S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ3 2021 Earnings Call Transcripts

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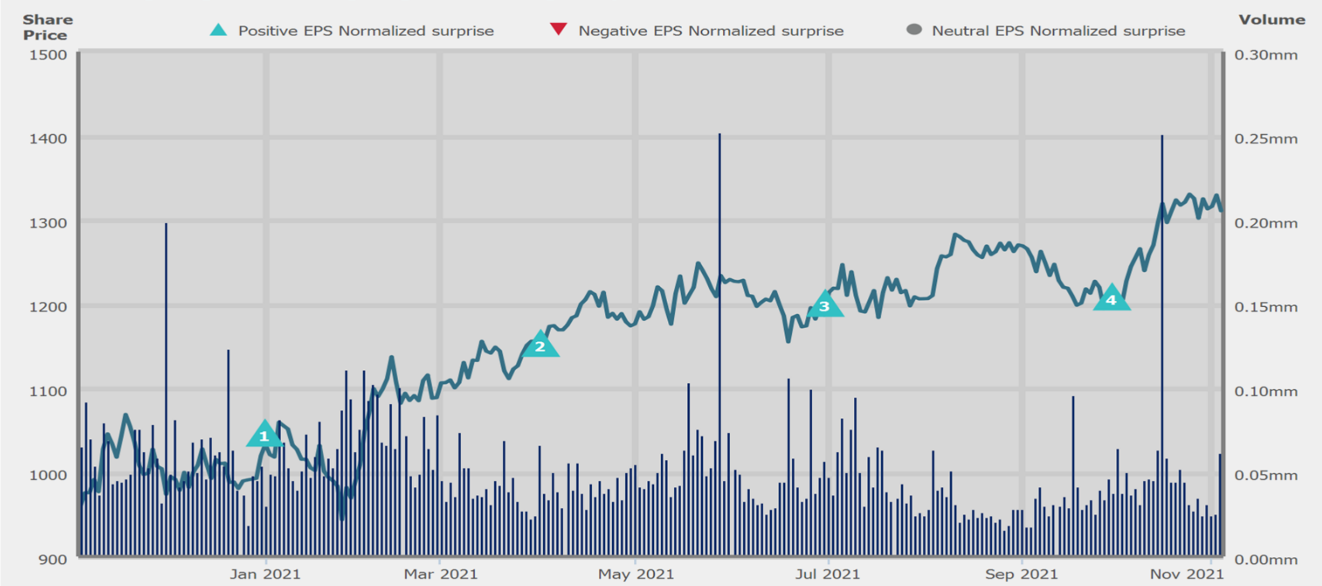
S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	13.28	13.79	▲3.84	15.70	57.37	NA
Revenue (mm)	2758.73	2687.35	▼(2.59 %)	2791.30	11538.79	NA

Currency: USD
Consensus as of Nov-03-2021 10:27 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	9.53	13.86	▲1 45.44 %
FQ1 2021	10.58	42.02	▲2 297.16 %
FQ2 2021	15.40	18.28	▲3 18.70 %
FQ3 2021	13.28	13.79	▲4 3.84 %

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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

John D. Fox
Fenimore Asset Management, Inc.

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 Third Quarter 2021 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 these 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 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, which can be found on our website at www.markel.com in the For Investors section. Please note today's 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. This is indeed Tom Gayner, and it is my privilege to welcome you to the third quarter update call for Markel.

Markel operates as a long-term organization with the preferred time horizon of infinity. We're all dedicated to the idea of building one of the world's great companies, and we mean to do it forever. We're doing this as a public company. And as so, we file quarterly financial statements every 90 days. In accordance with that cadence, we host this call where we try to update you, our business partners, with updated quarterly financial information. We also try to share some comments and context on current conditions in our businesses and thoughts on what we're working on these days.

I'm joined this morning by my Co-CEO, Richie Whitt; and our CFO, Jeremy Noble. Jeremy will speak to the overall results for the first 9 months of 2021. Richie will then update us on our insurance, reinsurance and ILS operations, and then I'll return with a few comments about our investment activities and our Markel Ventures operations. After that, we'll open the floor for your questions.

We deeply appreciate you, our shareholders, and the long-term partnership and shared sense of purpose that we have with you. We appreciate the opportunity to connect through this forum, and we look forward to your thoughtful questions.

