S&P Capital IQ

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Markel Corporation NYSE:MKL

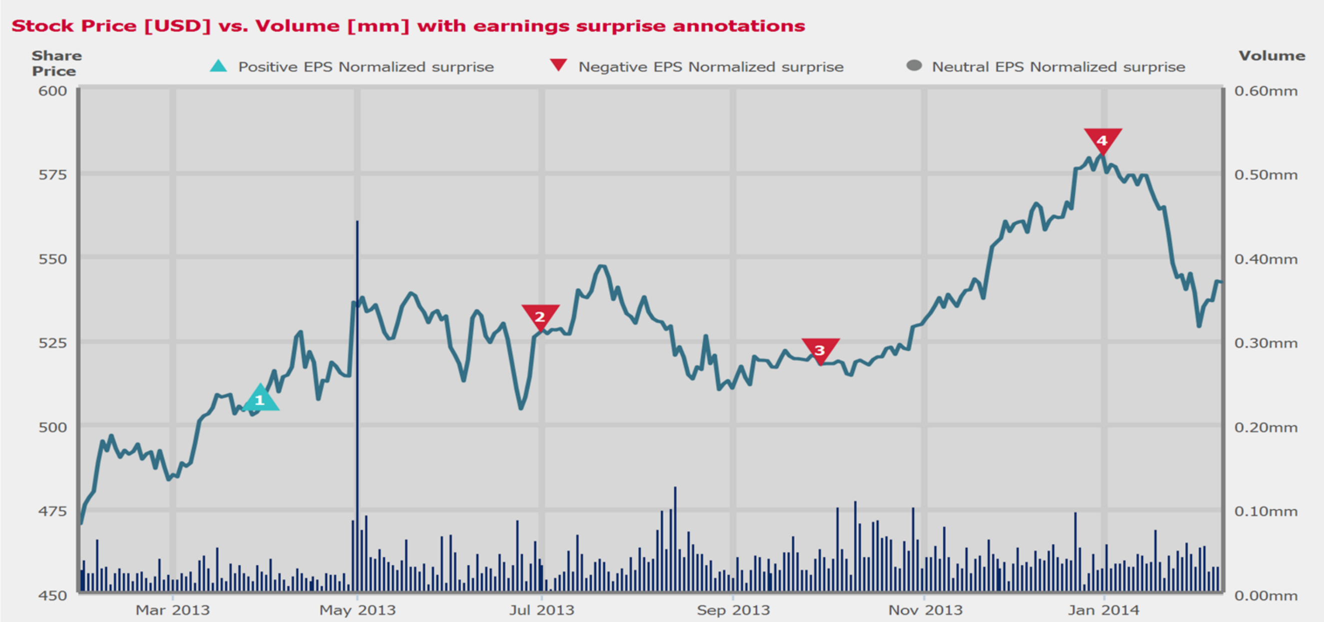
FQ1 2014 Earnings Call Transcripts

Thursday, May 08, 2014 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.74	5.32	(7.32 %)	5.36	24.18	26.82
Revenue (mm)	1229.77	1239.66	0.80	1259.14	4943.25	5304.17

Currency: USD
Consensus as of May-08-2014 3:40 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	5.47	9.50	73.67 %
FQ2 2013	5.83	5.13	(12.01 %)
FQ3 2013	6.14	4.67	(23.94 %)
FQ4 2013	5.77	5.54	(3.99 %)

Call Participants

EXECUTIVES

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Francis Michael Crowley
Vice Chairman

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

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Jay Adam Cohen
BofA Merrill Lynch, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Matthew Berry
Lane Five Capital Management, LP

Presentation

Operator

Greetings, and welcome to the Markel Corporation First Quarter 2014 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Tom Gayner, President and Chief Investment Officer from Markel Corporation. Thank you. Mr. Gayner, you may begin.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Bob [ph]. Good morning and welcome, everybody, to the Markel Corporation's First Quarter Conference Call. I'm glad that you've joined us today.

My name is Tom Gayner, and with me today are Anne Waleski, our Chief Financial Officer; and my co-presidents, Mike Crowley and Richie Whitt, and we'll go over the numbers with you. Mike and Richie will update you on our insurance operations, and I'll finish with a few brief comments on our investments and Markel Ventures activity. Following that, we look forward to answering your specific questions.

