

S&P Global
Market Intelligence

Markel Group Inc. NYSE:MKL

Earnings Call

Thursday, August 1, 2024 2:30 PM GMT

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Call Participants

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Presentation

Operator

Good morning, and welcome to The Markel Group Second Quarter 2024 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 second quarter 2024 results, as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q, including under the captions, 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 second quarter 2024 results or our most recent Form 10-Q. The press release for our second quarter 2024 results as well as our Form 10-K and Form 10-Q can be found on our website at www.mklgroup.com in the Investor Relations section. Please note, this event is being recorded.

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

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Thank you, and good morning. Welcome to The Markel Group second quarter conference call. My name is Tom Gayner, and I serve as your CEO. I'm joined today by our CFO, Brian Costanzo, and the President of our Insurance Operations, Jeremy Noble. I'll make a few opening remarks and then turn things over to Brian and Jeremy to update you on our financial results and some comments on our Insurance engine. Then we will open the floor for questions.

We always appreciate the chance to spend time with our partners. We cannot build the Markel Group without long-term owners who share our goals. As such, we welcome your long-term questions, thoughts and comments as fellow owners of the business. First off, we've got some good results to share with you. Brian will follow the conventions of financial reporting and share our most recent quarterly and year-to-date financial results. I will speak to some longer-term numbers. Those results will show positive contributions from each of our 3 engines. Our insurance engine continued to grow in the first half of 2024. Underwriting profitability improved sequentially from the first quarter. Our ongoing accounting conservatism and integrity can also be seen by ongoing favorable reserve development.

We continue to produce improved underwriting results so far in 2024 despite ongoing industry-wide pressures of inflation and loss costs across almost every class of business. I am proud of our insurance teammates and their ongoing dedication to continuing to improve our underwriting performance. In our Ventures operations, we set new records in sales and earnings. I think it's accurate to say that we achieved these results against a backdrop of increasingly competitive and challenging external positions. I would also describe the overall economic environment, as returning to some sense of normality after the last few years of disrupted overall conditions, supply chain challenges emerging and being dealt with, dramatic interest rate movements in both directions and other volatility creating surprises of head snapping speed in force.

Markel Ventures continues to perform very well amidst these conditions, and I couldn't be prouder of the team's efforts and their results. One other point on Ventures is that for the last several years, we've been talking about how high transaction prices were in the buying and selling the businesses. As such, we acted with discipline and did not add any new companies to our family in 2022 or 2023.

I'm pleased to report that so far in 2024, our partners at VSC and Costa Farms have acquired businesses that complement their existing offerings and footprint. We also added a new Markel Ventures company at the end of the second quarter with the purchase of a majority interest in Valor Environmental. Valor is a leading provider of erosion control, storm water management and regulatory-driven site services, and we are delighted to welcome them to the family. Valor in each of the VSC and Costa transactions met our long-standing 4-part test we use to guide us in selecting investments both public and private.

Those 4 parts are: one, we look for businesses with good returns on capital that don't use too much debt. Second, we look for management teams with equal measures of talent and integrity; Third, we look for businesses with reinvestment opportunities and capital discipline, and four, we look for all of those first 3 lovely attributes at a fair price.

As to Valor and the additions of Costa and VSE, check, check, check and check. It's worth noting that beyond being an attractive buyer and home to sellers of long-term, multi-generation family businesses and their owners. At certain times, we can be an attractive buyer for financial backers such as family offices and private equity firms. Until recently, we did not consummate any deals for those types of sellers. Higher interest rates and changing business conditions are starting to shake a few things loose from some different trees these days. We are productively engaged in way more conversations with way more kinds of sellers in this environment than it has been in the case in recent years. Stay tuned for more news as time goes by.

I am personally excited by what we're seeing and what we're working on these days. Our ability to productively deploy capital at good rates of return and durable businesses that meet our 4-part test is exciting to me. The skills and relationships required to invest capital wisely don't spring up overnight. We've been honing these skills for decades, and the opportunities to act on them are now growing. On the investment side, we continue to consistently follow our time-tested strategy. The recurring interest and dividend income continues to increase as each maturing bond in our portfolio is replaced with a higher coupon security.

Similarly, dividend income from our high-quality portfolio of equities continues to increase. While our relative equity returns this year trails the S&P 500, we remain committed to our long-term disciplined approach. The last time we trailed the S&P by this magnitude was in the late 1990s when the market seemed possessed by a singular market focus.

We stuck to our guns and preserved and protected our balance sheet. That turned out to be a good thing when the market environment changed. It seems to me like we might be facing a similar phase change environment today as we did at that time. We have been and will remain committed to our successful time-tested low-cost and tax-efficient strategy.