With that, I'll turn it over to Jeremy.

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. It's hard to believe that we are already in the final quarter of 2021, but I am happy to report that through 3 quarters it's been a very good year. All 3 of our operating engines are adding value to Markel and contributing to our efforts to build shareholder value.

Starting off with our underwriting operations. Gross written premiums were $6.3 billion for the first 9 months of 2021 compared to $5.4 billion in 2020, an increase of 17%. Our increased premium volume reflects both strong growth in new business as well as ongoing favorable pricing trends across most of our product lines, most prominently within our professional liability and general liability product lines in both our Insurance and Reinsurance segments.

Retention of gross written premiums was 84% for the first 9 months of 2021, up less than 1 point from the same period last year. Earned premiums increased 15% to $4.7 billion for the first 9 months of 2021 versus the same period last year, primarily due to higher premium volume in our professional liability and general liability product lines.

Our consolidated combined ratio for the first 9 months of 2021 was 91%, which included $182 million or 4 points of losses from natural catastrophes, including Hurricane Ida, the floods in Europe and Winter Storm Uri, compared to our combined ratio of 101% for the same period of 2020, which included $372 million or 9 points of losses from COVID-19 and $102 million or 2 points of losses from natural catastrophes. Excluding the loss impacts of catastrophes and COVID-19 in both years, our consolidated combined ratio for the first 9 months of 2021 was an 87% compared to a 90% for the same period in 2020. This improvement reflects a nearly 4-point improvement in our attritional loss ratio, given the benefit of a favorable pricing environment and the impact of underwriting actions taken to enhance our profitability. Prior year loss reserves developed favorably by $366 million in the first 9 months of 2021 compared to $435 million in the first 9 months of 2020. Our expense ratio continues to improve given the benefit of higher net earned premiums and increased efficiency.

Turning to our investment results. Net investment gains included in net income were $1.2 billion in the first 9 months of 2021 and were primarily attributable to an increase in the fair value of our equity portfolio driven by favorable market value movements. This compares to net investment losses of $231 million in the first 9 months of 2020, which reflected the impact of significant volatility in the equity markets following the onset of the COVID-19 pandemic. As I've mentioned in prior calls, given our long-term focus, variability in the timing of investment gains and losses is to be expected.

With regards to net investment income, we reported $284 million in the first 9 months of 2021 compared to $274 million in the same period last year. Investment income continues to be impacted by the low interest rate environment we currently face. We continue to be diligent with regards to maintaining a high-quality fixed income portfolio, as demonstrated by our average portfolio rating of AAA.

Net unrealized investment gains decreased $266 million net of taxes during the first 9 months of 2021, reflecting a decline in the fair value of our fixed maturity portfolio, partially resulting from an increase in interest rates since the end of last year.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased to $2.7 billion for the first 9 months of 2021 compared to $2 billion for the comparable period last year. The increase reflects a more significant contribution of revenues from Lansing Building Products, which was acquired in April 2020. Additionally, operating revenues increased across our consumer and building products businesses, equipment manufacturing businesses and transportation-related businesses, due in part to lower sales volumes at most of these businesses in 2020 as a result of the economic and social disruption caused by the pandemic as well as further increases in demand within our consumer and building products businesses, reflecting increases in consumer spending.

Our growth in revenues had a more limited impact on the bottom line, and certain of our businesses saw cost of goods sold increase, which is a reflection of the current economic environment where supply constraints are contributing to increasing wholesale prices across many industries. With that said, EBITDA from Markel Ventures grew 7% to $304 million for the first 9 months of 2021 from $284 million for the same period last year. The year-over-year increase is primarily attributed to the increased contribution from Lansing.

Looking at our consolidated results for the first 9 months of the year. Our effective tax rate was 21% for the first 9 months of 2021. We reported net income to common shareholders of $1.5 billion in 2021 compared to a net loss to common shareholders of $31 million last year. And comprehensive income to shareholders for the first 9 months 2021 was $1.3 billion compared to $260 million in the 9 months of 2020.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $1.6 billion for the first 9 months of 2021 compared to $1.3 billion for the same period last year. Operating cash flows for the first 9 months of 2021 reflected the impact of higher premium volume in our Insurance segment.

