S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

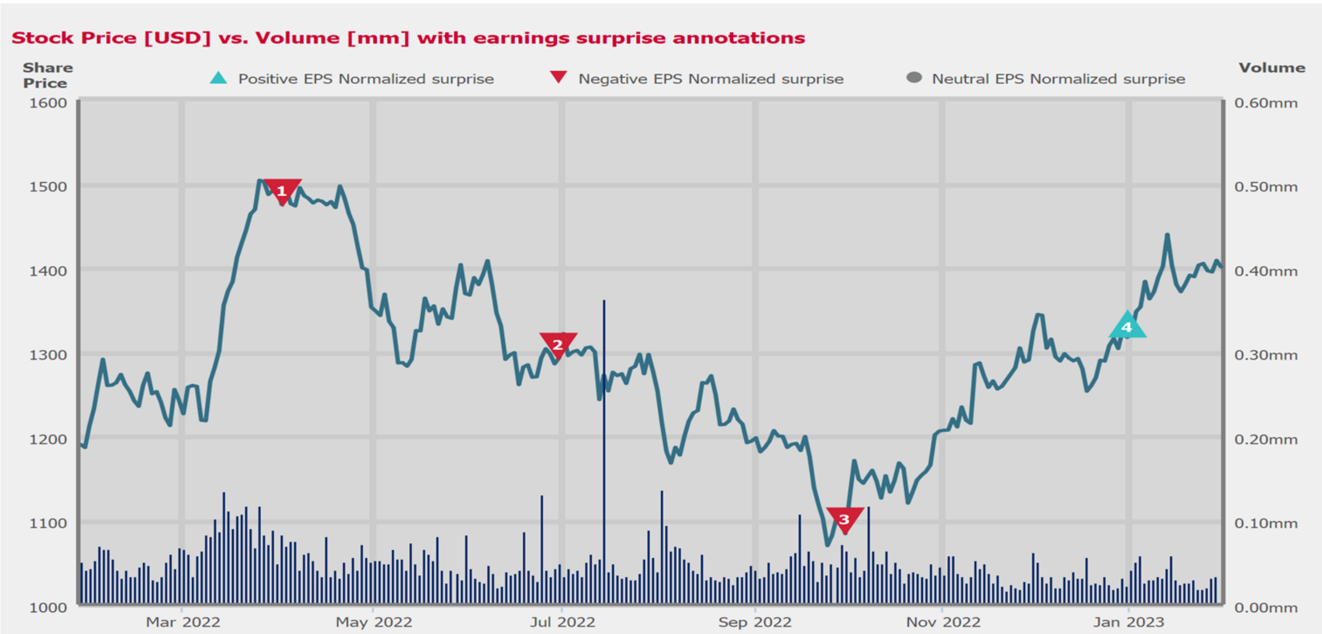
FQ4 2022 Earnings Call Transcripts

Thursday, February 2, 2023 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	18.04	25.57	41.74	18.59	66.44	58.47	(12.00 %)	82.10
Revenue (mm)	3414.65	4210.75	23.31	3396.46	10888.04	11675.34	7.23	14303.06

Currency: USD
Consensus as of Jan-10-2023 9:22 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	17.00	11.34	(33.29 %)
FQ2 2022	20.64	14.52	(29.65 %)
FQ3 2022	15.71	15.48	(1.46 %)
FQ4 2022	18.04	25.57	41.74 %

Table of Contents

Call Participants

EXECUTIVES

Brian Jeffrey Costanzo
Chief Accounting Officer, Controller & Principal Financial Officer

Jeremy Andrew Noble
President of Global Insurance Engine

Thomas Sinnickson Gayner
CEO & Director

ANALYSTS

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Good morning, and welcome to the Markel Corporation Fourth Quarter 2020 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 in the forward-looking statements is included in the press release for our 2022 results. as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q, including under the caption Safe Harbor and Cautionary Statements and Risk Factors.

We may also discuss certain non-GAAP financial measures during the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in the press release for our 2022 results. The press release for our 2022 results as well as our Form 10-K and Form 10-Q can be found on our website at www.markel.com in the For Investors section.

Note this event is being recorded. I would now like to turn the conference over to Tom Gayner, Chief Executive Officer. Please go ahead, sir.

Thomas Sinnickson Gayner
CEO & Director

Thank you. Good morning, everyone. As Brian Doyle-Murray said in Groundhog Day, "Rise and shine campers, don't forget your booties because it's cold outside." Happy Groundhog Day from Richmond, Virginia, where we're getting our first snow of the season. Doesn't happen very often around here. So I just couldn't let the occasion pass without saying something.

