S. Gayner

And weather, all those sorts of things. There's nothing we can really put our finger on and so we really...we can't sit today, this is a one-time event versus a trend, so we were cautious in terms of how we reserve the first quarter property results.

John Fox
Fenimore Asset Management

Okay. That's fine. And you bought a little stock back in the quarter, your stock is trading at the lowest price to book and I think at least five years, what are your thoughts on buyback? I know capital is very precious in this environment, so do you have any thoughts on buyback at this point?

Thomas S. Gayner

I think that the answer is we'll look at the options, we're very opportunistic and believe that in this environment we will see a lot of opportunities. And so we're seeing enough opportunities that I don't feel like, we need to be too aggressive in buying back stocks with about the [inaudible], if the prices are low enough, it certainly gets more and more traffic as we get slower. But we are very well capitalized, we do not expect to see a big spike in fringe in volume. So we have the capacity to use our excess capital leases for shares repurchases or through acquisitions and we're looking above.

John Fox
Fenimore Asset Management

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Jay Cohen with Merrill Lynch. Please proceed with your question.

Jay Cohen
Merrill Lynch

I have got a number of questions. First on the Specialty Admitted segment, the gross there was actually pretty good, I think quite catch wide it was better than the other segments. What was going on there?

Thomas S. Gayner

Well, we have growth there. The Specialty Admitted segment, Jay includes the new business unit Markel global marine and energy and a lot of that business is first time business. So that's one of the reasons that you're seeing some growth in that segment.

Jay Cohen
Merrill Lynch

Great. I figured, you mentioned some debt I think $91 million of debt is maturing you could use cash to take care of that I missed the date when it was maturing.

Thomas S. Gayner

May 15th.

Jay Cohen
Merrill Lynch

Okay. Next question maybe a bigger picture. I mean clearly you're seeing some deterioration in the accident year numbers; obviously not surprising given the direction of pricing and some weather, obviously offset by still a pretty healthy amount of prior year reserve related and clearly you may have intended in the past to book the accident year conservatively, and you've seen that reserve release. I was going back through my model and there was a period from, I guess it was 2000 through '04 where you had adverse development, and I know some of that related to the Terra Nova acquisition back then, but I guess the risk in the story is acting, your numbers get worse in reserve releases turning to reserve efficiencies that you did see during that period, and I guess... are you doing something differently than you did then, to give us more confidence that you won't see a change in the reserves going from again redundant to deficient?

Thomas S. Gayner

I think, there a couple of things, Jay, you are right. The majority of the adverse development in the early 2000 period was directly a result of the Terra Nova acquisition. And there are two elements to that, one element was that in the late ‘90s and leading up to our acquisition in March of 2000, Terra Nova has been on a score of writing a lot of businesses that very, very core prices that wasn't clear to be seen until after our acquisition on [inaudible]. So there is a period of time that we needed to catch up on getting that reserves correct. In addition, even in the debt accounts of the management team in Terra Nova, we've never have tried to establish reserves at the margin of safety that Markel would normally try. Our standard is, I think unique and different to any other insurance companies, and that our goal is always to have reserves established at a level that is more likely to prove to be redundant and deficient. And so not only did we have to move the Terra Nova or down Markel International reserves from being less dramatically, but we had to build them to the point where they were on the same standard, if you will, as our U.S. reserves. That was clearly accomplished, regarding to at least few thousands that you're seeing, if you look at the International development independently, you’re now seeing similar releases in the international businesses as you are in the U.S., and that's only because not only the reserves reached, if you will, the 50-50 point, but they've reached the point where we are comfortable that they're more likely redundant to conditions. But the key element in our quarterly closing process is to try to do our very, very best to make sure that the margin and safety in our loss reserves is consistent from quarter to quarter to quarter. And so we believe as best we possibly can that the March 31 reserves are as comfortable as were the December 31 reserves and going back for as many quarters in history as you could go. It's an imprecise science, as you know, but we monitor and measure relative pricing. We read the newspapers and while our internal view is that our pricing is down somewhat, we don't think it's down as much as the industry forecast of sort of 10% to 15%. But when it comes down to selecting the reserve we pick a number that's probably closer to what we're hearing from the industry than what we're hearing from our internal folks. So we're constantly putting what we think is an appropriate margin to cover what could be bad news. We'll never know, I mean, we will know two years from now or three years from now, but at any point in time you can never be absolutely certain. But I can tell you the discipline is very, very consistent quarter after quarter after quarter, and while the redundancies may prove to be less in the future than they've been in past, I would expect, barring some unusual events, that we continue to see, the strength of our reserving process proven in the future.

