S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ2 2013 Earnings Call Transcripts

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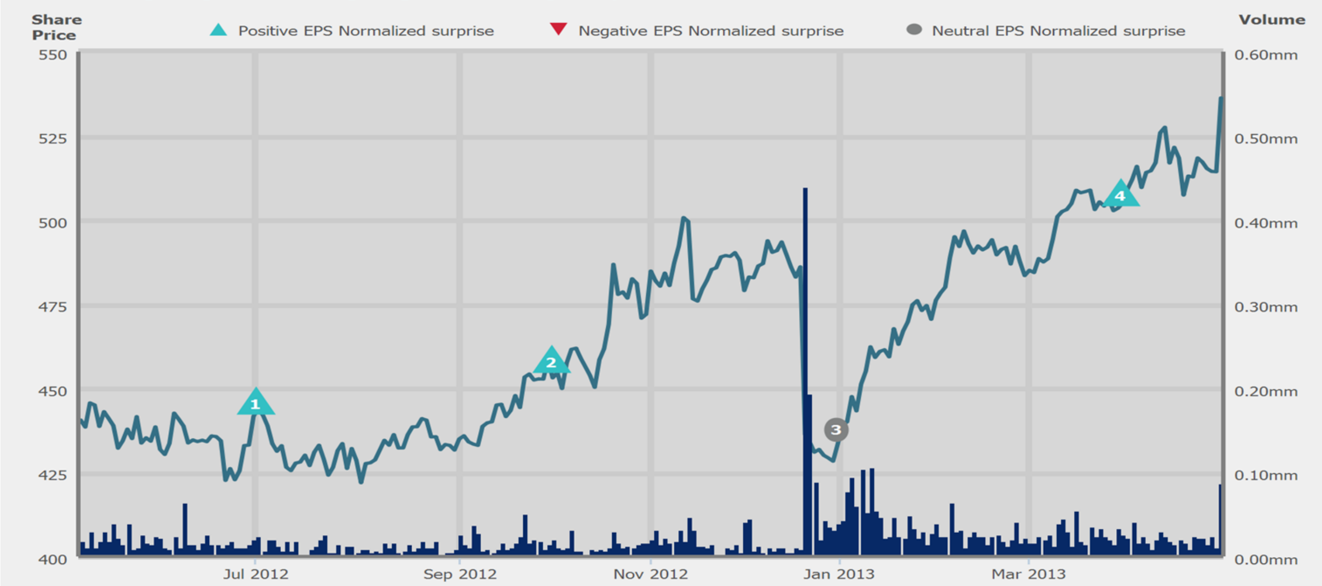
S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.83	5.13	▲(12.01 %)	5.65	26.17	27.82
Revenue (mm)	1127.57	1031.77	▲(8.50 %)	1223.38	4577.90	5279.11

Currency: USD
Consensus as of Aug-08-2013 2:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	3.55	7.87	▲1 121.69 %
FQ3 2012	4.27	4.88	▲2 14.29 %
FQ4 2012	(2.81)	5.63	NM
FQ1 2013	5.47	9.50	▲3 73.67 %

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Call Participants

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Francis Michael Crowley
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Richard Reeves Whitt
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Presentation

Operator

Greetings and welcome to the Markel Corporation Second Quarter 2013 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Tom Gayner, President and CIO. Thank you, Mr. Gayner. You may now begin.

Thomas S. Gayner
Co-CEO & Director

Thank you. Good morning, everyone. My name is Tom Gayner, and along with my colleagues, Anne Waleski, Mike Crowley and Richie Whitt, we welcome you to the Markel Corporation Second Quarter 2013 Conference Call.

Before we get started, we are required to remind you of the Safe Harbor provision. So here it goes. 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 included under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q. We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures on our website at www.markelcorp.com in our quarterly report on Form 10-Q.

Thanks again for joining us this morning. We are very excited to share our report card from the first half for Markel or, as I like to call it, Markel 3.0 for the first half of 2013. The headline for the first half is that we enjoyed positive comprehensive income during the first half of 2013.

The components driving that result include underwriting profitability in our insurance businesses, organic growth in our premium values as well as the growth derived from acquisitions, positive investment returns from our portfolio, operating profitability in our Markel ventures businesses and organic growth in those operations as well as the growth from acquisitions. Those statements are true even after factoring in the transactional expenses incurred to put Markel 3.0 on the field.