Invested assets at the holding company were $4.8 billion at the end of September this year compared to $4.1 billion at the end of the year. The increase reflects the proceeds from our May senior note issuance. Total shareholders' equity stood at $14 billion at the end of September, up 10% from $12.8 billion at the end of last year. During the first 9 months of this year, we repurchased 101,000 common shares of our stock under our outstanding share repurchase program. Overall, we are very pleased with the performance of all 3 of our operating engines during the first 3 quarters of 2021, and we are determined to close the year out with a strong fourth quarter.

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, with one quarter to go in 2021, we've put ourselves in a position to achieve our profitability and growth goals of a 90% combined ratio and double-digit growth for the year. Through the first 9 months of the year, we achieved a 91% combined ratio, even with significant catastrophe events happening during the year. While our third quarter results were impacted by natural catastrophes, including Hurricane Ida and the European floods, our strategy of reducing our catastrophe exposures enabled us to achieve a 93% combined ratio in the quarter. By transitioning our reinsurance property lines to the ILS market with Nephila, launching the Lodgepine retro fund and strategically purchasing reinsurance, we proactively managed down our exposures to these events and stayed on course to hit our 2021 goals.

Regarding growth, we continue to see attractive new business opportunities, coupled with the strong rating environment. This has resulted in significant premium growth in our Insurance segment, producing an impressive 25% growth rate in the third quarter and 20% growth through the first 9 months of the year. Insurance market conditions remain the best we have seen since the last hard market in the early 2000s.

Now I'll discuss our year-to-date results within our insurance operations, which include our underwriting operations, State National Program Services operations and insurance-linked securities operations. So I'll kick it off with the Insurance segment. As I just mentioned, gross written premiums in the Insurance segment for the first 9 months of the year were up 20% over prior year at just under $5.4 billion in total premium writings. Earned premiums were up 16% year-to-date. We continue to see growth across many of our product lines, in particular, within our professional liability and general liability product lines where we have identified new business opportunities in both our domestic and international operations. We continue to see favorable rate environments within most of our insurance product lines and working hard to maximize and capitalize on the current market conditions.

The combined ratio for the first 9 months of the year in the Insurance segment was 88% compared to 100% combined last year. The current year combined ratio includes $89 million or 2 points of net losses from the 2021 catastrophe events, while the prior year combined ratio includes $305 million or 9 points of net losses from COVID-19 and $67 million or 2 points of net losses from 2020 cat events. Excluding the impact of catastrophes and COVID-19, the combined ratio decreased by 3 points year-over-year, primarily driven by lower attritional loss ratios in our professional liability, general liability and property product lines, due in part to the benefit from higher premium rates.

Turning next to our Reinsurance segment. Let me just quickly recap our transition strategy related to Reinsurance Property business. First, starting January 1 of this year, we successfully transitioned our reinsurance property line from our reinsurance underwriting operations to be managed by our Nephila ILS operations. Second, with the initial capital raise at Lodgepine on July 1 of this year, we have transitioned a little less than half of the underwriting risk of our retro property reinsurance book to our Lodgepine ILS operations. In the future, we plan for a full transition of the retro property book to the IFS model with Markel participating as a minority investor in the fund. We continue to focus on optimizing our profitability within our core casualty, professional liability and specialty reinsurance books, seeking to attain a 90% combined ratio in these products for the long term.

Gross written premiums within Reinsurance segment were up 4% at just under $1 billion and earned premiums were up 12% through the first 9 months of the year. 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. This growth was partially offset by lower premiums in our property lines due to the transition strategies I just discussed.

The combined ratio for the first 9 months within the Reinsurance segment was 108% combined versus 106% combined last year. The current year combined ratio included $93 million or 12 points of net losses from 2021 catastrophe events, while the prior year combined ratio included $66 million or 10 points of net losses from COVID-19 and $35 million or 5 points of net losses from 2020 cat events. For the first 9 months of 2021, excluding the impact of catastrophes and COVID-19 losses, the reinsured segment combined ratio increased by 1 point from last year due to lower takedowns of prior year losses, primarily in our property lines, partially offset by a lower attritional loss ratio within our professional liability and general liability lines and a lower expense ratio due to lower comp costs and the impact of higher earned premiums.