Jay Cohen
Merrill Lynch

That's a good answer. I've got some other questions. I'm going to let others ask; I'll buzz in. Before I hang up, Paul, congratulations. Tony, I'm very sorry to hear about your wife; I didn't know that. So, I am sorry to hear that news.

Anthony F. Markel

Thank you, Jay.

Operator

Thank you. Our next question comes from the line of Meyer Shields with Stifel Nicolaus. Please proceed with your question.

Meyer Shields
Stifel Nicolaus

Okay, thanks. Good morning, everybody. Could we get a breakdown of the reserve releases by segment?

Richard Reeves Whitt
Co-CEO & Director

Meyer, it should be in the 10-Q for you.

Meyer Shields
Stifel Nicolaus

I think that was only for international.

Richard Reeves Whitt
Co-CEO & Director

Sorry?

Meyer Shields
Stifel Nicolaus

It was only quantified for international.

Richard Reeves Whitt
Co-CEO & Director

No, if you go to the segment reporting disclosures in the 10-Q, Meyer, you'll have this on page nine, I believe.

Meyer Shields
Stifel Nicolaus

Okay. I missed it.

Richard Reeves Whitt
Co-CEO & Director

Yes, and it should be there for all levels.

Meyer Shields
Stifel Nicolaus

Okay. Thanks.

Richard Reeves Whitt
Co-CEO & Director

Okay.

Meyer Shields
Stifel Nicolaus

That is helpful. I guess, Tom, I know very little about analyzing banks, but I would think...

Thomas S. Gayner

It turns out so do I, but go ahead with your question.

Meyer Shields
Stifel Nicolaus

Okay. I guess, based on the long-term outlook that you typically use for investments, I'm, I guess I still don't understand why Citigroup being as depressed as it is you're telling them.

Thomas S. Gayner

Well, clearly, when you make mistakes, you need to admit it, recognize it, and figure out what you can learn from it and move on. And while I agree that the price is depressed, and I agree that ten years from now it probably will continue to be one of the world's largest banks and should be a successful organization. We are at an unusual time in the markets where the highest quality things that you can have the highest degree of confidence in are also selling at bargain prices. So when you look at on a going forward basis where do you want your capital over the next five to ten years, we are just trying to make the best possible decision that we can. That is point number one. Point number two, while we recognize that charge, don't interpret immediately that we sold all that we wrote it down through other than the temporary impairments, as if we sold all of it, but that does not necessarily correspond to trade tickets.

Meyer Shields
Stifel Nicolaus

Okay. Last question, if I can. During the Berkley conference call, Bill Berkley said that he's already seen some business that had gone and standard markets coming back because they hadn't apparently understood the risks they were taking. Are you seeing any signs of that in any business that you have abandoned over the past couple of years?

Thomas S. Gayner

Only by chance or by mistake, we see the standard companies particularly aggressive right now. And I hope, Mr. Berkley is correct. But we haven't seen any real evidence of that.

Meyer Shields
Stifel Nicolaus

Okay. That's great. Thanks so much.

Operator

Thank you. Our next question comes from the line of Jack Shirk [ph] with SunTrust. Please proceed with your question.

Unidentified Analyst

Hi. Good morning. Thank you very much. I had a question about the 9% decline in gross premium volumes. You indicated that half of that premium decline was due to a discontinued businesses or businesses you decided to exit in the second half of '07. As you enter the second half of '08, will that be fully lapped or will there still be some bleed-off associated with those businesses?

Thomas S. Gayner

There is still going to be some bleed-off through '08, absolutely. And in terms of... I don't know if it's exactly half I'm actually trying to grab a number here. It's about $25 million, Paul was saying.

Unidentified Analyst

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Beth Malone with KeyBanc. Please proceed with your question.

Elizabeth Malone
KeyBanc

Thank you. Good morning. Could you just talk about what you see in general in the cycle? I mean it seems like there are a number of companies that have reported very difficult first quarter results on both the investment side and the underwriting side. Is there any hope that this has happened so quickly and so severely that we may start to see some bottoming out or recovery in the cycle sooner than you may have originally predicted?