Before we do so, though, I'm required to reiterate our Safe Harbor statement, 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 the reconciliation to GAAP of these measures on our website at www.markelcorp.com in our quarterly report on Form 10-Q.

And with that, I'll turn it over to Anne.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thanks, Tom, and good morning, everyone. Before I go over our first quarter results, I'd like to provide some information on our new reporting segment. As we highlighted in our 2013 fourth quarter conference call and Form 10-K, we are now aggregating and monitoring our underwriting results in the following 4 segments: U.S. insurance, international insurance, reinsurance and other discontinued lines. We believe this segmentation of our underwriting results provides the most meaningful way to look at our performance in comparison to our peer group and provides a reporting framework which can be consistently used to more quickly integrate future acquisitions into our financial reporting processes.

To recap, the U.S. insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States. The international insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States, including the company's syndicates at Lloyd's.

The reinsurance segment includes all treaty reinsurance written across the company. Results for lines of business discontinued prior to or in conjunction with acquisitions will continue to be reported in the other insurance discontinued lines segment.

As a reminder, the Form 8-K filed on April 22, 2014, provided a resegmentation of our previously reported results for 2011, 2012 and each quarter of 2013. The segment changes have no affect on our historical consolidated financial results of operations.

Effective January 1, 2014, Syndicate 1400 was put in run off and all legacy Alterra at Lloyd's business is now being underwritten on Markel Syndicate 3000. Likewise, since the acquisition, some legacy Alterra U.S. property renewals, as well as other new business obtained from legacy Alterra producers, are now written so that it is difficult to distinguish them from legacy Markel business. For these reasons and the continued combination of underwriting platforms, systems and product offerings, it has become and will continue to be more and more difficult each quarter to separately identify and quantify legacy Alterra results. Increasingly, we're not thinking legacy Alterra or a legacy Markel. We're just thinking our company. Since that's where we wanted to be, we're glad we're here, and we're glad that it's been a relatively quick process.

Now let's talk about our first quarter 2014 results. The year's off to a solid start. Our total operating revenues grew 51% to $1.2 billion in 2014 from $820 million in 2013. The increase is driven by the expanded underwriting platform and the larger investment portfolio resulting from the Alterra acquisition. Other revenues were up just under 8% to $186 million from $173 million last year, primarily due to revenue growth within Markel Ventures.

Moving into the underwriting results. Gross written premiums were $1.4 billion for the first quarter of 2014 compared to $743 million in 2013, an increase of 83% with each of our 3 ongoing underwriting segments contributing to this growth. Net written premiums for the first quarter of 2014 were approximately $1.1 billion, up 72% from the prior year for the same reason. Net retention was down in 2014 at 84% compared to 89% in 2013. The decrease, which is in line with our expectation, is primarily due to a higher use of reinsurance on a number of products in global insurance and global reinsurance division.

Earned premiums increased 68% to $949 million for the first quarter of 2014. The increase in 2014 was driven by the inclusion of a full quarter of legacy Alterra product offerings included in each of our 3 ongoing underwriting segments, as well as a full quarter from our Hagerty business.

Our consolidated combined ratio for the first quarter of 2014 was a 95% compared to a 91% a year ago. The increase in the combined ratio was driven by a higher current accident year loss ratio and a lower benefit of prior year loss redundancy, partially offset by a lower expense ratio. The increase in the 2014 consolidated current accident year loss ratio is primarily due to a higher current year loss ratio from -- for our international and reinsurance segment, each of which have a higher proportion of premiums coming from legacy Alterra product offerings than our U.S. insurance segment.

During the first quarter of 2014, legacy Alterra product offerings carried a higher current accident year loss ratio than our other product offerings due to higher attritional loss ratios and applying our more conservative loss reserving philosophy. The consolidated combined ratio for the first quarter of 2014 included $107 million of favorable development on prior year loss reserves compared to $85 million in 2013. The benefit of the favorable development on prior year loss reserves had less of an impact on the combined ratio in 2014 than in 2013 due to higher earned premium volume in 2014.

The decrease in the consolidated expense ratio in the first quarter of 2014 was driven by higher earned premiums in each of our ongoing underwriting segments compared to a year ago.

Before moving on to our other results, I would like to make a few comments about our actual 2014 first quarter underwriting results compared to the pro forma first quarter 2013 underwriting results. We have included these pro forma results in the Form 10-Q for informational purposes only. But feel that the additional perspective that this comparison provides is helpful given the fact that the actual results for the first quarter of 2013 included nothing for Alterra. The pro forma results were prepared as if the acquisition occurred on January 1, 2013 and therefore, provide a full quarter of combined company underwriting results for 2013 in an effort to make the year-over-year comparison more meaningful.