Next, I'll touch on program services and our ILS operations, both of which I'll just remind you are reported as part of other operations. As a reminder, almost all of the gross written premium within our program services operations is ceded. We continue to see strong gross written premium volume from our program services operations, with premium volume at State National reaching $2.1 billion for the first 9 months of the year, resulting in year-to-date production growth of 38%. Premium growth was due to both the expansion of existing programs and the addition of new programs.

As you would expect, the broader market conditions are also impacting our program services business. The higher rates that are coming through in programs and across various lines of business as well as just growth in program business has led to that 38% growth rate at State National. Fee revenues for the first 9 months of the year were up 15% from a year ago, and the operations continue to produce strong operating contributions to Markel. Despite increasing competition in this segment, we continue to see a strong pipeline of program services opportunities.

Next, I'll discuss our insurance-linked securities operations. Our ILS operations consist of the results of Nephila and Lodgepine. Lodgepine's impact on the year-to-date ILS results was minimal as the fund only recently launched. For the year, revenues from the ILS operations were up slightly due to continued growth of MGA revenue at Nephila. This was partially offset by lower investment management fees to lower average AUM, assets under management. Assets under management at Nephila were $9.3 billion as of 9/30/2021. The past 5 years of elevated cat activity have been particularly difficult for ILS. Despite these challenges, we continue to identify new areas of opportunities to deploy capital and launch new investment opportunities, both within and outside of the catastrophe market, heading into 2022.

I'll finish up with just a little bit of market commentary. And as always, always happy to talk about that in the questions. As I stated at the beginning of my remarks, the insurance market conditions are as good as we've seen since the hard market of the early 2000s. However, this hard market is different from that market in that capital in the current market is plentiful. Drivers of the current market conditions include historically low interest rates, CPI and social inflation trends and loss fatigue in cat-exposed lines of business. Given that these factors are unlikely to resolve in the near future, I believe market conditions will remain favorable throughout 2022, and that's how we're setting up our plans for 2022. We are positioned to end 2021 strong and carry significant momentum into next year. I'd just like to wrap up by thanking all of Markel's employees who worked so hard throughout COVID-19 to produce these outstanding results.

With that, thank you. And now I'd like to turn it over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie. I'm happy to report to you that we earned 5.1% on our investment portfolio during the first 9 months of 2021. That came from returns of 18.1% on our equity portfolio and a loss of 0.5% on our fixed income holdings. I'm delighted with those results. While the results from any one quarter and, in fact, any one year or anything less than about 5 years are about 80% noise and 20% substance, it's always more fun to talk about good numbers than bad ones, and those are good numbers. When our accountants hand me the table that displays our returns, the cumulative table at the end shows the investment results that started in 1989. In the 31.75 years that, that chart displays, we've earned an annual rate of return of 12.9% on our equity holdings compared to the S&P 500 return of 11.7% and annual returns of 5.9% on our fixed income portfolio for a total return of 7.3%.

When you get to 31.75 year time frames, I would argue that the noise fades away and that you're left with substantive fundamentals. That is what matters to us, and I hope you are pleased with those results. Our process which produced them remains unchanged. My only commentary about investment markets is that we continue to see pockets of opportunity. We continue to purchase additional stakes in publicly traded businesses. We're following the same discipline, and Markel benefits from the ability to regularly dollar cost average into our holdings. Positive cash flows from both our insurance and ventures operations create this advantage.

As to Markel Ventures, I keep using the same 2 words I've used since the start of the pandemic, I am grateful and amazed for the work and the results of our operations. On the top line, revenues grew 35% from $2 billion to $2.7 billion. Our EBITDA grew 7% from $284 million to $304 million through the first 9 months. As is the case with the volatility that normally occurs in our investment operations, Markel Ventures profitability will rise and fall when you look at any short-term period-versus-period comparison. The group has consistently produced double-digit EBITDA profitability since its inception in 2005, and I fully expect that to continue to be the case.

Part of my gratitude and amazement at the performance of Markel Ventures comes from what I see on a daily basis. The work our leaders are doing to manage supply chain disruptions, COVID protocols, labor issues, transportation bottlenecks and countless other issues is simply amazing. I cannot thank the teams enough for the work they are doing. I hope you share my pride in their accomplishments.