This is Tom Gayner, not Brian Doyle-Murray. I'm your CEO, and it's my pleasure to welcome you to the Markel Corporation year-end conference call. I'm joined today by Brian Costanzo, our Chief Accounting Officer; and Jeremy Noble, the President of our Insurance operations.

On today's call, Brian will give you a rundown on the financial results we just reported and Jeremy will follow with some comments on our insurance operations. I'll come back after them with a few thoughts about our ventures and investment operations, and then we will open the floor for any questions you might have. As a public company, the cadence of these calls is every 90 days.

Each quarter, we share our financial results with you as we hold this call. While we update you one quarter at a time, let me assure you that is not the cadence we follow in managing Markel. Our North Star remains the dual time horizon of forever and right now. We believe that the combination of the long-term time horizon embodied by the concept of forever, coupled with the discipline and urgency of the right now provides a balance that serves us well.

Quarters are like the rings inside the trunk of a mighty sequoia tree that give you a useful piece of information about one small chapter in the life of the tree, but any given ring is just one in a sequence of many. Given our longer-term focus, one of the ways we monitor our results is to look at some key numbers in 5-year buckets. We use 5-year increments to gain perspective. We also tie our incentive compensation calculations for executive management to 5-year results to demonstrate our commitment to long-term performance.

For your consideration, here are some of the 5-year numbers for the year that just ended: One, from 2018 to '22, we reported total revenues of just over $50 billion, up from $26.5 billion in the previous 5-year period. That's an increase of roughly 90%. Two, we reported earned premiums from our insurance operations of $29.5 billion, up from $19 billion. That's an increase of 55%. Three, we reported underwriting profits of $1.8 billion, up from $821 million. That's an increase of 116%. Four, we reported ILS and program services revenues of $1.7 billion, up from $44 million. That's an increase of 3,763.64% and I wouldn't extrapolate that particular number if I were in your shoes.

Five, we reported Markel Ventures revenues of just over $15 billion, up from just over $5 billion. That's an increase of 200%. Sixth, we reported Markel Ventures EBITDA of $1.7 billion, up from $600 million. That's an increase of 183%. Seven, we reported net investment income of $2 billion, up from $1.7 billion. That's an increase of about 18%. Eight, we reported comprehensive income of $3.7 billion, up from $3.5 billion. That's an increase of 6%. And finally, nine, the price per share ended at $1,317 up from $1,139 5 years ago. That's an increase of about 15%.

I hope you would share my sense of forward progress at Markel of meaningful amounts measured in meaningful amounts of time. We're excited and pleased with most, but not all of those numbers, and we're optimistic that as we grew the next 5-year batch, we'll be pleased with each line of that report. In the next 5 years, if we make the same sort of progress on the first 8 items on the list, I'll be surprised if the ninth line doesn't follow.

With that update and comment on the 5-year numbers, I'll turn it over to Brian for his comments on the 2022 results.

Brian Jeffrey Costanzo
Chief Accounting Officer, Controller & Principal Financial Officer

Thank you, Tom, and good morning, everyone. I'm happy to be with you all this morning to report the numbers from our 2022 results. our insurance and Markel Ventures operations delivered strong operating results while navigating a complex macroeconomic environment, and we're pleased with the steady growth we're seeing in the investment income generated on the investment portfolio.

While the volatility in the equity and bond markets created unrealized losses in the portfolio this year, we remain focused on long-term investment performance, which better reflects the quality and durability of our investment portfolio. Starting off with our underwriting operations. Gross written premiums surpassed $9.8 billion for the year compared to $8.5 billion in 2021, an increase of 16%.

Our increased premium volume reflects new business volume, strong policy retention levels, continued increases in rates and expanded product offerings. Our professional liability and general liability product lines continue to lead the way, but we've also achieved meaningful growth across many of our other product lines. Our consolidated combined ratio was 92% in 2022, which included $46 million of net losses attributed to Hurricane Ian and $36 million of net losses attributed to the Russia-Ukraine conflict for a combined 1-point impact to the combined ratio.

In the fourth quarter, we reduced our initial estimate for losses attributed to Hurricane Ian by $24 million. Our estimate for net losses attributed to the Russia-Ukraine conflict were recognized in the first quarter and remain unchanged throughout the year. In 2021, our consolidated combined ratio was 90%, which included $195 million or 3 points of losses on natural catastrophes.

Excluding these event losses from both years, our consolidated combined ratio in 2022 was 91% compared to an 87% for 2021. The increase reflects the impact of less favorable development on prior accident year loss reserves this year compared to last year, partially offset by a lower expense ratio. With regards to prior year loss reserve development, prior year loss reserves developed favorably by $167 million in 2022 compared to $480 million in 2021.