On a pro forma basis, gross premiums written were down $33 million in the first quarter of 2014 compared to a year ago, primarily due to lower reinsurance premium driven by several nonrenewals and softening market conditions. This decrease is partially offset by an increase in gross written premiums from the Hagerty business.

Net retention of gross premium volume was 84% in the first quarter of 2014 compared to an 81% on a pro forma basis in the same period for 2013. The increase is primarily driven by higher retentions on certain of our reinsurance products.

Earned premiums were $949 million in the first quarter of 2014 compared to a pro forma $910 million in the same period for 2013. The increase is primarily due to having a full quarter of Hagerty business in 2014.

The combined ratio was 94% for the first quarter of 2014 compared to a pro forma 92% for the same period of 2013, largely due to our higher current accident year loss ratio in 2014. The increase in the current accident year loss ratio was due in part to applying our more conservative loss reserving philosophy to Alterra's long tail of lines of business. When we look at the underwriting results in this manner, we believe it is much easier to see that we have retained a significant portion of the business previously written by the 2 separate organizations, and that we have been successful in achieving our target of underwriting profit while applying Markel's historically more conservative loss reserving philosophy.

Now I'll discuss the results of Markel Ventures. During the first quarter of 2014, revenues from Markel Ventures were $171 million compared to $162 million a year ago. Net income to shareholders from Markel Ventures for the period was just over $1 million in 2014 compared to $3.6 million for the first quarter of 2013. EBITDA was $14 million in 2014 compared to $19 million in 2013. The increase in revenues from our Markel Ventures operations during 2014 was primarily due to our acquisition of Eagle Construction in August 2013, partially offset by a decrease in revenues from our manufacturing operation. Less favorable results from our manufacturing operations partially offset by Eagle Construction's contribution resulted in a period-over-period decrease in net income to shareholders and EBITDA.

The results of the runoff life and annuity business acquired as part of the Alterra transaction are included in the other discontinued lines segment. Other expenses for the first quarter of 2014 included $8.6 million of discount accretions determined as of the acquisition date.

Investment income was $87 million for the first quarter of 2014 compared to $65 million last year. Net investment income for 2014 was net of $18 million in amortization expense from adjusting Alterra's fixed maturity securities to a new amortized cost basis at the acquisition date. The benefit of holding a larger portfolio was partially offset by its lower yield. Net realized investment gains for the quarter were $17 million compared to $18 million a year ago. There were no other than temporary impairments in either periods.

Looking at our total results for the year, our projected effective tax rate was 25% in the first quarter of 2014 compared to 24% a year ago. The increase in the effective tax rate in 2013 was driven by a higher projected earnings taxed at 35% rate in 2014 compared to 2013.

We reported net income to shareholders of $88 million in the first quarter of 2014 compared to $89 million a year ago. Comprehensive income was $230 million this year compared to $258 million a year ago. And as a result, book value per share at the end of March 2014 was $493.96 a share, an increase of 4% since the end of 2013.

Finally, I'll make a couple of comments on cash flows in the balance sheet. Net cash provided by operating activities was $22 million for the first 3 months of 2014 compared to $56 million for the same period of 2013. The decrease was driven by higher payments for income taxes, employee profit sharing and agent incentive commissions in 2014 as compared to 2013. Historically, first quarter is our lowest cash generating quarter based on the payment of the items I just mentioned. We would expect cash from operations to improve in the second quarter.

Invested assets at the holding company were $1.1 billion at March 30 -- sorry, March 31, 2014 compared to $1.3 billion at the year end 2013. The decrease is primarily due to the timing of intercompany settlement.

With that, I will turn it over to Mike to talk about the U.S. insurance segment.

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. As Anne explained, the U.S. insurance segment comprises all direct business written on our U.S. insurance company. It includes all of the underwriting results of our Wholesale division and our Specialty division, as well as certain products written by our global insurance team.