We could not be happier with our prospects and the long-term opportunities embedded in this company. We've got multiple cylinders to power the economic engine, and this report shows forward progress and the promise of how it should work in the future.

While this report contains a lot of moving pieces and disparate items, we will attempt to provide as much clarity as we can around each of them and provide you with the reasons as to why we are so excited about our future.

We hope you agree, and we look forward to the thoughtful questions from our fellow owners of this firm as well as the questions from those who buy and sell the stock. With that as prologue, let's start opening up this lovely matryoshka doll of the report with Anne's review of our first half results. Anne?

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, and good morning, everyone. Needless to say, we've had a very busy quarter with major activities focused on our May 1, 2013, acquisition of Alterra. The transaction was valued at $3.3 billion, including $2.3 billion of Markel common stock and other equity considerations and $1 billion of cash. The transaction resulted in approximately $560 million of goodwill and the intangible assets.

At the May 1, 2013, transaction date, all Alterra assets and liabilities, including identifiable intangible assets, were set to fair value, with the excess of transaction consideration over fair value allocated to goodwill. The 3 most significant adjustments were to investments, life and annuity benefits and unpaid losses in LAE reserves.

At acquisition, the amortized cost basis as a fixed maturity portfolio was reset to fair value, and the difference between the estimated fair value and the par value of these securities was $552 million. So we're also at fair value adjustments to life and annuity benefit reserves of $330 million, and to unpaid losses in LAE reserves of $147 million. You can find details on these adjustments in footnote 3 of our Form 10-Q.

The integration process is in full swing, and we are just beginning to see the benefits of our enhanced sale. Despite significant merger and acquisition costs in the period, we met our goal of generating underwriting profits on a consolidated basis for the first 6 months of 2013. The legacy Markel operations had strong performance, and the legacy operations performed within expectations.

Our total operating revenues grew 30% to $1.9 billion in 2013 from $1.4 billion in 2012. The increase is due to a 27% increase in revenues from our insurance operations, which includes $225 million from the Alterra segment and a 64% increase in revenues from our noninsurance operations, which we refer to as Markel Ventures.

Moving into the underwriting results. For the first 6 months of 2013, gross written premiums were $1.8 billion, which is an increase of 42% as compared to 2012. The increase in 2013 was primarily due to the inclusion of $342 million of gross written premium from the Alterra segment from May 1, 2013, as well as higher gross premium volume in the Specialty Admitted in Excess and Surplus Lines segments. The increase in Specialty Admitted is driven by premiums from the Hagerty and THOMCO businesses. Within the Excess and Surplus Lines segment, the increase is due in part to the impact of more favorable rates and improving economic conditions.

Net written premiums for 2013 were approximately $1.6 billion, up 39% to the prior year for the same reasons I just mentioned.

Net retention was down in the first 6 months of 2013 at 86% compared to 89% in 2012. The decrease in net retention is due to the inclusion of premiums written by Alterra from May 1, 2013. Net retention in the Alterra segment for the period was 74%. Excluding premiums written by Alterra, consolidated net retention would have been flat over the period.

Earned premiums increased 29%. The increase in 2013 was primarily due to the inclusion of $225 million of earned premium from the Alterra segment from May 1, 2013, as well as higher earned premium volume in the Specialty Admitted and Excess and Surplus Lines segments. The increase in Specialty Admitted is due to earned premiums from the Hagerty and THOMCO businesses.

Our combined ratio was 98% for the first 6 months of 2013 as compared to 93% in 2012. The increase in the combined ratio for the quarter was driven by a higher current accident year loss ratio and less favorable development on prior year loss reserves compared to the same periods in 2012. The results were also impacted by the Alterra segment, which added 8 points to the year-to-date combined ratio, primarily driven by $62 million of merger and acquisition costs and $25 million of Casualty losses.

Favorable redundancies on prior year loss reserves increased to $204 million or 15 points of favorable development compared to $191 million or 18 points of favorable development in 2012.

The expense ratio for 2012 was unfavorably impacted by the prospective adoption of the new DAC accounting standards, which increased our expenses by $35 million or 3 points on the 2012 combined ratio.

Next, I will discuss the results of Markel Ventures. In the first 6 months of 2013, revenues from Markel Ventures were $314 million compared to $191 million in 2012. Net income to shareholders from Markel Ventures was $11 million in 2013 compared to $400,000 in 2012. EBITDA was $40 million in 2013 compared to $19 million in 2012.