In 2022, we experienced adverse development on certain of our general liability and professional liability product lines within our insurance segment in the 2016 through 2019 accident years, primarily arising from unfavorable claim settlements and increased claim frequency and severity trends. As discussed in the third quarter, the impacts of economic and social inflation have created more uncertainty around the ultimate losses that will be incurred to settle claims particularly on our longer tail product lines.

And as a result, we are approaching reductions to prior year loss reserves cautiously, particularly on more recent accident years. Consistent with our reserving philosophy, we are responding quickly to increased loss reserves following indications of increased claims frequency or severity in excess of our expectations, whereas in instances where claim trends are more favorable than we previously anticipated. We are often waiting to reduce our loss reserves, and we'll evaluate our experience over additional periods of time.

Turning next to our investment results. Net investment losses included in net income were $1.6 billion in 2022 and were primarily attributable to a decrease in the fair value of our equity portfolio driven by significant declines in the public equity markets during the year. This compares to net investment gains of $2 billion in 2021 attributable to an increase in the fair value of our equity portfolio driven by favorable market movements.

As you've heard us say many times before, we focus on long-term investment performance, and 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. At the end of December, the fair value of our equity portfolio included cumulative unrealized holding gains of $4.6 billion.

With regards to net investment income, we reported $447 million in 2022 compared to $367 million in 2021. It's worth noting that these amounts are now comprised entirely of our recurring interest and dividend income from the investment portfolio. Previously, net investment income also included the income or loss recognized on our equity method investments, which are managed separately from the rest of the investment portfolio, the results from which are now included in other revenues.

The increase in net investment income in 2022 reflects the benefit of higher interest rates on our short-term investments and cash equivalents during the last half of the year as yields on these investments have increased sharply from nearly 0% a year ago. We are also beginning to see the benefit of higher interest rates within our fixed maturity portfolio through recent purchases at higher yield rates. That impact will become more meaningful in future periods as lower-yielding securities mature and are replaced by higher-yielding securities.

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 the portfolio. Net unrealized investment losses included in our comprehensive income in 2022 totaled $1.1 billion net of taxes, reflecting a decline in the fair value of our fixed maturity portfolio, resulting from increases in interest rates.

As a reminder, we typically hold our fixed maturity securities until maturity, and we generally expect unrealized losses or gains to reverse in future periods as the bonds mature. Our portfolio has an average rating of AAA, and there are no current or expected credit losses within the portfolio. Now I'll cover the results of our Markel Ventures segment.

Revenues from Markel Ventures increased 31% to $4.8 billion in 2022 compared to $3.6 billion last year. This increase reflects the contribution of revenues from our December 2021 acquisition of Metromont, and increased contribution from Buckner, which was acquired in August 2021 as well as strong organic growth across many of our other businesses, most notably at our construction service businesses.

EBITDA from Markel Ventures was $506 million for the year compared to $403 million last year. The increase reflects higher revenues and improved operating results across several businesses as well as the contribution of Metromont. EBITDA for 2022 was impacted by increased cost of material and labor across many of our businesses, which reflect the impact of broader economic conditions, including the impact of inflation on our operations during the year.

Looking next at our consolidated results for 2022. Our effective tax rate was 32%. However, this is not indicative of our ongoing effective tax rate, rather, it's a result of having a few immaterial items that combined for a net tax benefit that is being magnified by our small pretax loss for the year. We reported a net loss to common shareholders of $250 million in 2022 compared to net income to common shareholders of $2.4 billion in 2021, largely attributed to the year-over-year swing in changes to our public equity portfolio valuation.

Comprehensive loss to shareholders for 2022 was $1.3 billion compared to comprehensive income to shareholders of $2.1 billion in 2021 driven by changes in both the fixed maturity and public equity valuations. It's worth highlighting, once again, that given the magnitude of our equity portfolio, we believe generally accepted accounting principles, which require that we include unrealized gains and losses on equity securities and net income, creates volatility in revenues and net income that can obscure the strong operating performance of our businesses.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $2.7 billion in 2022 compared to $2.3 billion in 2021. Operating cash flows in 2022 reflected strong cash flows from each of our operating engines but most significantly within our underwriting operations given the strong premium volume in recent periods.

Total shareholders' equity stood at $13.1 billion at the end of the year compared to $14.7 billion at the end of 2021. Again, this decline is driven by declines in both fixed maturity and public equity investments, as I previously discussed. During 2022, we repurchased 233,000 shares of our stock under our outstanding share repurchase program versus 153,000 shares last year. With that, I will turn it over to Jeremy to talk more about our insurance businesses.

Jeremy Andrew Noble
President of Global Insurance Engine

Thanks, Brian, and good morning, everyone. It's great to be with you this morning to recap our 2022 insurance engine results. In short, we had a tremendous year with premium production in our underwriting divisions totaling just under $10 billion for the year and total revenues within the insurance engine eclipsing $8 billion. Although our combined ratio of 92% is slightly higher than our goal at the start of the year.