The U.S. insurance segment had an excellent quarter, with gross written premiums increasing 29% over prior year. This increase was due in large part to the Alterra lines of business that are now included in this segment. Excluding these lines, premium volume increased in the low single digits over 2013, mainly driven by higher volume from the Hagerty business which was new to us in 2013. The combined ratio for the quarter was 96% compared to 91% in 2013. The deterioration in the U.S. insurance segment's combined ratio was due in part to adverse development in the architects and engineers lines of business and a higher current accident year loss ratios on the lines within our global insurance division. Generally, these lines have higher attritional loss ratios that other products within the U.S. insurance segment.

Additionally, we continue to build a margin of safety on newer lines of business. This was partially offset by increased premium -- increased earned premium on the Hagerty business which carries a low loss ratio.

Our U.S. operations are focusing on 2 key areas that are critical to our results: First, our executive underwriting team continues to execute our plan to exit underperforming accounts and lines of business. This process was begun in 2013 and will continue throughout 2014.

In addition, the leaders of our Wholesale and Specialty divisions are terminating agreements with underperforming agents and brokers, those that place little or no business with Markel. The streamlining of our agency group allows us to be more efficient and to provide a higher level of service to those who consistently send us a strong flow of submissions that meet our underwriting appetite.

With regards to the rate environment, we're seeing decreases that in some cases are significant on our large account business. Specifically, we are seeing these decreases in our Property, Professional Liability and general liability lines for large accounts. We are maintaining our underwriting discipline and will walk away from business where we cannot justify the pricing. On smaller accounts, we're experiencing rates ranging from flat to moderate single digit increases.

During the first quarter, our senior management team met with a number of our largest producers. The feedback we received was very positive, with all of these firms commenting on our expanded offerings, the quality of our service and the fact that we integrated Alterra without any interruption of our service to them.

Finally, I'd like to take this opportunity to thank Susan Swanson, President of our Midwest region, for her service to Markel. Susan will be retiring in June of this year after 32 years at Markel. She worked her way up from the ground floor to the regional president's role, and her leadership and enthusiasm will be sorely missed. We hope Susan visits us often, and we wish you a very happy retirement.

I'll now turn the call over to Richie.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Mike, and good morning, everyone. In my comments today, I'll focus on our international insurance and reinsurance segments. I'll start by discussing the international insurance segment's first quarter results, and then discuss the results of our reinsurance segment and finish up with some recent pricing trends and competition discussion.

As Anne explained, our international insurance segment is comprised of all direct and facultative business written on any of our insurance companies domiciled outside the U.S. The segment includes business written on -- by our Markel International division as well as that written by our global insurance division.

In the first quarter, gross written premiums in the international insurance segment increased 25% to $294 million. The increase is primarily due to business written by the global insurance division, which was created after the acquisition of Alterra. The international insurance segment finished the quarter with a 91% combined ratio compared to 94% in 2013. The decrease in the combined ratio for this segment was primarily due to more favorable prior year reserve releases in Marine and Energy, professional and financial risk in Elliott's special risk units within our Markel International division. This is partially offset by higher loss ratios on the professional and general liability lines of business in the global insurance division. Lines of business written by the global insurance division generally have higher attritional loss ratios than our other products included in this segment. Also, consistent with past acquisitions, we are applying our more conservative reserving philosophy on these lines of business.

The segment's expense ratio was favorably impacted by earned premiums from the global insurance line of business, which carries a lower expense ratio due to lower acquisition cost.

Now I'd like to discuss the results of the reinsurance segment. Our reinsurance segment includes all 3 reinsurance programs written around the world, including that written by our global reinsurance division, as well as that written by our Markel International division.

Gross written premiums for this segment were $409 million in the first quarter of 2014. This was up from $62 million a year ago. The increase from premium writings was primarily due to products previously written by Alterra, which are now part of the Markel International division. Also, the global reinsurance division, which was created after the acquisition of Alterra, contributed approximately 315 million of volume in the first quarter. The combined ratio for the segment was 94% compared to 84% last year. Obviously, the composition of this segment is very different year-over-year, with the current year having significantly more casualty reinsurance business which carries higher loss and expense ratios than the property reinsurance line that made of the majority of this segment 1 year ago. This is partially offset by more favorable prior year development coming from property reinsurance lines.

Regarding pricing conditions and competition, the international insurance and reinsurance markets remain extremely competitive. There's abundant capacity, and there have been a number of new entrants in recent months, with more likely in the near future.