I'm also very pleased to let you know that we welcomed Buckner Heavylift Cranes into the Markel Ventures family during the quarter. Several years ago, one of our great shareholders, Mark Hughes, from Lafayette Investments, made an interesting observation about one of our acquisitions. After he did some independent research and found some things out about the company we'd acquired, he said, "Congratulations for buying another leading company in an industry I didn't know existed." Buckner fits that category as it owns one of the largest fleets in the world of heavy lift cranes. When you're lifting 300 to 1,000 tons, as the Buckner fleet does, you can't do it online or from far away. You must be there, and you need to know what you're doing.

Buckner is a fourth-generation family business, and that speaks volumes about the durability and forever mindset upon which we've built Markel over generations. We're excited to welcome Buckner to Markel, and we're honored that they have chosen to join us. As we've said in the last few years, it's hard to find new businesses for Markel Ventures, given the pricing environment, but we've been able to do so because some companies crave our long-term focus and meet us in the middle to become part of this company. We're grateful for those opportunities, and we'll continue to try and make the most of them.

Finally, I'll conclude with the observation that the ongoing growth you're seeing in every dimension of Markel is taking place while we're repurchasing shares at the same time. You're getting more company in fewer shares. And as a Markel shareholder myself, I think that ought to work out for the best over time.
With that, we'd now be delighted to answer your questions.

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

Yes. This is the other Mark Hughes. Could you talk about the growth in the insurance business, this nice acceleration in written premiums? I think you talked about the good market conditions. Is it that the market conditions are getting better? Or you're rolling out the new products, focusing on new lines that are helping you to grow the top line more quickly?

Richard Reeves Whitt
Co-CEO & Director

Mark, it's Richie. In terms of the market, it was interesting. We sort of hit another gear in the third quarter. And as you saw, that was -- that's been our highest growth rate quarter of the year. One quarter doesn't make a trend. We'll see what fourth quarter looks like. But we had quite a bit of success in the third quarter. And it felt like more of the same. There were probably a few big policies in there and things of that sort. But I know people have been talking about rate increases had sort of crested and they were starting to come off. And I agree with that assessment, but it felt like in the third quarter the market gained back a little bit of momentum. And I don't know if this is the case, but I tend to put some of it to the cat events in the third quarter. I think that probably damaged some people's earnings for the year after some -- after a year last year that was somewhat disappointing.

And so I think some of the cat losses, and I think some of the concern around inflation and then social inflation, I think all of that might have stiffened some people's resolve because we felt like the third quarter we saw a little bit of a shift. We saw a little bit more momentum in the third quarter. We'll see how fourth quarter goes.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Interesting. On Hagerty, what is the latest thinking in terms of potential book value impact? And what would be the timing of that impact on book?

Jeremy Andrew Noble
Senior VP & CFO

Mark, it's Jeremy. We kind of have to finalize. I mean, obviously, first off, Hagerty actually has to go through sort of the listing. But as and when they do, we account for our investment in Hagerty on the equity method of accounting. And that won't change because of that percentage ownership we have in Hagerty. So that sort of mark-to-market, even though it's publicly listed, will not be reflected directly in the book value. It would be more of an unrealized gain, if you will.

There is some accounting noise that we'll work through once the deal is listed because of the aspect of being an investor in the PIPE because of the aspect of some of the dilution that's created under the transaction, and all of that will get reported within our financial statement as and when that deal closes. But the main thing I would caution you right now is in accounting and GAAP's infinite wisdom, it would not appear that, that would be a mark-to-market relative to the fair value and the valuation of Hagerty.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Okay. And then how about the workers' comp line? I'll ask that, just trying to figure out if that's hitting any sort of inflection. Does it look more attractive, less attractive to you? Are you seeing a little bit of rate there? Just an update would be great.

Richard Reeves Whitt
Co-CEO & Director

Workers' comp has been stubbornly flat to slightly down. We're still tracking rates 0% to 3% down in terms of the workers' comp market. So I mean, it is one of the very few lines I can think of that really have not reacted in the current market.