Overall, I am very pleased given the events and the economic uncertainties that played out over the course of the last year and continue today. Now I'll discuss our full year results across our collection of insurance businesses, which include our insurance and reinsurance underwriting operations, State National Program Services operations and Nephila insurance-linked securities operations.

Looking first at our Insurance segment. Within our insurance operations, we produced a combined ratio of 92%, while growing gross written premiums by 19%. Growth in premium production has remained strong in the fourth quarter and we continue to take advantage of new business opportunities in the specialty insurance marketplace as well as maintaining strong premium retention levels and capturing rate. We set out at the beginning of 2021 with our "10-5-1" goal within our global insurance underwriting operations to deliver $10 billion in annual gross written premiums in 5 years, targeting $1 billion in annual underwriting profits we're simplistically speaking, achieving a 90% or better combined ratio. We are well on our way.

From a production standpoint, we have capitalized on strong market conditions to significantly grow our premium base in our preferred product classes. While our 2022 combined ratio was slightly above our target, the primary reason for this was related to prior accident year loss development from the softer years of the last insurance cycle. Despite these trends, we were able to produce just under $550 million of underwriting profits within our global insurance underwriting operations for 2022.

And while this was an outstanding result, we are not planning to rest on these achievements. Our insurance leadership teams remain focused on profitable growth strategies and obtaining adequate pricing for our products in order to continue to deliver our market-leading capabilities and products to our clients. This disciplined approach is key to achieving our production and profitability goals in 2023 and beyond.

Our underwriting profitability in 2022 benefited from our efforts to reduce volatility. 2022 will be one of the costliest years on record for natural catastrophe losses in addition to exposures that we faced from the war in Ukraine, which once again validates our efforts in recent years to reduce our exposure to property catastrophe risk. Additionally, in 2022, we lowered our expense ratio by 2 more points, thanks to ongoing productivity efforts and leveraging the increased scale of our operations.

That all being said, we saw a lower benefit from favorable development on prior year's loss reserves in 2022 compared to a year ago, particularly over the second half of the year. This was most notable within certain subclasses of our longer tail professional liability and general liability lines, where we have recognized adverse development past few quarters.

Over the course of 2022, we faced significant headwinds in the form of economic and social inflation, and it became more evident that our claims trend patterns were impacted by delays in the reopening of the U.S. court system following the COVID pandemic. In reaction to these trends during the fourth quarter, we undertook a detailed actuarial and claims review around our brokerage contractors' book within our general liability product line and our risk-managed E&O and D&O books in the U.S. within our professional liability product line. We've seen an increase in claims frequency and severity in these books in recent quarters. In particular, across the 2016 to 2019 accident years, the incidence of claims being reported exceeding our expectations.

Additionally, in the case of our risk-managed professional liability lines, where we deploy larger-than-average limits. We have experienced a higher-than-expected number of losses piercing through our attachment points, coupled with increased loss severity on these claims. Our professional and general liability product lines are being adversely impacted by the heightened levels of inflation currently being experienced, including increased social inflation. Litigation and defense costs are increasing as of the cost of settlements and jury awards.

Further, as has been broadly reported, the delay in course reopening post the pandemic has introduced a change in development patterns, which are now becoming more fully understood. It is worth noting that most of the increase to reserves in the fourth quarter is sitting in IBNR. As we have discussed in earlier quarters, we continue to update and incorporate assumptions around inflation into our pricing, loss reserving and underwriting.

We remain cautious given some of the uncertainty that exists around our longer tail product lines as these books of business take years to develop. Consistent with our reserving philosophy, we're responding quickly to increase loss reserves following indications of increased claim frequency or severity in excess of our previous expectations. I would also highlight that the increase in reserves and claims reporting patterns in question were predominantly associated with the tail end of the last soft market.

Since 2019, we've experienced material rate increases, seen a tightening in terms and conditions, optimize our portfolio through underwriting action and risk selection, adjusted attachment points, manage limits and diversified our portfolios. While we are seeing size of these underwriting actions producing more positive loss experience, coupled with a decline in the number of security class action filings in recent years, we remain cautious in recognizing those benefits considering the uncertainties around the longer-term impacts of inflation.

Overall, we feel we are very well positioned heading into 2023. Despite the challenging economic environment, we are pleased with our overall results for the past 2 years and remain focused on delivering consistent top financial performance to contribute to the growth and the value of the overall Markel Corporation.

Turning next to the Reinsurance segment. We showed significant improvement this year, producing a [92%] combined for the year compared to [105%] a year ago. Our reinsurance team has done a fantastic job of re-underwriting our book and reducing volatility over the last few years, to focus on long-term profitability within our core casualty, professional and specialty product lines. We're starting to see more of the better priced business earned through the results.