Finally, before I turn the call over to Brian to review the 2024 results, I want to provide some thoughts on a longer-term horizon measurement of our progress at the Markel Group. As we've stated repeatedly over the years, we aspire to build one of the world's great companies, and we mean to do so in an enduring fashion. As one tool to foster long-term behavior, internally, we measure our performance over 5-year intervals to judge our performance and calculate incentive compensation. We do so in an effort to constantly remain focused on longer-term accomplishments rather than quarterly or annual measures.

Five years ago, at June 30, 2019, we had total net investments, that is our entire investment portfolio plus cash minus debt of \$17.5 billion. As of June 30, 2024, that number stands at \$28.2 billion, an increase of 61%. Five years ago through June 30, 2019, we earned underwriting and insurance income of \$142 million. Five years later, through June 30, 2024, we earned underwriting and insurance income of \$313 million, an increase of 120%.

Five years ago through June 30, 2019, we earned \$133 million of operating income in our Markel Ventures operations. Through June 30, 2024, we earned \$281 million of operating income, an increase of 112%. At June 30, 2019, each share of Markel sold for about \$1,100. At June 30, 2024, each share of Markel sold for about \$1,575, an increase of about 43%. The share price change is the lowest number on the page.

In response to our own calculation of the intrinsic value per share of Markel, and the array of opportunities available to us to productively deploy capital, we've repurchased Markel shares. Five years ago, the share count stood at 13.826 million shares. At June 30, 2024, it stood at 12.962 million, a decrease of almost 1 million shares. The vast majority of these repurchases took place in the 2022 through 2024 time frame. It seems to me that the math indicates we're looking at the circumstance of more company divided by fewer shares. I think that this ought to produce excellent returns for our shareholders over time. Even more important than the numbers, is the way the numbers get achieved. The numbers are the outcome and the results of our culture and the efforts of the people of this company. As we say in the first paragraph of our culture statement, the Markel Style, we believe in hard work and zealous pursuit of excellence while keeping a sense of humor. Our creed is honesty and fairness in all of our dealings. I am proud of the people of Markel and I thank them for their ongoing efforts to build our company around such wonderful principles.

With that, I'd like to turn things over to Brian. But wait, before I do, I just want to interject here, my [frac] and able and wonderful assistance Cynthia Fedderman actually deployed the tools of AI to take my comments and ask Microsoft copilot to write a poem about what I just said. This will only take a second, but I can't help but share it with you. So here it goes.

We're glad to share some news with you about our quarter 2 review. We have 3 engines that fuel our Fire, Insurance, Ventures and Investments they inspire. Our Insurance engine showed its skill in underwriting despite some mills. Our Ventures engine soared to new heights in sales and earnings and new buys. Our Investment engine stuck to our plan of low-cost, tax-efficient and brand. We track our progress over 5 years, and we see more value and less fears.

We also bought back some of our stock to show you that we value your log. We thank you for your trust in backing, and we hope you'll join our unpacking. So with that AI augmented presentation, let me turn it over to you, Brian.

Brian Jeffrey Costanzo

CFO & Chief Financial Officer of Markel Insurance Operations

Thanks, Tom. It can be hard to top that. Maybe we can make Dr. Seuss book out of that poem there. Excited to be here this morning to discuss our results for the first half of 2024. Each of our 3 engines, Insurance, Investments and Markel Ventures made significant contributions to our first half results. Starting off with the consolidated results.

Total revenues increased 5% to \$8.2 billion for the first half of 2024, and total operating income increased slightly year-over-year to \$1.75 billion with the largest driver of growth being a 34% increase in our net investment income. Net income to common shareholders was \$1.3 billion in the first half of 2024 compared to \$1.2 billion in the same period of 2023. The comprehensive income to shareholders in the first half of both 2024 and 2023 was \$1.2 billion. Net cash provided by operating activities was \$1.2 billion in the first half of 2024 compared to \$1 billion in the same period of 2023. Operating cash flows in 2024 reflected strong cash flows from each of our operating engines with the most significant contribution coming from our Insurance engine.

In May, we issued \$600 million of 30-year 6% unsecured senior notes, bringing our debt-to-capital ratio to 22%. In the first half of 2024, we repurchased \$260 million of Markel Group common stock under our outstanding share repurchase program compared to \$187 million in the same period of last year. Turning now to the performance of our 3 operating engines and starting with our Insurance engine. Gross written premiums within our underwriting operations grew by 6% to \$5.7 billion for the first half of 2024 compared to \$5.4 billion in the same period of 2023. Our increased premium volume was driven by our International marine and energy insurance and reinsurance business and growth on select U.S. lines of business, including personal lines and programs. This was partially offset by targeted premium contraction in select classes within our U.S. professional liability and general liability portfolios where we took underwriting actions to improve profitability.