Revenues, net income to shareholders and EBITDA from Markel Ventures increased in the first 6 months of 2013 compared to the same period of 2012, primarily as a result of more favorable results at AMF Bakery Systems and our acquisitions of Havco and Reading Bakery Systems in 2012.

Turning to our investment results next. Investment income was flat in 2013 at just under $143 million. Net investment income for 2013 included $17 million of investment income attributable to Alterra, which was net of $21 million in amortization expense from adjusting Alterra's fixed maturity securities to a new amortized cost basis at the acquisition date.

Net investment income also included favorable changes in the fair value of our credit default swap of $7 million as compared to $12 million in 2012. Excluding the impact of Alterra and the credit default swap, net investment income for the first 6 months of 2013 decreased compared to 2012 due in part to a decrease in our fixed maturities and an increase in our cash and cash equivalents.

Net realized investment gains for 2013 were $30 million compared to $20 million in 2012. Included in that realized gains were $5 million of other-than-temporary impairments as compared to $1 million in 2012.

Tom will go into further details on investments in Markel Ventures in his comments.

Looking at our total results for the 6 months, the effective tax rate was 28% in 2013 compared to an effective tax rate of 23% in 2012. The increase is primarily due to the impact of including the operations of Alterra in the company's effective tax rate beginning in acquisition and anticipating a smaller tax benefit related to tax-exempt investment income as a result of projecting higher pre-tax income for 2013 than in 2012.

We reported net income to shareholders of $117 million compared to $147 million in 2012. Book value per share increased approximately 12% to $452 per share at June 30, 2013, from $404 per share at year end. The increase is primarily due to equity issued in connection with the acquisition of Alterra and $109 million of comprehensive income to shareholders.

Finally, I'll make a couple of comments on the cash flows and balance sheet. Net cash provided by operating activities was $240 million for the 6 months ended June 30, 2013, as compared to $105 million for the same period of 2012. The increase was driven by higher cash flows from underwriting activities and Markel Ventures. The increase in cash flows from underwriting activities is primarily a result of the acquisition of Alterra, which added $38 million in the period, and higher premium volume, primarily in our Specialty Admitted and Excess and Surplus Lines segments.

Higher cash flows from Markel Ventures were driven by increases at AMF Bakery Systems and our acquisitions of Havco and Reading Bakery Systems in 2012. Invested assets at the holding company were $1.1 billion at June 30, 2013, compared to $1.4 billion at December 31, 2012. The decrease in invested assets is primarily the result of cash paid for the Alterra acquisitions, partially offset by a net increase in debt.

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

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. The results for the second quarter of 2013 for legacy Markel in North America was slightly better than the first quarter of 2013. Gross written premiums for North America increased 28.9% for the quarter and are up 25% for the first 6 months of 2013. The combined ratios improved as well.

The E&S segment had another excellent quarter, with gross written premiums increasing 20% year-over-year compared to the second quarter of 2012 and 15% year-to-date compared to the first 6 months of 2012. For the third consecutive quarter, all 5 regions of the E&S segment grew their volumes.

The E&S segment's combined ratio for the second quarter was 76.9%, an improvement of 9.8 points from the same period of 2012. The combined ratio for the first 6 months was 77.2%, an improvement of 14.4 points compared to 2012. Prior year losses were favorable due to higher takedowns consistent with Markel's historical practices.

These segment results reflect our continued efforts to improve efficiency and service to our agents and brokers. They also reflects our ongoing marketing initiatives designed to better inform our agents and brokers about our underwriting appetite, and as a result, our buy-to-submit [ph] ratio has increased.

The Specialty Admitted segment's gross written premium increased 41% year-over-year for the second quarter compared to 2012 and 39% for the first 6 months compared to 2012. This increase, as Anne mentioned, was driven by the THOMCO and Hagerty lines of business.

The second quarter combined ratio for the Specialty segment was 106% or 3.4 points higher than the same period in 2012. This increase is the result of higher expenses on the Hagerty and THOMCO business, and this is a lagging earned premium. Excluding Hagerty and THOMCO, the expense ratio would have been 5 points lower for the quarter.

The combined ratio for the first 6 months was 107%, slightly better than the same period in 2012. During the quarter, we implemented a plan to exit certain unprofitable lines of business and nonrenew specific accounts within lines that we will continue to underwrite. This action is the result of an in-depth review that we discussed in our first quarter comments. We fully expect these actions will improve our underwriting results going forward for the Specialty division.