Gross written premiums within the reinsurance segment were only down 1% for the year, demonstrating our ability to remix the portfolio away from property, which we serve through Nephila and growing our preferred lives. Ultimately, we're not focused on growth for the sake of growth within our reinsurance operations, but rather our energy is aimed at being a profitable, durable reinsurer that is relevant to the clients we support.

Next, I'll touch on program services and fronting operations and our insurance-linked securities operations, both of which are recorded as part of our other operations. Our State National Program Services and Nephila ILS teams continue to remain focused on capturing market opportunities and partnering with our underwriting division to take advantage of synergies and available within our multifaceted insurance platform. As a reminder, almost all of our gross written premium within our program services and other fronting operations is ceded.

Total premium production within our program services and other fronting operations totaled $3.4 billion for the year versus $3 billion a year ago. Premium growth was due to both expansion of existing programs and the addition of new programs. It was also due to growing within our other fronting operations generated from the transition of our Global Reinsurance division's property business to Nephila and opportunities we see in the property cat space more broadly.

Fee revenues were up 19% from a year ago, and the operations continued to produce strong operating margins. Despite increasing competition in this segment, we continue to see a strong pipeline of opportunities in the current market. In our Nephila ILS operations, revenues and expenses for the year were down due to the impact of selling our Velocity and Volante MGA operations in 2022.

The net loss from operations in our ILS unit was driven largely by the costs incurred in Volonte from launching a Lloyd's syndicate prior to disposition. A highlight this year from our ILS operations was our successful execution of the sale of Nephila's 2 MGA entities during the year, realizing gains of totaling $226 million and unlocking significant value created since our acquisition of Nephila in 2018.

Assets under management in Nephila were $7.2 billion at the end of 2022. As we have previously discussed, the past several years of cat activity have been particularly difficult on both Nephila and the ILS market as a whole. The multiple years of event losses, coupled with recent volatility in the capital markets have impacted investor decisions to allocate capital to ILS, reducing our level of assets under management.

Additionally, increases in the cost of capital during 2022, driven by a higher interest rate environment, further impacted the estimated fair value of our fund management operations. The combination of these factors ultimately resulted in a partial impairment of goodwill attributed to our fund management operations in the fourth quarter of $8 million.

We remain confident that Nephila will produce more favorable results over the long term. Pricing in the property catastrophe market is strong and Nephila achieved significant rate increases at the 1/1 renewals and expects to continue to capitalize on improving pricing as the year progresses, which will lead to an improved outlook for investor returns. Our team in Nephila continues to identify new areas of opportunity to deploy capital to address the evolving areas of risk management needs, including the expansion of our climate and specialty product offerings.

We also continue to look for opportunities to achieve synergies amongst our various insurance platforms, underwriting program services and ILS to provide customized insurance solutions, best matching capital risk to meet the needs of our customers. Turning to current market commentary and outlook. Submission activity and new business opportunities remained strong in the fourth quarter end at 1/1. Despite ongoing concerns around the economic slowdown and the broader macroeconomic backdrop, there's a strong need for insurance protection and risk management solutions across the wide array of products we offer.

During the fourth quarter, we saw rate increases moderate in pockets of our broad portfolio. For example, financial institutions and large account risk managed excess casualty. We also experienced modest rate decreases in our public D&O portfolio. However, most lines maintained the level of increase experienced over the year. And within our property lines, as you might suspect, rates have begun to increase meaningfully given the recent loss activity, a supply-demand mismatch and higher reinsurance costs.

As we've been discussing in recent quarters, we have entered a more nuanced phase of the our insurance market cycle where different product lines have different patterns, and we continue to face uncertainty pertaining to inflation in all its forms. As such, we remain laser-focused on rate adequacy in each account that we write, looking at -- to our underwriter stack with discipline.

Fortunately, there are a number of opportunities to grow profitably given our broad product range capabilities, global footprint, exceptional talent and strong trading relationships across multiple distribution channels. Therefore, it's incumbent upon us to be discerning and only rent business that meets our profitability targets.

With regards to our outward ceded reinsurance placements, we anticipated a challenging environment that was experienced in the fourth quarter ended 1/1. Our team did an exceptional job putting together our placements we avoided any surprises and importantly, any delays in placing our gaps in our programs. Coverage, attachment and pricing were all within expectations despite some changes year-over-year. We're well positioned to pass costs along and don't anticipate any meaningful changes to our margins or underlying underwriting strategies.

In summary, I feel good about how we are positioned heading into 2023. We'll continue to focus on the things we can control and be aware of and react to things we cannot. I want to take a moment to thank my 5,000 colleagues across our insurance businesses. Without their efforts and passion to serve our customers, these results would not be possible. Because of them, it is a joy for me to come into work. Thank you, and I'll turn things back over to Tom.