Jeremy will discuss these actions in more detail within his commentary. Our consolidated combined ratio for the first half of 2024 was 94% compared to 93% in the same period of 2023. The 1 point increase was

due to higher attritional loss ratios on our professional liability and general liability insurance product lines as we remain prudent in adding margin to classes with challenging loss trends. Also, we recognized losses on our discontinued intellectual property collateral protection insurance product.

On year-to-date 2024 consolidated combined ratio, we included \$96.8 million or 2 points of losses on our CPI product line. Prior year loss reserves development improved over the first half of 2024 to \$221 million in loss takedowns versus \$139 million in 2023. Favorable development in the first half of 2024 was most notable within our International Professional Liability product lines. We remain cautious in our approach to reducing prior year loss reserves on our longer-tail U.S. Professional Liability and General Liability lines given recent claim trends.

Within our Program Services and ILS operations, operating income increased 23% to \$61 million primarily driven by strong growth and performance in our fronting businesses. Moving next to our investment results. We reported net investment income of \$441 million in the first half of 2024 compared to \$329 million in the same period last year. Net investment income reflects the recurring interest and dividends earned on our investment portfolio. We continue to benefit from higher interest rates as the yield on our fixed maturity portfolio, short-term investments and cash equivalents all increased compared to the first half of 2023. We expect, based on the current interest rate environment, that the yield on fixed maturity securities will continue to increase slightly throughout 2024 as lower-yielding securities mature and are replaced by higher-yielding securities.

At June 30, 2024, the book yield on our fixed maturity portfolio was 3.4%, up from just over 3% at the end of last year. Net investment gains of \$772 million in 2024 reflect favorable market movements, resulting in a return of 8.9% on our public equity portfolio for the first 6 months of 2024. This compares to net investment gains of \$857 million for the first half of 2023. As you've heard us say many times before, we focus on long-term investment performance, expecting variability in the equity markets from period to period. At the end of June, the fair value of our equity portfolio included cumulative pretax unrealized gains of \$6.9 billion. Net unrealized investment losses included in other comprehensive loss in the first half of 2024, or \$152 million net of taxes compared to net unrealized investment gains of \$30 million net of taxes in the same period of 2023.

Recall that we typically hold our fixed maturity investments until they mature and would generally expect unrealized holding gains and losses attributed to the change in interest rates to reverse in future periods as bonds mature. We continue our long-standing precedent of investing in the highest quality of fixed income securities. As of June 30, 2024, 98% of our fixed maturity portfolio was rated AA or better and there are no current or expected credit losses within the portfolio.

Finally, I'll cover the results from our Markel Ventures engine. Revenues from Markel Ventures increased 4% in the first half of 2024 versus the same period of 2023, reflecting moderate revenue increases at many of our products businesses as well as contributions from an acquisition made by one of our businesses in the first quarter of 2024. Markel Ventures operating income increased 7%, driven by higher revenues and improved operating margins at our consumer and building products businesses. As Tom mentioned, we also completed the acquisition of Valor Environmental late in the second quarter, adding to our family of businesses within Markel Ventures.

Inclusion of operating results from Valor will begin in the third quarter. For our June financials, the preliminary allocation of purchase price includes \$108 million to goodwill and \$49 million to intangible assets. With that, I will turn it over to Jeremy to talk more about our insurance engine.

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Thanks, Brian, and good morning, everyone. I'm pleased to be here with you to discuss our progress within the insurance engine over the first half of this year. Our insurance results continued to improve this year, coming off elevated combined ratio results during the latter half of 2023 due to prior year's reserve strengthening.

Our combined ratio for the second quarter improved sequentially and our first half combined ratio is where we expected to be at this point in the year despite higher losses within our intellectual property collateral protection portfolio which is in runoff. As Brian shared, we experienced greater favorable development on prior year's reserves through 6 months of 2024 than a year ago, and have not seen meaningful further development in the products we addressed at year-end.

Overall, our operating revenue growth and underwriting gross written premium growth in the first half of the year reflects the actions we have taken to improve profitability. Within our Insurance segment, the lines where I have previously discussed us taking significant underwriting action to improve profitability, namely our brokerage excess and umbrella and brokerage contractors books within general liability, and our risk-managed professional liability classes, we decreased writings year-to-date by over 20%. The remainder of our products in our Insurance segment, where we are generally achieving good levels of profitability and are satisfied with rate adequacy have grown 8% in the aggregate.

Now let me briefly take you through each of our divisions for the first half of the year. First off, within our Specialty Division, we continue to benefit from the corrective actions taken within select classes in our casualty and professional liability books, while will also remain cautious on our current accident year loss picks in these areas. This is most evident in the gross written premium reductions in select classes of our casualty and professional books. I mentioned earlier.