I'd also like to point out that our FirstComp business continues to grow, and the results are improving according to our original long-term plan. Under Gerry Albanese's leadership, our product line leadership group has begun the process of integrating Alterra's underwriting operations into Markel. Leaders for wholesale property are the account property, Professional Liability, Inland Marine and large account casualty have been announced.

In addition, the senior underwriting teams for all of these lines of business have been meeting and working together to develop and implement a consistent and a coordinated approach to our business going forward. With regards to the current rate environment, overall rate increases continue as getting paid [ph], averaging about 4% across all lines of business.

I'd like to take this opportunity to congratulate and thank our Markel associates and all of the former Alterra associates for their efforts during the integration process. I'm very confident in saying that we are well on our way to being one Markel.

I'll turn the call over to Richie Whitt for his comments.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Mike. Good morning, everyone. I will start my comments with Markel International's first half results and then give an update on the Alterra acquisition. Markel International had a good first half of 2013.

Gross written premiums increased about 2% to $526 million. Areas of growth included our specialty book as well as our Singapore and Netherlands branch offices. Second quarter pricing trends were largely in line with recent quarters' modest price increases. Despite some price increases, however, in many areas, the market remains competitive. Well, this was particularly so in the cat property reinsurance, Professional Liability, retail and equine areas.

Property cat reinsurance rates began to fall in the second quarter as additional competition, including ILS markets, impacted rates. Florida rates were up anywhere from 10% to 25% at June 1 renewal, and as a result, Markel International and legacy Alterra reduced writings of Florida business at 6/1/2013.

International's combined ratio for the first 6 months of '13 was a 90%. This compared to 86% in the first 6 months of '12. The increase was primarily due to less favorable loss reserve development in '13. Both years benefitted from relatively light catastrophe losses.

Now I'd like to give an update on our acquisition of Alterra. As Anne said, we closed the deal on May 1, and everyone remains focused on a smooth transition and realizing the potential of the new Markel. We continue to make good progress bringing the 2 organizations together. We've successfully combined our

New York, Richmond and London offices at this point. We are also rebranding all operations as Markel and have -- and hope to have this effort completed in all major markets before the end of the year.

We've kicked off our budgeting and planning process for 2014. This process is going to give all operations, both new and old, the opportunity to work together to lay out a strategy for 2014 and beyond. We've already had several meetings, and more are scheduled to provide opportunities for our people to work together to capitalize on our now-expanded capabilities.

While we have made tremendous strides in a very short period of time, we still have some work to do with our systems and our back office processes in order to fully integrate all elements of legacy Alterra operations into our business model.

As such, we are managing and reporting the results of legacy Alterra operations, which include US Insurance, Alterra at Lloyd's global insurance and global reinsurance, as our Alterra segment and expect to continue to do this through the remainder of the year.

We have several initiatives in place to make the changes in systems and processes which are required in order to implement a new segment reporting structure for the first quarter of 2014. You are also going to note that we have included the legacy Alterra life and annuity book, which is in runoff, in our Other Discontinued Lines [ph] segment.

We continue to make good progress on the integration. Despite modest cat losses in the second quarter, Alterra legacy operations are performing as expected through the first half of the year.

With that, I would like to turn it over to Tom.

Thomas S. Gayner
Co-CEO & Director

Thank you, Richie. There are 3 things I hope to cover this morning: item one, the first half investment results in our public securities portfolio; item two, the first half results of Markel Ventures; and item three, an update on our initial actions for the investments that we added as a result of the Alterra acquisition.

As to item one, I am very pleased with our results through the first half. In our equity and fixed income portfolios, we earned total returns of 16.7% and negative 1%, respectively. The total return for the portfolio was 2.5%. The equity results speak for themselves, and I am very happy with them.

While equity returns always have been and always will be volatile, we've earned a double-digit return on our equity portfolio for the last 24 years, a roughly 200 basis point advantage compared to the S&P 500 Index. No steroids were used to achieve this result.

In addition to the outperformance of the S&P 500 Equity Index, these returns produced a roughly 450 basis point advantage compared to the Barclays Aggregate Fixed Income Index. We have added value both through our allocation decision to own equity as opposed to fixed income alternatives and we have added value in our specific equity selections. We have also been very tax-efficient and kept those funds working for the benefit of our shareholders with low portfolio turnover.