Thomas Sinnickson Gayner
CEO & Director

Thank you, Jeremy. As Brian reported earlier, reported revenues of $4.8 billion at Markel Ventures, up from $3.6 billion a year ago, and EBITDA reached a new record of $506 million, up from $403 million. I am delighted with the accomplishments of the team at Markel Ventures, and I hope you are as well.

Between the ongoing pressures and strains of supply chain issues, tight labor markets, inflation and every other sort of challenge you can imagine, the people of Markel Ventures continue to serve their customers and each other and produce excellent financial results. We continue to diligently search for additional opportunities to grow by acquisition at Markel Ventures, but we did not add any new platform companies in 2022. I hope you see this as an example of the discipline with which we allocate capital.

The rise in interest rates and the disruption in the equity and fixed income markets has caused the number of inbound calls for receiving to start to go up as 2022 progressed, and I'm hopeful that we will find attractive opportunities in 2023 and beyond. Rest assured, we will remain disciplined as we see new opportunities and only deploy capital when we expect to earn attractive returns for doing so.

Our array of businesses at Markel Ventures gives us interesting insights and observation points about general economic conditions. Supply chain and inflation issues remain, and they continue to present challenges. I hope you share my sense that the results of 2022 provides yet another year of evidence that we have a talented team on the field and that they will continue to operate the businesses of Markel Ventures with excellence.

In our investment operations, you can see the effects of higher interest rates and lower equity prices and the results that Brian reported to you a few minutes ago. I'm very optimistic about our circumstances now. First, our recurring investment income continues to rise at a meaningful pace. Each day, when we invest the cash flows from our operations, we're getting higher interest income than what is currently on our books.

We also enjoy a position of capital strength such that we are regularly and systematically adding to our equity portfolio at more and more attractive prices. We also continue to repurchase Markel shares during the year at what we believe to be attractive prices. While we reported declines in the mark-to-market prices of our equity and fixed income holdings, due to the increase in interest rates and equity market declines, we did outperform the relevant indices.

The long-term returns produced by our long-standing investment discipline remain outstanding, and I'm optimistic that will continue to be the case. Interest income and dividend income, specifically, rose 22% in 2022 from the combination of higher earning fixed income securities, higher dividend payments and steady investment of our cash flows into additional equity and fixed income holdings.

In fact, our repurchases of 233,000 shares, up from 166,000 last year and our purchases of equity securities were almost completely funded by these recurring cash flow streams. Those factors bode well for future results. Our 3 engines of insurance, ventures and investments provide diversification and resilience to Markel.
We prepare -- we are prepared to operate in whatever environment we encounter and to continue to make forward progress over long periods of time as we do so. We thank you for your commitment as long-term shareholders. We look forward to seeing you at our annual meeting in May, May 17, and we now welcome your questions. If you could open the floor for questions, please?

Question and Answer

Operator

[Operator Instructions] And we'll go first to Mark Hughes at Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

You suggested in the insurance business, most lines have maintained the pricing level that you've seen for most of the year. Could you maybe provide some specific where do you see pricing? And how does that compare to loss cost increases?

Jeremy Andrew Noble
President of Global Insurance Engine

Yes. Sure, Mark, it's Jeremy. So a few comments on that, maybe to build off what I shared. So I would say that in the fourth quarter across the total portfolio, the level of rate increases would have slightly dipped below the level of the trend that we're applying. So that was a development. But driven by some of the lines that I called out specifically, like public D&O, like financial institutions, like risk managed excess casualty, those sorts of lines. Many of the trends that have been talked about, say, for example, workers' compensation, have been pretty consistent with regards to sort of modest levels of sort of price decreases. And many other areas of the portfolio have broadly held on to the right property is certainly one that's been improving. So we're starting to see different cycles and patterns, if you will, across each of our products.

And while I think that is an interesting and unfortunate point to look at level of rate increases and to look at sort of how we're thinking about trend in those product lines, I think what we are most focused on within each of our product lines is where we are with regards to rate adequacy. And that's sort of what we incorporate into our thinking with regards to how we come into 2023 and operate throughout this year. And we'll see. I mean, I think with regards to take casualty, more broadly speaking, I think that's one for the industry to watch very carefully. I think we should be very sensitive to what's happening with regards to rate and trend in that space.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

When you say dipped below the trend that you're applying, the inflation trend, is that what you're saying that pricing is below loss cost trend?

Jeremy Andrew Noble
President of Global Insurance Engine

Yes. Yes, exactly. So level of rate increase relative to loss cost trend.