While market conditions are becoming more difficult, Markel is well positioned to succeed. As we've discussed in the past, we have tremendous diversification among our 5 insurance divisions. We also have absolute dedication to underwriting discipline and the willingness and more importantly, the flexibility to put down the pen when pricing is not adequate. We've seen less-than-ideal market conditions many times before. And as Tony Markel once famously said, this is not our first rodeo. We're confident we can navigate in a competitive market.

Now I'd like to turn it over to Tom.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. As promised in the intro, my comments will be very brief this morning. As is always the case, we remain completely focused on the long-term growth in the intrinsic value of the Markel Corporation. We measure ourselves on 5-year rolling financial metrics, and the results of any one quarter can vary dramatically from our long-term upward path. That said, it's always more fun to give you a report after a good quarter than a bad one, and this was largely a good one.

Here is the headline for the quarter. We made money in bonds, stocks and in Markel Ventures. It can be easy to get stuck in the weeds and the details at any one spot within the Markel Corporation, but I think it's important to keep a clear view of the big picture result.

When we make money, bonds, stocks and Markel Ventures as we did this quarter, all of those factors combine to amplify and turbocharge the excellent results produced by our underwriters. In a perfect world, we have that same headline every quarter. This is not a perfect world, though, even if we want. The good news is that we are able to give you that report in more quarters than not. When you start talking about years, the ratio improves. And when you start looking at the more important 5-year type horizons we use to measure and describe our financial results, we've consistently produced that same headline for years. We expect to continue to do so.

Getting back to the beginning of 2014. The overall investment return for the first 90 days of the year was a positive 2.0%, with equities up 3% and fixed income up 1.7%. We continue to manage our investments in-house effectively as demonstrated by our long-term performance at very low costs, with total investment management cost being a single digit number of basis points and with great tax efficiency that comes from our long-term and low turnover ownership-oriented approach.

Abraham Lincoln spoke of 4 score and 7 years, and he tried to make a point about time. I'll describe our long-term investment horizon somewhat differently. But in the same period of time that you could have made 2 sequential batches of 12-year-old scotch whiskey and be a year into the third one, we've earned 12.5% per year on our equity investments or 160 basis points above that of the S&P 500.

We continue to methodically and systematically add to our equity holdings. Equity investments now comprise 49% of our shareholders' equity, up from the roughly 40% level immediately following the Alterra acquisition. We continue to find reasonable and productive investment ideas, but we also can be accused of driving the car with one foot on the brake. So be it. We think it is far more important to know that we can handle any upcoming curves in the road rather than trying to race ahead too fast. Over time, and with good ideas, we'll approach a more normal equity allocation of roughly 80% of our shareholders' equity and equity investments. We'll move faster if markets give us the opportunity to do so, but we won't be rushed by artificial targets.

In fixed income, we earned 1.7% during the quarter. We started the process of beginning to extend the duration of our bond portfolio modestly in the last few months. The duration of our portfolio now stands at about 3.8. And over time, we would expect to move that to approximately 4.5, and in line with the duration of our insurance liability. We can pick up a modest amount of investment income as we do this, and we continue to predominantly buy municipal securities as we go about this process.

In Markel Ventures, we earned $14.9 million of EBITDA in the first quarter compared to $19.3 million a year ago. First quarter results were below our expectations, and -- but we are optimistic that full year results will be better than what the first quarter might imply. Our optimism for the full year stems from 3 reasons: One, our home building and dormant furniture businesses are somewhat seasonal, and the first quarter is typically the lowest level of profitability for those operations. We did not own the home building business in 2013, we did in 2014. Secondly, manufacturing operations sell capital goods, and they regularly experience large swings in orders and deliveries from period-to-period. 2014 is off to a slow start at those areas, so we remain optimistic about our full year and longer-term results. Thirdly, we continue to fund some rapid expansions at certain operations and incur the costs of doing so. All of those factors should gradually improve during the course of the year, and we remain optimistic about the prospects of the Markel Ventures operations.

One of the beauties of Markel from a financial point of view is that we have proven successful and recurring streams of profits from underwriting, investing and the industrial and service operations in Markel Ventures. All of them together can and have historically combine to produce resilient and ongoing positive returns for our shareholders.