In our equity portfolio, as has been the case for the last several years, we continue to predominantly own a set of high-quality, global, successful companies. In many cases, the dividend yields comfortably exceed what we can earn on appropriate fixed income alternatives. We also continued our long-standing process of step-by-step, measured and selective addition to the equity portfolio through the first half.

In our fixed income portfolio, we continue to maintain a portfolio of the highest credit quality that we can find, and we continue to let the duration roll in. Last quarter, I repeated our belief that we remain of the opinion that interest rates were too low and that the risk of longer-term fixed income commitment outweighs the rewards.

During the second quarter, interest rates did indeed begin to move upward a little bit, and we minimized the damage that would otherwise have occurred with our short-duration stance.

The portfolio assets we added from the Alterra acquisition were longer duration, and the combination moved our duration out approximately 1 year from approximately 3.5 years to 4.5 years. We will continue to let that number roll in a bit, and we will move it out only when interest rates and prospective returns look better to us than they do now.

The net of all this is that our fixed income portfolio could go to a Halloween party dressed as cash and pull it off. Halloween can be scary, and I'm scared of what could happen in interest rates. So we'll continue to be cautious and deliberate as we redeploy the portfolio.

At June 30, equities represented 44% of our shareholders equity compared to 62% at year end. That decrease in percentage comes solely from the math of adding in the Alterra balance sheet. We invested in equities during the first half. The investment returns were strongly positive, and the value of the fixed income portfolio went down due to the rise in interest rates.

The addition of the Alterra portfolio was a sluggy [ph], de facto reallocation of investment allocations, and it is appropriate for you to assume that we will methodically and opportunistically guide the equity investment percentage back up towards our historical levels over time.

On to item two. Markel Ventures operations also performed very well during the first half. Our other revenues of $330 million in the income statement are largely those of the Ventures company, as revenues were up 50% compared to last year. Other expenses were $293 million, up 47% from a year ago.

Now those expenses include noncash amortization and purchase accounting entries that are separate and distinct from the ongoing operational performance of the Markel Ventures company. As such, we use EBITDA at our internal review and management of these operations, and EBITDA more than doubled to $40 million in the first half compared to $19 million in the previous year. A reconciliation of EBITDA to GAAP net income is available on our website and 10-Q.

We are very happy with the underlying economic performance of our Markel Ventures company. While the overall business environment remained extremely competitive and full of challenges, the managers and teams of the Markel Ventures company are doing a first-rate job of building their businesses. They operate with the Markel style, just like our insurance operation, and the focus on market leadership, excellence, innovations and having fun while doing so is paying off. We expect to continue to add to Markel Ventures over the long term.

Item three. As was the stage roughly 70 days ago, when we closed on the Alterra transaction, the biggest single challenge and opportunity on the asset side of the development is the future investment and capital allocation decisions that we will make with the assets of new players as well as the cash being generated by our operations.

We'll invest the money in the same way that we've invested the [indiscernible] of the company over the years. Specifically, on the fixed income side, we'll continue to focus on high credit quality and maintaining the duration that is shorter than our natural position of matching duration of the insurance liabilities with our bond portfolio.

We will continue to do this until interest rates are higher than they are today, and we feel that we are being paid appropriately to accept the risk of longer-term commitments.

On the equity side, we have a vibrant and profitable insurance business. We have a strong balance sheet and plenty of cash. Our constraint is finding appropriate ideas and protecting and preserve the balance sheet.

For now, we will continue to methodically invest in many of the same securities that we already are in. Prices are still reasonable in many cases, and we will pick up investment yields from the dividends as we go.

Given the position of Markel 3.0, we have a lot of dry powder, and we will look to deploy that aggressively as opportunities present themselves.

We're in an unique and what I think is a fantastic position in that we have capital to deploy in what could be a rapidly changing environment. Rest assured that the same disciplines and thought processes we used for decades to make these decisions for Markel remain in place. I am optimistic about our opportunities to make positive capital allocation decisions in the coming years as well as the ultimate results for Markel shareholders.

I know that analyst reports on Markel rarely have the comprehensive income in their estimates and discussions about us, but comprehensive income is what we as shareholders ultimately receive as the owners of this business. As such, that is what we focus on as the stewards of this company.