And those 2 things were moving the opposite direction over the course of 2022 loss cost trends, we were incorporating were increasing over the course of 2020, broadly speaking, and again, we write over 100 major product lines. The levels of rate increases were declining a little bit.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the adverse you saw in 2015 through 2019, do you think -- I assume that's a broader issue. You seem to be maybe a little more at the forefront in recognizing that. Do you think others will follow suit? What's your sense on how you sit compared to your peers?

Jeremy Andrew Noble
President of Global Insurance Engine

Well, I can't possibly comment on what others may see. And what I would say for us -- two stories, right? So if we take general liability within GL, we had a specific look at our brokerage contractors primary casualty book. Last few quarters, we were seeing actual claims experience exceed what we expected in our models, and we've been reacting along the way. And we decided to take a deeper look in the fourth quarter given there seems to be that trend emerging. Our main takeaway is that the ultimate claims reporting pattern may be a little bit longer than we initially anticipated. I think -- some of those causes can be the growth in the book that we experienced over the past 10 years. There's some larger project work in that book. And ultimately, that may take longer to settle. And then there's no doubt that the court closures with the pandemic length in the tail.

Those factors get exacerbated by the unfavorable legal environment that we face and a rising cost of inflation. And that is not going to be unique to us, but I can't speak to what others are sort of doing in that space. We were very cautious. We put up additional IBNR across those maturing accident years. We'll see how things play out over time. In Professional, we're speaking to our large risk-managed E&O and D&O accounts in the U.S. where we offer larger limits, we tend to play in an excess position in the years in question. We would often be in high excess positions. What we've begun to have some concern around is an emergence of a pattern where it may be more likely that our layers get implicated than we previously anticipated. And we're seeing some of that already. We've seen that in recent quarters.

The good news is, right, in that quote, there's not much of a claim reporting sale. We're talking a claims-made book of business. It's a finite claims universe. And so we got our underwriting claims and actuarial teams together in the fourth quarter, took a deep dive. Ultimately, concluded that we would take a more pessimistic view with regards to how many claims we could be exposed to. There's no doubt in my mind the rising costs to defend, increasing settlement amounts are linked with a more inflationary environment we're experiencing, and that's the impetus for our development. Again, that isn't going to be unique to us, but I can't speak to how others are handling that. The years in question as well on the professional side, they correspond in the peak years for security class action filings, lower court dismissals and now that's kind of playing out.

Importantly, I think across our books of business, those were experiencing on the tail end of the last soft insurance market cycle. Since then, we've had the better part of 4 years of rate increases, and we've done a lot on the underwriting side, terms, conditions, limits profiles, attachments. We've seen retentions increase from clients. So we've taken a lot of underwriting action and now we'll just take a very sort of cautious view on the most recent years, and we'll see how that plays out. As you know us, we react to bad news very quickly, and we're pretty cautious with regards to the economic backdrop at the moment.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes, sure. But on the reinsurance side, what's your appetite to grow as you see pricing here in your target line?

Jeremy Andrew Noble
President of Global Insurance Engine

Well, I think that's the part. It's a little bit down to the appetite. So we certainly have the ability to grow and the capital to deploy supporting growth if we're happy with the pricing and the terms and condition on the environment. I mean it is the case that while property got a lot of the headlines around 1/1, casualty, professional specialty lines where we play, definitely reformer acting as a more disciplined market and we will see improvements with regards to coverage attachment and pricing in our portfolio as we move this year. We will opportunistically take advantage where it makes sense in that space.

Operator

We'll move next to Scott Heleniak at RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Just had a few quick ones here. I wanted to ask about the other services unit that had higher revenues than normal. And I don't know if there's anything related to ILS or performance fees or anything in there. It was higher revenue and then higher operating income. Just trying to kind of break down what's going on there, just to look at what's -- any kind of unusual or non-recurring type items to get kind of a run rate there, if you have any additional color on that.

Jeremy Andrew Noble
President of Global Insurance Engine

Sure. And there's tables that will sort of break some of that detail out, Scott. So I mean, the -- I probably touched on some of the more unusual one-off non-recurring items, like gains from the disposition of businesses or like impairment [indiscernible]. On the core operating earnings, driven more by our State National Program Services side and that's linked to just the profitability of that business. On the fund management side, I commented on sort of expenses -- revenue trends with regards to the sale of MGAs being in the period last year versus this year. Broadly speaking, our fund management operations are slightly profitable on the cat side -- property cat side, offset by being slightly unprofitable where we're investing in sort of the climate and specialty space. But most of what you're seeing in that space is coming through the strong performance on our Program Services side.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. And then the -- you mentioned the property rate increases, which is everyone's been talking about that that's improving. So I know on the reinsurance side, but on the insurance side, is that something you're going to have a significant appetite to start ramping up? How are you feeling about the property side of it, given where pricing is now?