We're glad for the chance to provide you with this regular update, and we look forward to doing so in the future. We're looking forward to it because we're optimistic that we'll be able to continue to build one of the world's great businesses. And it's fun to be able to share the news of doing so with our owners.
With that, Bob [ph], if you would be so kind as to open the floor for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes the line of Mark Hughes with Lafayette Investments.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

It's Mark Hughes with SunTrust. Tom, could you talk about your outlook for interest rates here? You say you're slowly beginning to extend the duration of the portfolio. What's your view on rates here?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, I still think that rates are too low and they're unnatural. We've had that point of view for a while, and that in the investment business is early enough to be confused with being wrong. We've had a pretty substantial mismatch between the normal match of our insurance liabilities to the investment portfolio. We're not rapidly and to -- move this kind of ship -- size of a ship around. It'll be very gradual, get that duration back in line. But rather than let it continue to come in, which is what we've been doing for the last couple of years, we're just starting to nudge it out. And if we've experienced a dramatically different interest rate environment, we'll move faster to do that. But we'll move pretty methodical and just move it out.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Right. In the Professional Liability area, that was one of the segments you highlighted as the rate is coming down meaningfully. At the same time, though, you had adverse development in the architects and engineers. Any more detail you can provide on what's going on there?

Francis Michael Crowley
Vice Chairman

Well, this is Mike. Mark, it's very competitive in professional lines. And obviously, architects and engineers is just one of the professional lines that we write. We write a lot of medical lines, we write lawyers, we write a number of different lines. Where we're seeing the real competitive pricing is in the very large account business. And we don't write really large architects and engineers firms. So it's more in the medical and other professional lines where we're seeing the rate decreases.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. Richie, you had talked about a little bit about the composition on the reinsurance book, and you indicated that it was substantially casualty. Can you just give us a broad general percentage of what portion is still property?

Richard R. Whitt
Co-Chief Executive Officer and Director

No, it's kind of rough.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Well, it's about 70% Global Rei [ph] and 30% Markel International. So if you use that as a proxy...

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes. It's probably about 60-40 casualty today. And obviously, the casualty carries a much higher loss ratio. We had a -- you had a first quarter with very low catastrophe losses, very low to almost none. So a fairly low loss ratio there. But on the casualty business, you have to start out very conservative, and that's really what's driving that combined ratio up for the segment.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

That's fine. The second question is kind of a -- somewhat in the same vein. What proportion of your business, I guess, in both the international and maybe in the reinsurance as well is exposed to currency risk? I mean, I heard that’s -- a lot of what's at Lloyd’s is priced and denominated in dollars. But what proportion is -- has an FX exposure?

Richard R. Whitt
Co-Chief Executive Officer and Director

Mark, I'd be guessing to give you a number, and we can go back and kind of look to help you out. But you're absolutely right. A lot -- what you find in Marine and Energy and what you find at Lloyd's is a tremendous amount of business, even though its foreign business is denominated in dollars. So clearly, our South American business, there is some currency exposure there, although a lot of those contracts are denominated in dollars. So we'll have to get back to you with the number, but it's relatively low when you look at our balance sheet. I'll guess and say 10% to 15%.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And one thing I would add to that, Mark, is the investment activities follow the form of the reinsurance world -- word on whatever we're writing in the insurance business. So if we're putting liabilities at our book in any foreign currency, typically, we will buy investments in that currency as well to keep that economically matched.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Actually, that's where my question started. I was looking that you -- I think it was between 10% and 15% of your investment portfolio denominated in foreign bonds, and that's actually where I started. So maybe that's pretty close to the answer.

Richard R. Whitt
Co-Chief Executive Officer and Director

But that would be 10% to 15% -- that would equate to probably 10% to 15% of the reserves being in those foreign currencies. The business is probably in that realm in terms of the original currency of the premium we're writing.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. The last question I had relates to the Abbey Protection business. I guess, I found somewhere in the Q that, that business had about $3-or-so million of revenues in the quarter. And I think when we talked about it initially, the annual run rate was in the $50 million to $60 million range. I guess that implies to me that there's probably a reasonable amount of seasonality to that. Just -- I hope you could comment to just kind of help clarify how the revenue stream comes through on that one.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, that's what I thought. The revenues for Abbey -- Mark, revenues for Abbey show up in 2 different places. The insurance business that we write is part of our gross written and earned premium, and that's going to be the majority of that $60-ish million in revenue. There is a service component to the business, professional services component to the business, and that's what you're seeing. I guess, you're picking that up in other revenues, other expenses. That's the professional service component. $3 million for the quarter. $12-or-so million probably for the year is what we've been looking for there. So that would be sort of a split. A total of $60 million, $12-or-so million other coming from services, the rest of it earned premium on insurance business.