But specifically, we continue to pursue growth and profitable product classes, including personal lines, property, inland marine, binding and small commercial, managed reliability and select programs business. Many of these lines are achieving meaningful rate increases. An exception is property, where in the past few months, we have seen a contraction in rates back to low single digits but still at attractive pricing levels. The growth in these lines is improving the product mix and overall combined ratio of the division as our premium earnings mix changes. Within our casualty and professional liability classes, we continue to execute on our corrective underwriting action plans within certain pockets of the portfolio, where results have not met our expectations.

During the first half of the year, our recently discontinued Intellectual Property Collateral Protection product line negatively impacted our combined ratio performance due to an increase in the frequency of defaults on loans collateralized by intellectual property that became impaired. During the second quarter, we recognized additional claims expense of \$56 million relating to this discontinued product line, which adversely impacted our loss ratio by 3 points. Through the first half of 2024, we have recognized \$97 million in claims activity which increased our loss ratio by 2 points.

Given the claims made nature of this product, most of these losses impact our current accident year attritional loss ratio. We recognized claims expense at the time claims are considered probable which occurs when there is both a default on the loan and an impairment on the intellectual property collateralizing the loan. That said, loan defaults are trending both at a faster clip and at a meaningfully higher level than anticipated at the beginning of the year. Changes in the macroeconomic conditions have put strain on early-stage businesses, resulting in less access to capital and higher loan defaults.

Valuations of the intangible assets, collateralized to loans also have not held up in the workout process. We expect the majority of loss activity on this product to resolve by the end of 2025. The impact in any future quarter is unlikely to be significantly more than what has been experienced in each of the past 2 quarters. For context, our portfolio consists of approximately 30 individual loan transactions for which we have recorded claims expense of just under half of the loans.

Overall, our Specialty division under its recently refreshed management team led by Alex Martin, has done a tremendous job of quickly executing on our corrective actions and improving profitability, while attending to the needs of our trading partners and insurance. We are now very focused on our product capabilities where we can add value and feel we can grow. I applaud our collective specialty team for their resiliency, tenacity and commitment.

Our International division continues to produce fantastic results, achieving both significant premium growth of just over 8% and a sub-80 combined ratio for the first half of this year. We continue to push for growth both organically and through geographic expansion as well as broadening our product offerings

across our existing operations. While we have seen an increase in competition and downward pressure on rates within some classes in our international book, specifically our professional liability, energy and cyber portfolios, we believe these lines are still priced at levels that meet our requirements from a rate adequacy standpoint.

Our State National program services operations achieved significant premium growth of 22% for the first half, while producing consistent levels of high profitability. We also continue to differentiate ourselves within the fronting market with our ability to facilitate and place complex transactions. Our team continues to be best-in-class and efficiently matching risk with capital, managing our exposures.

Within our Nephila operations, the team has been hard at work constructing attractive portfolios and responding to heightened levels of natural catastrophe losses anticipated this year. We have both hedged risk for current capacity deployed and reduced overall premium writings, which will modestly lower our operating revenues in the short term.

However, these actions are in the long-term best interest of our investors, and we remain excited about the future prospects of our business. In our Global Reinsurance division, we remain steadfastly focused on pricing adequacy for the lines we are deploying. In the current market environment, we've lowered our required combined ratio pricing targets to reflect caution, while also being opportunistic in pockets of the book, and particularly within our marine and energy class. In general, we are walking away from deals where we believe pricing is inadequate.

With that, I'd like to thank our over 5,000 associates across our Insurance operations, for their exemplary efforts for the first half of the year, delivering improving results and serving our clients. Now I'll turn it back over to Tom.

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Thank you, Jeremy, and Brian. As with that, we will open the floor for questions, if we may.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andrew Kligerman with TD Securities.

Andrew Scott Kligerman

TD Cowen, Research Division

Question for you around the prior year reserve release of 6.9%. It seems that Markel is often -- it seems like a consistent trend that Markel can release reserves each quarter. And so what I'm thinking is, why not initially set the loss picks lower? Or am I not thinking about it the right way?

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Yes, Andrew, this is Tom. Let me take the first pass at that, and I invite Brian and Jeremy to chime in as well. I've been at Markel for 34 years now, and have owned stocks since the IPO in 1986. And even before the IPO, the phrase that you would hear over and over again was that we set our reserves at levels that are more likely to prove redundant than deficient. That's been an unchanging value statement forever, for my life [up] for the history of this company. And I think that's hugely important because it's important to be modest and humble about your ability to forecast what's really going to go on. So what we do is we look at our book of business, we look at the risks, we look at our exposures. We take our best guess at what we think the ultimate loss costs are going to be.