In fairness, results have been very good in workers' comp. And the impact that people feared from COVID, at least to this point, has not manifested. So I would say at current pricing, we're cautious in terms of workers' compensation. We -- because rates have been going down, not hugely, but rates have been going down for a few years now, and we've all seen workers' comp can move very quickly. It can move very quickly to unprofitability. It can move very quickly to profitability. So we're going to keep an eye on it right now and recognize that it is almost the only outlier from what has been increasing rates and better terms in other lines.

Operator

The next question comes from John Fox of Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

Terrific results. A couple of questions for Richie. Richie, could you talk about the Reinsurance segment? The cat losses were, on a dollar basis, about the same September this year and last year, a little bit less percentage-wise. Could you just kind of level set how is this third quarter cat for the industry versus last year? I know we had Hurricane Ida, but I'm not remembering how significant it was last year.

Richard Reeves Whitt
Co-CEO & Director

Right, John. Well, what I would tell you, and I think this is worth focusing on, is the only business -- when we talk about our Reinsurance Property business that was transferred over to Nephila, the only thing that's left is multiyear policies that are going to take a couple of more -- well, they're going to run off -- pretty much will be completely run off by the end of next year. So the reality is we were out of that business at January 1. We didn't write anything new, but we had some policies, and they tended to be large that were run off. And so they were hit. Some of them were hit in Uri. Some of them were hit with Ida.

After next year, you wouldn't expect those losses. We wouldn't expect to see those losses because that book has moved. On the retro side, again, we're only about halfway moved into the ILS model. And of course, we will take some portion of that back, a minority position in that back through investment results. But we're kind of midway through that transition. And so once we complete that transition, activity from any kind of cat losses on the retro book would show up through investment results. So I can't remember what the number is. I think it was -- whatever it was -- and in reinsurance, that number next year, if we complete the transitions, you wouldn't expect to see much of any cat number. That was $93 million, I guess, for the 9 months. You wouldn't expect to see much of anything next year as we have transitioned both of those to an ILS model.

Jeremy Andrew Noble
Senior VP & CFO

John, it's Jeremy. Just to jump in as well. Last year, to Richie's point, we would not have had any losses come through on the retro book, so that's a difference, in the quarter when you're looking at that $68 million versus $70 million, kind of flattish. This year would have had retro losses, last year wouldn't know. So -- and actually, probably the better part of sort of 2/3 of that loss is kind of more on the retro side versus the global REIT runoffs. So you would see a little bit like-for-like lower losses this year than last year in the quarter.

Richard Reeves Whitt
Co-CEO & Director

Yes, last year was a clean year for retro, John. This year, both the European floods and Ida are of a size that they will get into people's retro programs.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And you did indicate in the Q that there was a tail on some of these. And can you talk about ILS? I know you press released on a settlement with CATCo with those funds. Are there any expenses in the ILS segment related to that? Or is this really the run rate in terms of revenue and expense relationship that we see in the third quarter?

Richard Reeves Whitt

Co-CEO & Director

So the -- any potential -- the expenses from that potential transaction, we said in the press releases, Markel is going to fund the return of investors' capital, that could be up to $270 million. We would get that money back over time as the reserves settle out. We think that's over the next couple of years.

And then we were also adding, for the benefit of investors, a payment of about $75 million. When the transaction closes, after it gets all of its investor and court approvals, at that point, that would crystallize, and Markel would recognize the $75 million in expenses. So this quarter, none of that's in this quarter because it hasn't closed yet. And so expenses you're seeing right now, they're rough -- I would say, roughly, run rate, right? Can you think of anything...

Jeremy Andrew Noble
Senior VP & CFO

Yes, there's going to be a little bit of sort of professional fees associated with that transaction. But to Richie's point, the main payment to and for the benefit of investors, that $75 million, that would be recognized once the process is further completed through the courts and with the investors.

Operator

[Operator Instructions] And our next question will come from Scott Heleniak of RBC.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

I wonder if you could touch on where your rate increases are now versus average loss trends. And Richie, I know you made a comment about -- you sound pretty bullish on kind of where rates are heading into 2022. And just wondering if you are sort of expecting rate increases to outpace loss cost inflation for next year, too. It sounds like you're pretty optimistic about what you're seeing, but if you could comment further on that.