We're pleased to report positive comprehensive income for the first half of 2013 despite the transition expenses, and we are optimistic about our opportunities going forward.
With that, I'd like to open up the floor for questions. John, would you be so kind as to open up the floor?

Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Several questions. I guess the first, in the Specialty Admitted area, you had mentioned that there were some lines that you were exiting. I am wondering if you can give us a sense of how big they are as we go forward, or if they'll have a meaningful impact on revenue growth there.

Francis Michael Crowley
Vice Chairman

There are several lines. Jay, it's Mike. There are several lines. None of them among themselves are significant. I think, over a 12-month period, you could see possibly a $40 million reduction there in those lines of business in total, all lines included.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's very helpful. And then I guess on the E&S side, the premium growth accelerated pretty noticeably from the first quarter. In the Q and on the call, you mentioned price and economy. But from a pricing standpoint, it didn't sound like the price increases accelerated at all, and the economic growth doesn't seem terribly robust. I'm wondering kind of really what's behind this acceleration.

Francis Michael Crowley
Vice Chairman

It's pretty simply, Jay. We have spent the last few years refreshing our products, improving our service to our agents. We are well past the One Markel initiative that we had for the E&S operations, and quite frankly, our relationships and our efficiencies and our improved products and our service to our larger wholesale brokers, and really all of our wholesale brokers, is paying off in significant organic growth, this organic growth.

Operator

Our next question is from the line of Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. Let me start in the investment portfolio. There is the asset adjustment there, and a portion of that, I guess, as I'm understanding the footnote, is going to be amortized back through investment income. Can you just talk through the mechanics of that a little bit and maybe give some sense of, from a big-picture standpoint, how long of a time this will kind of be a drag accruing offset against the investment income line?

Anne Galbraith Waleski
Executive VP & CFO

Yes, Mark, basically, you have to, at the acquisition date, take the portfolio to fair market value. And then over the life of the assets, you amortize it back down to par. So it will be amortizing over the course of the duration of the portfolio. So call it 4.5 years to 5 years.

Richard Reeves Whitt
Co-CEO & Director

Yes, Mark, this is Richie. If you think about it, what you've basically done is converted the Alterra portfolio. You had a book yield coming through the P&L. Now you have the effective yield coming through the P&L with the amortization of that premium.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And again, just to kind of clarify slightly with the numbers. The mark on that adjustment was $552 million, and it's that $552 million that's being amortized over whatever the duration would be. And then I guess I would presume that, to the extent that Tom decides to sell some of those, that would accelerate that more quickly?

Thomas S. Gayner
Co-CEO & Director

That's correct.

Richard Reeves Whitt
Co-CEO & Director

Okay. And then I guess likewise, I would suppose that, that won't be a terribly straight line-oriented amortization. It's going to depend -- apart from the sales, it's going to be a weighted duration. So some of that may stay with us for well beyond 4.5 years.

Anne Galbraith Waleski
Executive VP & CFO

That's a fair statement. It's a little hard to predict.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Right. Okay. Okay, that's my first question. And my second question, more for Tom, also staying on the investment portfolio. Is the investment income earnings in the quarter -- setting aside these amortizations and the additions of the Alterra portion, it seems like the legacy Markel portion was relatively lower. Were you more oriented into cash just in anticipation of the deal? Was there something -- was there some aspect of the positioning that would have made the, I'll call it, the core of the legacy run rate lower than I might would have expected otherwise?

Richard Reeves Whitt
Co-CEO & Director

I mean, we were building cash in anticipation of the transaction, but also, I would say, we've been building cash by rolling down the duration curve. So that's just the math of what interest rates are at the short end of the curve.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Yes, you certainly did that. The second question related to the portfolio repositioning. I mean, I have been watching you in action for many years. I know that you will do this opportunistically and kind of take the opportunities as the market allows. But do you have a general timeline in terms of the assets classes that came over from Alterra that may not be completely consistent with things that you historically owned in terms of recognizing any gains or losses there, or would you more plan to just let that mature off and then redirect the proceeds?

Richard Reeves Whitt
Co-CEO & Director

I would tell you in the context in the sort of 80-20 rule: 80% of it is things that we are comfortable just sort of letting them roll off; and 20% of it, we are taking and will continue to take some more immediate actions. But in the 80-20 rule context, it can roll off appropriately.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. All right. I guess that is my last question on the investment portfolio. One other question kind of more operationally. In one of the notes with respect to the Specialty Admitted business, it just seems unclear about the syntax of the sentence. It was -- it said there was $62 million that I wasn't clear whether that related to just Hagerty premiums in the quarter, or whether that was Hagerty, THOMCO and any other acquisition premiums in the quarter within the Specialty Admitted business?