And then because we know that number is likely to be wrong, we ask ourselves, do we want it to be wrong the wrong way or wrong the right way. And wrong the right way, is providing some margin of safety, some margin of error to be able to absorb surprises and yet still report to you fairly what's going on, on a day-by-day basis. The other advantage to that is there's a feedback loop between setting reserves and underwriters making new pricing decisions on business that they're writing today and going forward. And if you get that reserve number a little skinny or a little tight, which you've introduced as a feedback loop and data to your underwriter, that would cause them to perhaps potentially write new business at a thinner rate than really what should happen. So that's just a matter of philosophy. I know you're relatively new to following Markel. But you'll find if you go back in time, that has always been the case, and it will always be the case because we think that's the right way to run an insurance operation.

Andrew Scott Kligerman

TD Cowen, Research Division

That makes a lot of sense, Tom. And I guess that -- okay, and that helps me frame the combined ratio better going forward. You seem genuinely very excited about opportunities in Markel Ventures right. And I think, I heard it right on the call, but the valuation on Valor was around \$200 million plus. What are you looking at right now in terms of industries and potential price tags as you move forward?

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Well, in terms of potential industry, sometimes when I'm in a cocktail party and somebody wants to know what the Markel Group does or Markel Group? I'd say we're a holding company, we hold things that most people won't touch. So we do not have an industry vertical that we seek and desire in a strategic way. We like wonderful businesses that produce good returns on capital that don't use too much debt to do it. They have management teams with integrity and talent, have reinvestment opportunities and we can get them at a fair price. And that includes a lot of different things that you can see from the array of both the things we own in Ventures and the types of risks that we write in our Insurance operation.

So we're 360 degrees open. We've talked to a lot of people. We've built a lot of relationships over the years. And as a consequence, our phone rings with interesting stuff. In fact, there was one business where somebody called me and literally his opening line was " this business was so weird, I thought of you

immediately". So fortunately, we've developed and earned a reputation over the years. Our phones are ringing more today than they did for the last couple of years. So that's why I'm excited and look forward to getting some things over the line.

Operator

Your next question comes from the line of Andrew Andersen with Jefferies.

Andrew E. Andersen

Jefferies LLC, Research Division

You've talked about reserve studies in-depth reviews you conducted in fourth quarter '22 and fourth quarter '23. But could you touch on how the quarterly approach to reserve studies has changed, if at all? Or should we continue to expect a larger widespread study conducted annually in the fourth quarter?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Hey, it's Jeremy. I'll take that. So we do a comprehensive reserving study and analysis every quarter across the various years and products in each of our divisions. What stood out in the last fourth quarter period you mentioned, including the fourth quarter of this past year, was actually a more specific deeper dive in targeted areas because of some of the reserving trends we have seen. So there is not to say that there is a fourth quarter annual reserve study. Our approach to reserving and that comprehensive review of the product lines is very consistent over time, but also consistent over time, is we're always looking at anything that's developing or new trends that are deviating from our actuarial expectations and what we're seeing in the data.

And if there's anything that we want to do a deeper dive on, we do those sub-class studies and examinations on a very regular basis.

In the first quarter and the second quarter of this year, what we've seen is that the reserve analysis and the work that we did and the selections we made at the end of the year, they've held up well. And so what you're seeing coming through is favorable development sequentially higher this year to last year, and that's driven in part by some of our shorter tail lines in the U.S. space as well as across our international portfolio.

Andrew E. Andersen

Jefferies LLC, Research Division

And then just on the growth within the insurance segment, 2% in the quarter, but it sounds like you're getting some rate on GL, though still being pretty cautious. Property returns are still pretty favorable. Would you expect primary insurance growth to accelerate a bit in the second half? And then maybe just with that, the session rate has ticked higher is kind of 2Q a good run rate?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Yes. So there's any number of things that are happening in the portfolio. And you're exactly right, tails sort of two sort of stories that are happening. One is about in the insurance space. One is about the reshaping and re-underwriting and the actions we've taken and kind of in those areas that we've been really focused and intentional of wanting to drive some different outcomes.

I think, I mentioned that in those product lines were down over 20% year-over-year. The rest of the portfolio in the aggregate is growing and we see many pockets within the portfolio that feel, actually pretty confident that we can grow. So we'll continue to focus on -- and the opportunities we see in the International space, and then in the U.S. space in Personal Lines and in Property and Binding and Small Commercial and Programs and Inland Marine, Managed Reliability a bunch of classes that we feel pretty good about.

So even in the Casualty and Professional portfolios, where we've taken some targeted actions, we're trying to reposition and reshape those portfolios. So we still see areas of opportunity for growth. So I'm not going to kind of guide towards a top line figure, but there certainly are pockets in the portfolio that we feel confident are profitable, are priced adequately, and that we feel that there's a good Markel value proposition, and our teams are very focused on growing in those products.