Thomas S. Gayner

Beth, I think it's safe to say there's more capital in the property casualty industry than there are premium opportunities today. And globally the insurance premiums tend to track, although be a little bit higher than Gross National Product, to the extent that the economy is growing more slowly, that's certainly an impact. And then finally, the relative price levels are having an impact. I don't know when things will change, but we're certainly managing the business as if they're not going to change quickly.

Elizabeth Malone
KeyBanc

Okay. And then on the domestic business, those Specialty Admitted and the E&S. How much did weather, either... I know [inaudible] weather have to do with the loss ratios uptick in those two businesses in the US?

Thomas S. Gayner

The major issue, which Richard pointed out earlier, is that some of our property losses were higher and it's not specifically catastrophe, so much as just fires are more prevalent in the wintertime. So property risk tends to have more exposure in the winter months than in the summer months. So it's not really cat affected but it is, it's sort of a seasonal, if you will.

Elizabeth Malone
KeyBanc

Now, have you seen… some companies have indicated that the increase in fire losses or the severity of fire losses is goes along with a slower economic environment? Have you seen that kind of pattern?

Thomas S. Gayner

I don't know that we've directly seen that yet, but I would agree with the idea that the friction caused by mortgages rubbing up against insurance policies causes flames.

Elizabeth Malone
KeyBanc

Okay. All right, well, thank you.

Operator

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

David West
Davenport

Good morning. One question I guess is for Paul and then one for Richie. Paul, in the Q there was a very general statement that you felt like there were some pricing pressure sufficient now that it’s some lines of business, you didn't think it was really feasible to make underwriting profit. Could you maybe provide a little color on which lines of business you've been particularly concerned about and you've been particularly backing away from?

Thomas S. Gayner

Well, I think, as far as our portfolio is concerned, David we're comfortable with today's pricing. I think you see the drop in premium volumes are evidence of the fact that the market just simply doesn't support our pricing in a lot of given product areas. In the first quarter, in particular, we saw the competition accelerate in our professional liability classes that are underwritten, principally handled by our Markel Shand unit, up in Deerfield, Illinois. It's not that they didn't see competition in 2006 and 2007, but it sure seemed to change a lot from 1/1 of 2008. And that's in addition to just sort of a general drifting or trending downward in the vast majority of the rest of our property and casualty products. But I would tell you, our underwriters, with the help of our actuaries, have a keen understanding of where we drive that line in the sand and we just simply won't write business for market share or for size or anything like that. They know where the underwriting profit button is, and we just don't go past that point. And consequently we've lost some premium volume because of it.

David West
Davenport

Very good, and Richie, I've got an accounting question for you. You mentioned in your 10-Q that Markel entered into a treasury lock agreement, it sounds like you tried to potentially lock in some spreads, if you chose to refinance your debt, and you've indicated that you're probably, right now, not likely to do that. What would be the accounting treatment for that agreement if that matures in July 2008?

Richard Reeves Whitt
Co-CEO & Director

Well, we're really undecided at this point. I mean, the markets are still pretty volatile, and so we're still sort of assessing what our opportunity is to issue. But yes, we did issue those thinking we might go into the market. Right now what happens is the mark-to-market on those T-locks goes through the equity section, much like the unrealized gains and losses on our portfolio. At the time that they mature, if we haven't issued any debt, it will go through the P&L; it will go through realized gains and losses. If we were to change our intent before they mature and say that we are not going to issue, again, we would need to move that into the P&L, and take it through the P&L.

David West
Davenport

And what would be the potential loss exposure there that you indicated a fair value decline of $6 million at the end of the quarter?

Richard Reeves Whitt
Co-CEO & Director

Yes, it was down about $6 million at the end of the quarter. And reality is with the run-up in rates, I don't think we are quite to breakeven, we might be underwater by half a million or so today.

David West
Davenport

Thanks very much.

Richard Reeves Whitt
Co-CEO & Director

Thank you.

Operator

[Operator Instructions]. The next question comes from the line of Jay Cohen with Merrill Lynch. Please proceed with your question.

Jay Cohen
Merrill Lynch

My question was actually answered. Thank you very much.

Operator

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

Steven A. Markel

Thank you very, very much. I appreciate everyone participating in our call today. We appreciate your support and we wish you the best of luck and have a wonderful day. Thank you very much.

Operator
Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.