Richard Reeves Whitt
Co-CEO & Director

It's primarily Hagerty.

Operator

Our next question is from the line of Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Couple of different questions. In Specialty Admitted, are the combined ratios for THOMCO and FirstComp still running above the average of the segment, and are they improving from where they were last year?

Richard Reeves Whitt
Co-CEO & Director

Yes, they both are, but keep in mind that we also continue to build the margin of safety in all of those lines of business, Hagerty, THOMCO and FirstComp. Hagerty, I mean, that's easy. THOMCO has some extra expenses in it. The FirstComp business, as I said earlier on the call, is absolutely [indiscernible] exactly according to plan. So we feel very good about the actions they have taken with regards to their expense ratio and with regards to the geography in which they're playing it. They obviously are riding the less [ph] California business, so we feel good about that plan. Again, overall in the specialty segment, we've taken a really hard look at all of the products that we have and all of the programs that we have in Specialty, and the plan that we put in place and initiated beginning in the second quarter is a very specific plan targeted to improve the overall profitability in Specialty.

Adam Klauber
William Blair & Company L.L.C., Research Division

So is FirstComp, today, running -- is the margin better today than it was a year ago, or is it still running pretty high combined?

Richard Reeves Whitt
Co-CEO & Director

Yes, yes, it's better.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. Okay, that's helpful. As you take a look at the Alterra business, which you've been doing, but it sounds like you're still looking at the positioning. Do you think that business will be trimmed down over the next year or so compared to what it was last year?

Thomas S. Gayner
Co-CEO & Director

That’s hard to say. I can tell you that in some of our lines of business, in the large property, the larger excess casualty, the Inland Marine, the large professional lines, they are tracking right according to their plan.

Richard Reeves Whitt
Co-CEO & Director

Yes, volume was -- this is Richie. Volume was pretty flat for the first 6 months. There is probably a few -- just like in our existing or legacy Markel operations, there is always lines you're looking at and maybe getting out of, but at the same time, there is things you’re doing or things that are growing. So I think it’s a little early to say whether we would think it would trend down or trend up.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. But is it fair to say you’re still assessing that, or do you think you have a pretty good feel for it now?

Richard Reeves Whitt
Co-CEO & Director

Well, I think we're looking at it as -- I said we’re starting our 2014 planning. I mean, that’s where we're really going to dig into it, and all the leaders of the various areas, ask them what they think the business plans looks like for next year. So I think we'll know a lot better in the next couple of months as we work through that process.

Thomas S. Gayner
Co-CEO & Director

Yes, let me just add this. I just got back from -- I was in [indiscernible] earlier in the week meeting with several of the leaders of these lines of business, the ones where our business has been. One, we continue to be very, very impressed with the talent and with those leaders and with their philosophy with regards to their line of business, which is very consistent with Markel's historically. So at this stage, the beginning, it’d be hard for us to say that we could feel much better about the talent that has joined Markel.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then as far as the favorable reserve development, just on a ballpark basis, is that pretty evenly spread over the last, say, 7, 8 years, or would you say there is more in the old years versus, say, the last 3, 4 years?

Thomas S. Gayner
Co-CEO & Director

In other words, what accident years?

Adam Klauber
William Blair & Company L.L.C., Research Division

Yes, just a ballpark.

Anne Galbraith Waleski
Executive VP & CFO

For the releases this quarter?

Adam Klauber
William Blair & Company L.L.C., Research Division

Yes.

Anne Galbraith Waleski

Executive VP & CFO

They were spread pretty good. E&S was primarily in the casualty business, and that was over a number of years. And within MINT, it was primarily the 2010 year.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. Okay, that's helpful. And then just a technical question. On the amortization of the investment income, will that increase or decrease investment income?

Anne Galbraith Waleski
Executive VP & CFO

It decreases investment income.

Operator

[Operator Instructions] Our next question is from the line of Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just a quick follow-up on that last one. When you do amortize the mark on the investments, will it show up in the net investment income, or will it -- I should say it this way. If you sell some of these securities and the amortization is accelerated, does that amortization show up in realized gains or realized losses or in net investment income?