Operator

Your next question comes from the line of John Fox with Fenimore.

John Derwin Fox

Fenimore Asset Management, Inc.

In July, you did a press release on a reinsurance deal between State National and James River, which you didn't address in the queue. So I'm wondering if you could talk about that? And my understanding is there's some type of risk sharing in terms of future development. So Jeremy, maybe you could talk about that deal? And what are the risks to the downside if things are not developing as expected?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Yes. Sure, John. This is Jeremy. So let me touch on that. Obviously, the attention that was garnered by that transaction comes from a counterparty on the one side of the transaction. So this deal is a State National deal and State National Insurance Company entered into that loss portfolio in adverse development cover reinsurance contract with the party that you mentioned. So there's -- obviously, terms and conditions are laid out. Now actually, this is very consistent with the role that State National plays in fronting transactions. So that deal was 100% retroceded, and all of the obligations associated with that loss portfolio transfer and adverse development cover agreement were transferred to a high-quality reinsurer.

And those -- that retrocession contract, we contained the same credit risk mitigation features that would be typical of state nationals long-standing risk management practices. So that's actually, I would say, we believe that, that agreement is a great example of our capabilities as the preeminent leader in the fronting space where at State National, we're able to support large complex transactions, efficiently match risk and capital utilizing those market-leading services and capabilities within the State National platform, but also still taking this credit risk mitigation features that are very typical of our long-standing state national approach. That's part of the reason also you wouldn't see it disclosed within Markel, because it's really a state national transaction. It's more a fee-for-service type of arrangement.

John Derwin Fox

Fenimore Asset Management, Inc.

Okay. So when I look at the James River's release, which says State National provides \$160 million adverse development, that's been reinsured out away from Markel's balance sheet?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

That's right. It's very similar to the deals that we would enter into in the fronting space with State National. There's a contract on one counterparty in the front end. There's another contract with another counterparty on the back end. We match up all those sort of terms. And that's really what that fronting model, that State National model is all about.

John Derwin Fox

Fenimore Asset Management, Inc.

Okay. Great. And so staying in the weeds on reinsurance. In the queue on Page 24, it looks like there was some type of deal with Nephila and it looks like you reinsured that out also. So could you talk about the deal between Nephila and Markel in the quarter?

Jeremy Andrew Noble*President of Markel Insurance Operations & President of Global Insurance Engine*

Yes. I don't have that language directly in front of me, and I don't think there was anything unique in the quarter with regards to Nephila. But however, what you may be picking up on is within our other fronting operations, we've seen an uptick in the premiums there, and we're acknowledging that those premiums are associated with the Nephila platform. That is where Nephila uses our rated balance sheet in some of its products that have enhanced fee features to support some of its investors. So again, it's leveraging some of the wider tools and capabilities that we have within the Markel platform to support some of the products and capabilities that Nephila has. But again, those arrangements would be using Markel rated paper, but ultimately would be supporting third-party capital and investors.

Brian Jeffrey Costanzo*CFO & Chief Financial Officer of Markel Insurance Operations*

Yes, John, maybe I'll add real quick. When you see other fronting kind of referred to in the queue or the press release, not all of it, but the majority of that is attributed to the Nephila transactions that Jeremy just described.

Operator

Your next question comes from the line of Charlie Lederer with Citigroup.

Charles William Lederer*Citigroup Inc., Research Division*

I have a few questions on the IP business that I know you discontinued, so I apologize. But can you walk us through the claims process with that product? I guess, we understand that some of these policies trigger a claim and the amount of the full collateral regardless of its value. Is that correct? And is that part of the severity here?

Jeremy Andrew Noble*President of Markel Insurance Operations & President of Global Insurance Engine*

Yes, Charlie, it's Jeremy. So you're right. I mean the product is -- does have a sort of a dual trigger. So really, there needs to be a default on the loan, and that loan is backed by the IP. And then you also have to have the impairment in the collateral that secures the loan, so that is the intellectual property itself. So when we recognize claims or loss activity, we're reacting both to a default on the loan as well as to the impairment and the intellectual property of that entity that secured the loan.

Charles William Lederer*Citigroup Inc., Research Division*

Got it. And I guess how long of a process is that to determine the value of the IP or the collateral?

Jeremy Andrew Noble*President of Markel Insurance Operations & President of Global Insurance Engine*

Yes, it is a little bit contract to contract, but there tends to be from the point of a trigger default. I want to say something like 6 to 9 months period to be able to actively work out kind of what comes next. And there's any number of things that could happen with regard to the sort of emerging or start-up, early-stage companies with regards to what could happen. If something doesn't occur in that sort of 6- to 9-month period, that would then trigger an actual default. And the settlement -- and the potential settlement of the claim.