Operator

Our next question comes from the line of Matthew Berry with Lane Five Capital.

Matthew Berry
Lane Five Capital Management, LP

So as you start to get comfortable with earning this -- the global reinsurance operation, I just wanted to get your high level thoughts, especially Richie's, on this. The global reinsurance operation seems like a departure from the way I've always thought about Markel's sort of cost skill sets on the underwriting of bringing their in-depth knowledge and expertise concerning specific risks. It feels to me like it would be harder to price appropriately, given the lack of knowledge of the underlying risks. And so how do you get comfortable that this is something we can earn a valuable underwriting profit on over the cycle? I mean, after all, I value the cost-free flow pretty highly.

Richard R. Whitt
Co-Chief Executive Officer and Director

Right. Well, a couple of things there. We have 5 insurance divisions. The reinsurance division is one of those. So we have quite a bit of diversification amongst the products. I like reinsurance as a business. I like it even better if it's 1 of my 5 businesses because then I have the flexibility to lever that up and go down quite honestly when the markets are not where we would like to see them. So I think reinsurance is a business that can add value for us considerably over time. And the fact that we've got the flexibility, the way we're structured really adds to that. Obviously, with the Alterra acquisition, we picked up a team of extremely experienced underwriters. And when we talked about when we did our due diligence on Alterra, we came away feeling very comfortable with the expertise of the underwriters and the underwriting philosophy, which is even -- possibly even more important. These guys are very much -- while we're writing treaty insurance, it feels very much like individual account underwriting the way it's approached. So I have a lot of confidence in our ability to get the pricing correct on the business. Now what that may mean in a soft market like we currently are experiencing is we may write less. And I fully expect that if market conditions stay challenging in reinsurance. So I feel very good about the reinsurance operation as part of Markel.

Francis Michael Crowley
Vice Chairman

Matthew, I'd like add. I think this is where the mindset and the culture of Markel is quite relevant to this. And in a way that all of our business that are unique and diversified part, we're willing to do more of the same where the profit opportunities are good and less of the ones that aren't. And we have the ability because we're diversified throughout the company in different types of insurance, different types of investments, as well as Markel Ventures, to hold ourselves to the standards as an owner would, whether it makes sense to do it for the long run or not. And reinsurance fits that to a tee. Because there are times when you really want to write as much of that business as you possibly can, and there are times where you don't. But you won't get any of the good stuff if you're not there and in the market and have talented people making the decision. And as long as there are long-term owners and people have a long-term time horizon, we'll be just fine with it.

Matthew Berry
Lane Five Capital Management, LP

Okay. And then Tom, if you could just very quickly continue to -- on that theme and with -- from your angle, how does the reinsurance float differ in terms of the length and sort of volatility of the tail, and how does that impact your job in terms of managing the portfolio?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, the good news is it doesn't differ at all in the sense that it's cash and we get to invest it. Now what we'll do -- and this is a discussion that we sort of coordinate with the actuaries -- we look at what the expected liabilities are. So for writing property business, we keep that money pretty short. And for writing liability business, we'll keep that a little bit longer. And that's really consistent with what we do for any piece of float that comes in here, whether it was primary or reinsurance.