Jeremy Andrew Noble
President of Global Insurance Engine

Yes. We worked really hard in the last few years to reduce -- so property had multiple stories to it, right? I mean there's obviously the catastrophe side and sort of the non-catastrophe side. We worked really hard over the last few years to manage our total aggregate exposure to natural catastrophes, our [PML] is in that space. And I don't think we're going to change or revisit that position to any great extent. But we do play in that space. We do have a meaningful property portfolio. We will benefit from the rate increases in our property portfolio, where we deploy capacity without a doubt. We can see and strategically grow in that area a little bit. And I think we'll also benefit from even on the attritional side, it's what's happening in the rate increases. So we're really focused on sort of managing our aggregate exposure. We'll opportunistically use this as a time to optimize our portfolio. I would not anticipate or expect any significant change in our underlying strategy with regards to property.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's what I figured, but I also figured I'd ask other. The other question is switching gears a little bit, just on the venture side, pretty strong quarter in terms of revenue and bottom line. Any areas of strength you can call it? I think you had mentioned construction in there, but anything else you can call out? And then also in terms of just -- it seemed like the profitability was much better than it had been in the past few quarters, and I don't know if there's anything that drove that just kind of rate increases and maybe cost manager or anything else that's kind of played out there?

Thomas Sinnickson Gayner
CEO & Director

Well, what I would call out is try to get a restaurant reservation, try to get a flight, try to get a hotel room, try to buy a car. And the economy is doing pretty well. The demand is out there. And I just think our managers do a very good job of running their businesses. And fortunately, no, it's not some cost-cutting program or regime or big layoffs or anything like that. We don't have that going on. We have people who run their businesses every day, and they're pretty good at it.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just one last one, too, just on the expense ratio. You made significant improvement in 2022. And should you think we should expect any further improvement on that? Or is it -- do you think it's sort of leveled out there? I know a lot of that was driven by premium leverage.

Jeremy Andrew Noble
President of Global Insurance Engine

Yes, you nailed it right there at the end, Scott You'll [indiscernible] us see and observe it as we go through the year, it will depend on sort of the trend, I think, with regards to net earned premium, which will follow the trend with regards to how we see gross written premium play out. And a lot of that story for 2023 is going to be looking at kind of the pricing environment and the trend that we were talking about before. So we are really pleased with the progress that we've been making in the expense ratio, focused on productivity and the ability to scale off our expense base as we've grown. I think we can continue to do that. I don't know it will be at the rate that we've seen in the last couple of years.

Operator

And we'll take a follow-up from Mark Hughes at Truist.

Mark Douglas Hughes

Truist Securities, Inc., Research Division

I wonder, any thoughts on the 2020 and 2021 accident year? How those -- have those been subject to the same forces I know the initial frequency and severity was low as a result of COVID? Or I assume you would see it that way? I'm just sort of curious whether they are also developing adversely maybe from a much better position to start with.

Jeremy Andrew Noble
President of Global Insurance Engine

A couple of things I'd point to, Mark. So when you start talking about in the longer tail lines, accident years by 2020 and '21. And then clearly, the current one with regards to '22, right? It takes a while to see an emergence of claims activity. So we're not kind of at that sort of seasoning yet. So we're not seeing unexpected claims activity. Additionally, as I mentioned before, the improvement in the broader sort of specialty insurance marketplace, with regards to pricing, terms and conditions, underwriting actions, right, that's a contrast with the hardening and the improvement in the insurance market that started to take place in 2019 and carried through 2022. So that creates, I think, a different dynamic on the more recent years in the past year. What I would suggest, and even sort of what we talked about this year with regards to the current accident year loss ratio, we're taking a very cautious view, right, given the sort of the economic backdrop. We're not seeing anything that's unexpected or unpleasant on the most recent years.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Understood. And then what was the impact of your Hagerty investment on the P&L in the quarter?

Thomas Sinnickson Gayner
CEO & Director

Not very much.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Okay. Your total equities at the end of the quarter was at $4.6 billion?

Thomas Sinnickson Gayner
CEO & Director

No, that's...

Jeremy Andrew Noble
President of Global Insurance Engine

[indiscernible] unrealized gain. That's what we paid for it.

Thomas Sinnickson Gayner
CEO & Director

$4.6 billion more than we paid for it.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes, yes. What was the total balance on your equities at the end of the quarter?

Thomas Sinnickson Gayner
CEO & Director

Looks like 7.6 publicly traded equities.

Operator

And 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

CEO & Director

Thank you very much for joining us. We look forward to hearing from you on the next call and seeing you in Richmond at our annual meeting on May 17. Thank you so much. Bye-bye.

Operator

The conference call has now concluded. Thank you for attending today's presentation. You may now disconnect.