Operator

Your next question comes from the line of Andrew Kligerman with TD Securities.

Andrew Scott Kligerman*TD Cowen, Research Division*

Just on the intellectual property item. You mentioned, I believe, on this call and in the 10-Q that there's a possibility that you could see similar loss levels in the subsequent 2 quarters. Why not take a reserve charge right now just to kind of capture that if you think there's a good chance that, that will occur?

Brian Jeffrey Costanzo

CFO & Chief Financial Officer of Markel Insurance Operations

Yes. And Andrew, this is Brian. I mean this is -- it's a tricky product. And if you think back to what Tom was talking about in our reserving philosophy, if this wasn't a unique product, that's probably what we would do. The fact that it's a claims-made product introduced a little bit of a different trigger in terms of when we recognize the claim expense.

So as Jeremy mentioned, it's really looking at when we have a probable loss under that dual trigger mechanism. So there's a default on the loan, along with an impairment of the IP collateral that's backing the loan. That's well ahead of kind of when the workouts are going to finalize and when you would ultimately pay the loss, but it's also not front-loading everything upfront.

The best analogy to that is kind of how a mortgage product works where you don't anticipate all the defaults on a mortgage product on day 1. They kind of spread out over the life of the length of the mortgage loans that are out there.

Andrew Scott Kligerman

TD Cowen, Research Division

I see. So given that it's a claims-made product, does that imply then that these policies are probably not going to last through the balance of the year. So by the end of this year, the claims that come in will be done and over with? Is that a fair way to think about it as well?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

The loans are typically 4- or 5-year terms. So the policy is written over the duration of the loan. So the coverage lasts for the entirety of that loan, including to the ultimate repayment of the loan at the end. And so you're monitoring each of these deals throughout the duration of the loan and measure it against that criteria on a quarterly basis that I laid out.

Operator

Your next question comes from the line of John Fox with Fenimore.

John Derwin Fox

Fenimore Asset Management, Inc.

I guess I was getting limited to two questions. So I just want to confirm, I didn't see any cat losses disclosed in the queue. Is that correct?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

John, it's Jeremy. That's correct. We tend to there's always a little bit of bump in things -- that go bump in the night as far as the catastrophes go. We tend to just record that in attritional unless there's something that really stands out.

Operator

Your next question comes from the line of Charlie Lederer with Citi Group.

Charles William Lederer

Citigroup Inc., Research Division

Sorry to harp on the IP stuff a little bit more. But last year, I think in 3Q and 4Q, you called out some losses that I think were credit losses related to the collateral not being what it was purported to be. Were there losses on top of those figures last year? I just want to make sure I kind of understand the trend.

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Yes. Sure, Charlie. It's Jeremy. So -- and the specifics are documented in our disclosures, both in last year's third quarter 10-Q as well as the most recent 10-K. So we would have said last year, total losses on the CPI product amounted to a little more than 1 point on our consolidated combined ratio. Approximately 60% of that would have been associated with those 2 fraudulent letters of credit that we spoke to. So we did acknowledge and highlight in the third and fourth quarter of last year that there were also underlying losses associated with some of the defaults.

And then we've seen that activity, and we've obviously quantified that activity through the first 2 quarters of this year. And we've talked about what could potentially happen in any future quarter as far as unlikely to be significantly more than what's experienced in this quarter. And we've said that should be done by the end of 2025 at the latest from a material standpoint, and we've given you a sense of the total size of the portfolio and how many defaults have happened.

So I think we've kind of laid out on IP as much of the inputs as possible to be as transparent as possible and allow you to sort of come to your own conclusions. I do think, because there's a lot of questions, I think it's worth pointing out, the primary reason for providing some of the specifics around the CPI losses is that otherwise, it masks the improvement that we're seeing across the wider core ongoing insurance portfolios. And that's what I think is so important. We've been working really hard to navigate current market conditions, take corrective actions where necessary, grow in many diversified lines of business where we view profitability levels to be attractive. Our specialty team has been laser-focused to put CPI in runoff. There are certainly some tough lessons that we've learned, but we've turned the page and I'm confident that we're well positioned moving forward in our Specialty Insurance operations.

Charles William Lederer

Citigroup Inc., Research Division

I can definitely appreciate it and understood. I guess just a different question, I guess, just given the growth in property, can you just give us a sense of, I guess, your cat exposure in the insurance segment heading into wind season?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Yes, sure. Thanks for that question, Charlie. So we've actively managed our property aggregates over some period of time. We would have talked about in recent years reducing and removing some of the volatility within our book. Obviously, the consolidation of our property reinsurance capabilities through Nephila, was an example of that. Exiting a number of years ago, open market property in the international space as an example of that.