Matthew Berry
Lane Five Capital Management, LP

Okay. And then I have one final one, which is just historically, you guys have split acquisition costs in your annual -- from other underwriting expenses in your annual filings on a per segment basis. I didn't notice that in the 8-K which you released with the new segmentation. It is helpful to me when I think about Markel and I sort of compare you guys against some of other firms to think about how you go about acquiring the business and to think about acquisition costs. And I just wanted to double check that you were intending to keep splitting out acquisition costs for me.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Matthew, I believe that's the intent. It was the case in the 10-K. I don't think we intended to communicate vis-à-vis the 8-K that we were discontinuing that practice.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess, let me start with some questions on the noninsurance piece. Tom, you have mentioned manufacturing had a slow for store [ph]. What products are we talking about? Is there any particular product where you saw that sluggishness?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Sure. There are 3 lines in the manufacturing world. One, we make the safety and equipment for commercial bakers, and those are major installations where a bun that you're going to eat a hamburger on at a fast food restaurant or a loaf of bread you're going to buy at a store. Those are multimillion dollar projects that go over multiple years. So that's something of a lumpy business. The other business that's lumpy is our dredge business. And we sell dredges that range in cost from starting probably about $250,000 or $300,000 if you want something for your background up to something north of $10 million. The $10 million plus dredges, we would hope to sell 3 of those in 5 years. So in any one quarter, that can distort the results quite a bit. The other business that we have in that area that was affected a bit in the first quarter is our business that makes truck floorings. Wood crisis, in case you follow that, were up. That compressed the margins a bit and it compressed it a little bit ahead of our opportunity and ability to get some pricing increases, but we subsequently had some price increases there. So that should -- it's one of the reasons I'm optimistic about the rest of the year. But those are the manufacturing businesses that were off to a bit of a soft start in the first quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's great, very helpful. Secondly, with the Abbey consulting business which shows up in this -- other business, there was, I guess, a net loss in the quarter. And I don't know if there was a seasonality effect there. Or from an annual standpoint, should we expect an earnings contribution from that business?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Yes. I think we would expect -- well, first of all, that business supports the underwriting business. So we probably aren't looking for massive margins on the consulting business because, in effect, it does support our ability to get the insurance business. But I think over time, we certainly want to at least cover our costs and make a little bit on that consulting business. And actually, we are looking to add consulting services. So we would, over time, maybe even hope to expand the margins on that.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it, that's helpful. And then the other piece, which again lost money in the quarter but I know can jump around quite a bit is the runoff business for the life and annuity business. Can you give us any sense of what your expectation is for an earnings contribution from that business?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And I might actually refer this one to Nora here, who's our controller. The accounting for the life businesses, you're basically amortizing off the discount. And so that number is pretty set unless you change assumptions somewhere along the line. So I think it was about $8 million or so of expense in the quarter. Barring anything unusual, that's about what we would expect it to be over the next 3 quarters. And you can -- I think of it sort of like interest expenses. It's just amortization of the discount on those life reserves, on that life liability.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And I guess the revenue associated with the assets in that business show up elsewhere in your...

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, that was received years ago, keep in mind. You've received the revenue and put them on the books, and now you're just amortizing off the discount.

Francis Michael Crowley
Vice Chairman

But we do earn some investment income while we're [indiscernible].

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Quite a bit.

Francis Michael Crowley
Vice Chairman

There is that.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

But the investment income is what I'm saying. That shows up elsewhere.

Anne G. Waleski

Chief Financial Officer and Executive Vice President

It's showing up in the investment segment.

Operator

There are no other questions at this time. Jay, would you like to ask your additional questions?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, if you don't mind. The question has to do with you're going through a process this year where you, I'll phrase it, rebasing the Alterra reserves to fit more with your own approach. And I remember the exact same thing happening with Terra Nova, and that worked out really well. Over time, you ended up releasing reserves out of that business. My question is, how long do you believe this process would take to get these reserves onto, again, your approach for setting reserves?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, Jay, that's in some ways unanswerable. And I know that's a nonanswer. But the issue you have is, we did a lot of due diligence around the reserves on Alterra's balance sheet when we bought them and we felt that they were adequate, maybe even slightly redundant but not to the levels that we, at Markel, tend to carry. As we go forward, we are building a margin of safety on the premium that we earn -- or we're attempting to build a margin of safety on the premium that we earn going forward on Alterra. The question is going to be, how do those reserves that were on the balance sheet on day 1 behave? If they behave well, it'll take us less time. If we have little development out of them, it'll take us longer. In general, and if you remember back to Terra Nova, it takes, I'll say, 3 to 4 years to really -- on a balance sheet the size of Alterra's, it'll take, I would think, 3 to 4 years to -- for us to feel good about those reserves the way we feel good about legacy Markel reserves.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. And I seem to recall that 3 to 4 years is playing out with Terra Nova. I guess I thought possibly, this might be shorter in that when you bought Terra Nova, it was a very difficult time in the industry, right? Reserves for a lot of companies were quite short where I would've suspected that Alterra's reserves, given the industry conditions, were in better shape than Terra Nova's were back in 2001 or whatever that was?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I think that is a fair assumption, and we're a little over -- we're a year into this. The deal closed May 1 a year ago. Things have gone well in the first year. But some of these reserves are long tail, and I'd like more time to look at them. I hope you're right, and I'd like to see it be less than that 3 to 4. I'd rather underpromise and over deliver. And if that happens, we're all very happy.

Operator

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Great. Well, thank you very much for joining us. We look forward to chatting with you next quarter. Bye-bye.

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