Richard Reeves Whitt
Co-CEO & Director

Sure, Scott. Yes, I am optimistic about that. We're averaging through the third quarter about 10% rate increases, and that differs widely by line of business. You'd see much higher rate increases in casualty and professional liability. You'd see much lower rate increases in personal lines and some of your smaller retail sorts of lines. But overall, through the first 9 months, we averaged about 10%.

I absolutely believe that's ahead of trend, but the caveat there is I don't think any of us can know with certainty what trend is. We know we've got a little back -- bounce of inflation right now. We also know that the pendulum is always swinging in terms of social inflation, and it seems to be swinging towards more social inflation right now.

So I think trend is more, but I don't know exactly what it is. And unfortunately, in insurance, you don't know what it is until years later. I think we have a decent margin against trend right now. But my message to my underwriters is we know trend is more than it was. And so we need to keep our foot on the gas in terms of rates and terms to make sure we maintain a margin against that trend. And I am optimistic in 2022 that we can continue to do that. I think rates are still justified and needed in the market. And so in '22, I hope we continue to see nice rate increases.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. I definitely appreciate the -- we definitely can't predict what's going to happen with pricing and certainly with loss cost inflation, but it sounds like you have a margin safety in there.

Richard Reeves Whitt
Co-CEO & Director

It feels like it.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. And then just switching gears, the reserve releases, I wonder if you could give a little more detail on that, just for the quarter. I know you mentioned 9 months, they're pretty significant, but wondering if there's sort of where those are coming from and if there's any additions or offsets to those in either unit. Or it's just consistent with the first half of the year?

Jeremy Andrew Noble
Senior VP & CFO

Scott, it's pretty consistent. I mean, again, it's the same lines that are driving it predominantly, particularly in the insurance space where the most prior year takedowns would be. So looking at general liability, professional liability, workers' comp and property lines. So in the quarter, pretty similar to the trend for the year.

Richard Reeves Whitt
Co-CEO & Director

Apparently, there's new news, if you will, with regards to the favorable prior year losses.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Got it. And then -- go ahead. Did you -- were you going to say something?

Thomas Sinnickson Gayner
Co-CEO & Director

No, no. That's fine, Scott. Go ahead.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. And just wondering on the cat loss, you gave the cat loss number for the quarter. And wondering if you could break that out, what Ida was versus European floods? Are you willing to be able to do that? Just so we could get a size of those losses, what those were?

Jeremy Andrew Noble
Senior VP & CFO

Yes, we didn't quantify exactly. But what I would tell you is that quarter-to-date you can go to roughly a 70% Ida, 30% European floods. I mean European floods would predominantly feature in the property retro book.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. Okay. And then lastly, just on the ventures, I know you mentioned supply chain raw material costs, a lot of companies, a lot of industries are facing that and obviously impacted profitability. But is there any particular business that you can highlight where it's having the biggest impact? And do you expect to see similar pressures in Q4 and 2022? Just any more detail on kind of what's going on there?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes, there's good news and bad news there, and the sort of same thing is both good news and bad news. I would say it's across the board. So inflationary pressures exist in pretty much any business that I'm aware of, whether it's the insurance business, whether it's any of the Markel Venture businesses, whether it's the companies we invest in. You're just seeing it everywhere. Because to the extent you use people or you use stuff, price for both are going up.

Now one of the advantages we have through the Markel Ventures business, particularly, is that the feedback loops are pretty quick. We're not expending a huge capital item to build some huge facility and then using that for 20 years and then being surprised at how much it costs to build a new one. You get daily feedback of what your costs are and a pretty quick feedback loop. And so there's oftentimes a time lag between being able to get a customer to accept a price increase for what you're seeing on the input cost side, and that's what you're seeing in this particular quarter. But every person running those businesses is asking and receiving price increases from their customers because the cost of everything is going up.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Got it. That makes sense. And then -- so the -- so is the run rate we're seeing wasn't impacted by anything onetime? This is just kind of the new cost doing business, right? Just...

Thomas Sinnickson Gayner
Co-CEO & Director

There's some minor puts and takes of things that would have happened last year and this year, but that's also why I've made the distinction and point about separating substance from the noise. If you look at it on a multiyear basis, the growth and the consistent profitability of Markel Ventures is there, and there's nothing that I'm concerned about that would disrupt that.

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

Thank you very much, and we wish everybody a happy upcoming holiday season. Be well.

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