Now our property writings are really sort of the core aspect of our portfolio. We've continued to opportunistically grow in that space. But in terms of across the portfolio, in terms of an average annual loss or in terms of sort of if you take out modeling out on a capital event to 1 or 2 or 50 or something like that, a percentage of sort of shareholders' equity, those amounts have actually come down over time. So opportunistically taking advantage of the market, but also benefiting from a larger more well-diversified portfolio and a larger balance sheet.

Operator

Your next question comes from the line of Andrew Kligerman with TD Securities.

Andrew Scott Kligerman

TD Cowen, Research Division

This is my record and a long career of being on queue. This is my third round, very exciting. Last question for you is around Ventures. You did 5% revenue growth. And I'm kind of curious, is this a good kind of trend line to kind of think about going forward? And within Ventures, what businesses are really kind of knocking the ball out of the park and which businesses do you feel like might be kind of a little slow at this time?

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Well, thanks, Andrew. And for your gold medal round of questioning and let me tackle this in Olympic Spirit. So the rate of growth in Ventures as we sit right now is slowing a bit, and I would basically attribute that to just what you see in the overall economy. So if we think about the last 3 or 4 years, I think 4 factors: one; labor. We were short labored. We were trying to hire people every day, and just trying to get people in the door. Factor two, we were short inventory. We couldn't build stuff fast enough. We couldn't get stuff fast enough, the inventory conditions were short. Three, we have long order books. And that meant for orders that we had, our orders were great, and there were long lead times in getting stuff out the door because of all the things that I talked about. And there were long lag times in getting inputs and getting things in.

And then fourth, we were operating in an environment of 0-ish percent interest rates. So the world was just funding anybody who had some idea that thought they could make positive returns. As we look at conditions right now, I would say, on each of those 4 points, labor markets are softening a little bit. So they're not -- there's not an unemployment crisis, but labor markets are a little softer than what they were.

Two, inventory in a lot of places is building up a little bit, and this is more things we see rather than in our own internal operations. But we see cars on lots and we see warehouses with some stuff in it, that we didn't see over the course of the last 3 years. Order books are a little softer.

And four, interest rates exist to people's behaviors are more cautious on the hurdle rates to do anything are going up. In that kind of environment, I fully expect the top line growth in the external conditions we operate in to be a little bit tougher. But that said, I love the team that's on the field, and I love the things that are being shaken loose by an environment like this, which when we start talking about these 5-year numbers are things that add to the good. So I don't really have any current market commentary or specific businesses to point to other than what I would say about the group in aggregate.

Operator

Your next question comes from the line of Andrew Andersen with Jefferies.

Andrew E. Andersen

Jefferies LLC, Research Division

Sorry for another guidance type question, but hopefully, I'll get a pass on this one. The Reinsurance segment premium growth has really bounced around here. Can you kind of help us think about ideal size here? And is like a mid-90s combined ratio still the target in Reinsurance?

Jeremy Andrew Noble

President of Markel Insurance Operations & President of Global Insurance Engine

Yes. Thanks for that, a couple of things. So premium in the -- certainly in the quarter looked to be up pretty significantly. I would suggest some of that is really due to favorable timing so inception date changes on some larger deals. Some of it was selectively increasing participation on a few favorable renewals. We saw some modest new business opportunities across several product lines. And honestly, that was offset in part by nonrenewals where there were some deals that didn't meet our profitability requirements. So across the collection of product capabilities we had in reinsurance. Net-net, I continue to see some modest growth opportunities, and that's what we've been seeing in the portfolio to date.

As far as the combined ratio goes, it has been a pretty sort of steady story over the last several quarters because by and large, particularly after several years ago, when we shifted our property reinsurance

capabilities under one sort of umbrella and collected center of excellence to Markel with Nephila, we became a very sort of long-tail oriented casualty professional and specialty shop. We look at the current underwriting years, and we feel really good about the portfolio we have in place. But because it's longer tail, it's going to be -- we're going to take a while to observe the underlying trends, before we would take any credit, for hopefully what we would believe to be an improved portfolio, which means we're really seeing the noise in the combined ratio in any given period, coming down to the prior year development.

And in many instances, we're reacting to anything we see, but it tends to be across a smattering deals, across smattering of underwriting years, across a smattering of product lines. Not too uncommon that deals were no longer support and product areas that we no longer support as well. That creates the noise. So for the most part in any given period, you're likely -- for the foreseeable future, you're likely to see in the range that we've reported in recent quarters.

Operator

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

Thomas Sinnickson Gayner

Chief Investment Officer, CEO & Director

Thank you very much for joining us, and we look forward to reporting back to you again in another 90 days. Be well.

Operator

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

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