Anne Galbraith Waleski
Executive VP & CFO

Right. So in the instance of the sale of a security, it will flow through realized.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay, that makes sense. [indiscernible] doesn't always make sense. That does. The second question is on the Alterra business. As you had mentioned with THOMCO and Hagerty, you go through a process once you buy something of getting that business on to your reserving methodology, which almost always is more conservative. Well, whatever you hear is more conservative. I recall, in the past with Markel International, that process took several years. How long would you expect that process to take with Alterra?

Richard Reeves Whitt
Co-CEO & Director

Jay, it's Richie. You bring up Terra Nova, and I'll just say that the fact is that one took longer than we expected. We had issues, as you'll recall, at Terra Nova, and that probably took us longer than we would have expected. At this point in the game, and I think we've said back when we were talking about the due diligence we did on Alterra, we felt pretty good with the level of reserves they had. We didn't feel like they were quite to the standard or the margin of safety that we like to carry. So I think we're really -- it certainly doesn't get done in a year, but as we sit here today, over the next 2 to 3 years, that's what I'm sort of thinking.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful. Yes, I mean, the Terra Nova deal was clearly done in a different time. So I see the difference and I appreciate the response.

Operator

[Operator Instructions] Our next is from the line of Doug Mewhirter with SunTrust.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

Just 2 quick questions. First, Mike, about the workers comp market. I know that the rates across the board have been outperforming P&C rate trends. How do you see the sustainability of those trends? And also, do you feel that Markel's participation in that is sort of outperforming the market or lagging the market? Just say something...

Francis Michael Crowley
Vice Chairman

The rate increases at FirstComp are getting -- are a little higher than some of our other lines of business. We don't see that changing in the near future, but it's hard to predict. Obviously, we'd like for it to continue for the foreseeable future, and it's hard to tell. But the rate increases we are getting on FirstComp are higher than some of our other lines of business. But keep in mind, we're also changing the geographic spread there too, which is also positive.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And my second and final question is more of an Alterra-related question. Roughly what was the overlap between, I guess, what used to be called the original Alterra U.S. business, their -- on the smaller side and your -- Markel's E&S business? Because I know you did compete in certain areas.

Francis Michael Crowley
Vice Chairman

We did, and the E&S business is being rolled into our E&S operations here. And the teams are working together to deal with any potential overlap that we have. We'll be consistent in our underwriting philosophy there. With regards to other lines of business, not as much at all. Alterra, on the large casualty, the large property, the professional lines, those other parts played in an area where we didn't play.

Richard Reeves Whitt
Co-CEO & Director

And one of the nice things we're seeing -- this is Richie. And one of the nice things we're seeing is even where we maybe -- let's say we're both on an account, well, it's a bigger organization now, so we don't immediately have to say, "Uh-oh, we have to drop one of these participations." We can have a bigger appetite now with $6 billion of capital. And often, what we've done is said, we're trying and keeping both.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

Yes, that's definitely a fair point. Yes, and -- so -- and just actually as a clarification. Mike, you mentioned that you will be rolling the smaller Alterra E&S into the Markel E&S. For reporting purposes, will it still be in the Alterra segment, though?

Francis Michael Crowley
Vice Chairman

For the rest of this year.

Operator

Our next question is from the line of David West of Davenport & Company.

David McKinley West
Davenport & Company LLC

A question for Tom. As you are facing these investment alternatives, what do you see in terms of valuation levels for public equities versus what you are seeing in the private equity market when you evaluate the opportunities for ventures?

Thomas S. Gayner
Co-CEO & Director

I would say, in the private world, prices have gone up more dramatically and more consistently across the board than would be the case in the public world. So the multiples we were paying of the things that we bought in Markel Ventures in '08, '09, that, generally speaking, is not available right now. And you will notice we have been quiet. We haven't bought any major platforms within Markel Ventures for a while.
In public market, there tends to be more dispersion. So you will have headlines of things that are wildly popular and wildly unpopular at the same time, so making a general statement means less in the public markets than it does in the private market. So I'd say the opportunity set is actually a little bigger on the public side than the private side as we sit right now.

Operator

Thank you. At this time, there are no additional questions. I'd like to turn the floor back to management for closing comments.

Thomas S. Gayner
Co-CEO & Director

Thank you very much. Thank you for joining us. We look forward to catching up with you again soon. Bye-bye.

Operator
This concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation.