S&P Capital IQ

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Markel Corporation NYSE:MKL

FQ3 2017 Earnings Call Transcripts

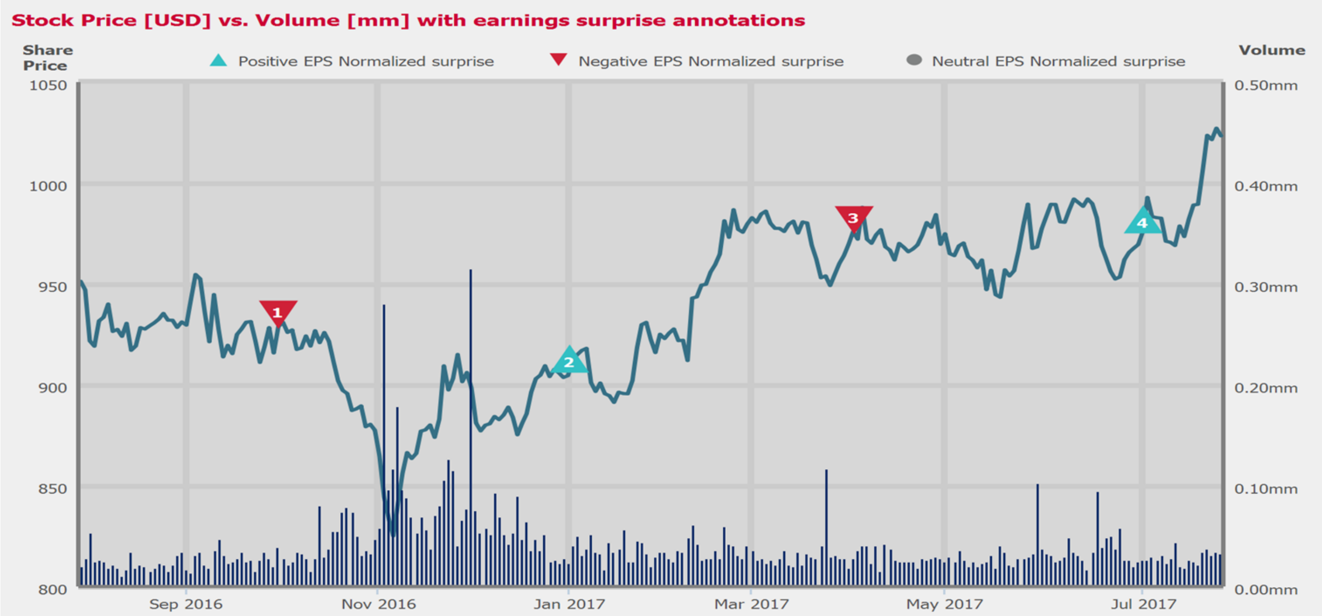
Thursday, October 26, 2017 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(16.97)	(16.50)	NM	7.90	13.05	28.60
Revenue (mm)	1483.76	1506.15	1.51	1536.80	5936.10	6076.43

Currency: USD

Consensus as of Oct-26-2017 11:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	7.65	4.59	(40.00 %)
FQ4 2016	5.28	9.47	79.36 %
FQ1 2017	4.00	2.77	(30.92 %)
FQ2 2017	6.40	9.40	46.88 %

Call Participants

EXECUTIVES

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

ANALYSTS

John D. Fox
Fenimore Asset Management, Inc.

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Presentation

Operator

Good morning, and welcome to the Markel Corporation Third Quarter 2017 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 under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures in the Form 10-Q, which can be found on our website at www.markelcorp.com in the Investor Information section.

Please note, this event is being recorded.

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Good morning. This is Tom Gayner, the co-CEO of Markel Corporation, and it is my pleasure to welcome you to our third quarter 2017 conference call. I'm joined this morning by my co-CEO, Richie Whitt; and our Chief Financial Officer, Anne Waleski.

In a few moments, they will review our financial performance from the first 9 months of the year as well as provide some comments and updates on our insurance operations. Following that, I will return and update you on our investment and industrial operations, and then we will take your questions.

Mark Twain once said, "A man who carries a cat by the tail learns something he can learn in no other way." I don't know if Twain was anticipating the record catastrophe losses of 2017 when he penned those words. But as a fan of his, I'm going to give him credit in foresight for brilliance with this bit of wisdom. 2017 will be a record year for catastrophes. And at the moment, we've got 66 days to go before the ball drops in Times Square to call time. Catastrophes are known as cats in the property and casualty insurance industry, and it is our job to pick them up by the tail. That is what we do. In doing so, we fulfill our social responsibility and our reason for being by responding to the cats with resources to help our policyholders put their lives back together again. As we reported, we record charges of just over $500 million net of our reinsurance recoveries to pay claims to our policyholders for losses they suffered as a result of Hurricanes Harvey, Irma and Maria. Additionally, we've witnessed earthquakes in Mexico and fires in California into the fourth quarter. As I said a minute ago, 2017 is not over yet. The good news is that our policyholders can count on us to help them in their time of need. Times like these demonstrate why they bought insurance. Times like these also speak to why we manage Markel in a conservative and prudent way. We do so in order to have the ability to respond quickly and appropriately to help our policyholders get back on their feet. We keep our promises.

As Twain eluded, we also learned something as we pick up these cats by the tail. Specifically, the underwriting of insurance involves gathering data and making informed judgments about the probable costs of bearing the uncertainty of future losses. In each and every event, we learn more by gathering new and expensive data, and future predictions become based on more robust data, experience and judgment. Just as we have in the past, through previous record catastrophe events like the World Trade Center attack, Katrina, Rita, Wilma and others, we will learn, adapt and proceed with more knowledge as we go forward.

Finally, I want to remind you as fellow shareholders that we, as a company, are reporting positive comprehensive income to you this morning. We've designed Markel to be a resilient and durable company that our customers, shareholders and associates can depend upon.

In addition, and I do mean in addition, to the $500 million of catastrophe-related payments we are making to our policyholders, we earned pretax net investment income in dividends and interest payments of roughly $300 million. We also earned pretax unrealized gains on our investment portfolio of over $800 million. We produced EBITDA of $115 million at Markel Ventures so far this year. And if you towed up these items, there are positive returns from 2 of our 3 engines that totaled well over $1 billion of pretax ins compared to the $0.5 billion of pretax outs. I also specifically used the words pretax since there are elements of tax efficiency in these numbers that also improved our net financial circumstances.

I am proud of our organization that we can create the win-win situation of providing $500 million of support and payments to our policyholders and increase the net worth of the Markel Corporation at the same time. That is the design of Markel, and it is win-win. It is easy to say and hard to do, but we've done so.

With that, let me turn it over to Anne and Richie to give you the details on the numbers and commentary on our insurance operations. After their comments, I'll return to pick up on our investment and industrial business. Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thank you, Tom, and good morning, everyone. Markel's comprehensive income and growth in book value for the first 9 months of 2017 reflect strong performance in our investment portfolio and demonstrate the value of having diversified operations. While our underwriting results were impacted by several catastrophes, we continued to see positive growth across several product lines.

Within our Markel Ventures operations, we completed the acquisition of Costa Farms in August. Costa Farms is a Florida-based grower of house and garden plants, which adds to the diversity of our portfolio of noninsurance Markel Ventures company. We're also excited about our upcoming acquisition of State National, which is expected to close in the fourth quarter.

Now let's talk about our results for the first 9 months of 2017. Total operating revenues grew 5% to approximately $4.4 billion in 2017. The increase was primarily attributable to an 8% increase in earned premiums, which reflects higher earnings in all 3 of our underwriting segments.

Starting with our underwriting results. Gross written premiums were $4.1 billion for the first 9 months of 2017 compared to $3.8 billion in 2016, an increase of 9%. The increase in gross premium volume was attributable to premium growth in all 3 of our underwriting segments. The increase in gross written premiums in the U.S. Insurance segment was attributed to growth within our programs, general liability and personal lines business as well as premium from our new Surety business.

In the International Insurance segment, higher gross written premiums were due to new business in our marine and energy and excess liability product lines. Higher gross written premiums in our Reinsurance segment were attributable to 2 large specialty quota share treaties that were written in the first quarter of 2017, assumed reinstatement premiums attributable to the 2017 catastrophes and higher premium volume in our professional liability and workers' compensation product lines. Partially offsetting these increases was lower premium volume in our auto, Property and general liability lines of business.

Net written premiums for the first 9 months of 2017 were $3.5 billion, up 11% from last year for the same reasons I just discussed as well as a 1 point increase in retention from 83% last year to 84% this year. Earned premiums increased 8% to $3.1 billion for the first 9 months of 2017 due to higher premium in all 3 underwriting segments.

Our consolidated combined ratio for the first 9 months of 2017 was 108% compared to 93% last year. The 2017 combined ratio included underwriting losses of $503 million, net of reinstatement premiums, from Hurricanes Harvey, Irma and Maria and the earthquakes in Mexico or 16 points on the consolidated combined ratio. Excluding the impact of the catastrophes in 2017, our combined ratio decreased due to higher earned premiums in 2017 compared to 2016. As we discussed in the first quarter, the 2017 combined ratio also includes $85 million or 3 points of adverse development on prior year loss reserves in our Reinsurance segment, resulting from the decrease in the Odgen rate, which is used to calculate lump sum awards on U.K. bodily injury cases. In 2016, the combined ratio included $71 million or 2 points of adverse development on our medical malpractice and specified medical product lines within our U.S. Insurance segment.

Now let's talk about the results of Markel Ventures. Revenues from Markel Ventures increased to $933 million compared to $906 million a year ago. Higher revenues across our nonmanufacturing operations due to increased sales volume were partially offset by lower revenue in certain of our manufacturing operations, primarily attributable to one of our transportation-related businesses.

Net income to shareholders for Markel Ventures for the year was $38 million for the first 9 months of 2017 compared to $50 million last year. EBITDA was $116 million in 2017 compared to $134 million last year. Operating expenses in 2017 include $20 million of inventory losses arising from Hurricane Irma. We've not yet recognized the potential for any insurance recovery as resulting from these losses. Insurance recoveries will be recognized as income in the period in which they become more certain.

Looking at our investment results. Investment income increased from $279 million for the first 9 months of 2016 to $304 million this year. The increase was driven by short-term investment income, primarily due to higher short-term interest rates and higher dividend income due to increased equity holdings compared to the same period of 2016.

Net realized investment losses were $2 million for the first 9 months of 2017 compared to net realized investment gains of $66 million last year. Net realized investment losses in 2017 included a $40 million net loss on our investment in the Markel CATCo funds related to underlying losses on Hurricanes Harvey, Irma and Maria. Given our long-term focus, variability and the timing of realized and unrealized gains and losses is to be expected.

Looking at our total results for the year, our effective tax rate was 32% in 2017 compared to 27% a year ago. The increase in the effective tax rate from 2016 to 2017 was primarily attributable to the impact during the third quarter of having a small pretax loss for the first 9 months of 2017, which magnified the effect of certain tax adjustments.

We have reported a net loss to shareholders of $40 million for the first 9 months of 2017 compared to net income to shareholders of $323 million a year ago. Comprehensive income to shareholders for the period was $546 million compared to $696 million a year ago. And as a result, book value per share was $641 at the end of September 2017, an increase of 6% since the end of 2016.

Finally, I'll make a couple of comments on cash flows and the balance sheet. Net cash provided by operating activities was just under $600 million for the first 9 months of 2017 compared to approximately $325 million for the same period of 2016. Operating cash flows for 2017 included higher premium collections in the U.S. Insurance segment, lower claims settlement activity across all of our underwriting segments and lower payments for income taxes and employee profit sharing compared to 2016. In 2017, we also used cash of just under $600 million for acquisitions, including the acquisition of Costa Farms in the third quarter and SureTec in the second quarter.

Invested assets as a holding company were $2.5 billion at both September 30, 2017 and year-end 2016.

With that, I'll turn it over to Richie to talk more about underwriting results.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Anne. Good morning, everybody. Today I'll focus my comments on our underwriting operations. I'll also provide an update on our CATCo operations and also a brief update on our pending acquisition of State National.

Obviously, as we've heard the news for Markel's underwriting operations, Markel CATCo and the Insurance/reinsurance industry as a whole is the significant catastrophic events that took place in the third quarter. As Anne pointed out, our underwriting losses were $503 million net of reinsurance and before tax. These are obviously meaningful losses. However, with our strong balance sheet, we're well positioned to respond to the claims of our insurers, and we're also prepared to respond to our insurers' and producers' ongoing insurance needs.

So starting with the U.S. Insurance segment. Gross written premiums are up $115 million or 17% compared to the third quarter of '16. On a year-to-date basis, writings are up $171 million or 9% to last year. Results attributable to our new Markel Surety business added $22 million of gross written premium in the quarter and $34 million to the year-to-date premiums. Premium growth, excluding Markel Surety, is driven by growth in our programs, personal lines, which is primarily our classic auto program, and several of our general liability lines on both a quarter-to-date and year-to-date basis. Earned premiums are up 9% for the quarter and 7% year-to-date due to the same drivers as gross written premium increases.

The combined ratio for the U.S. Insurance segment was 112% for the third quarter of '17 as compared to 101% for the same period a year ago. The 2017 cat events added 24 points to the 2017 quarter-to-date combined ratio. Excluding the impact of the 2017 cats, the segment combined ratio decreased due to more favorable development on prior year loss reserves in '17. For the third quarter of '17, favorable prior year loss development was $88 million compared to $21 million a year ago. The third quarter of '16 included $37 million of adverse development on our medical malpractice and specified med lines.

The year-to-date combined ratio was 99% compared to 95% in '16. The 2017 cat events added 9 points to the 2017 year-to-date combined ratio. Excluding the impacts of the 2017 cat events, the segment combined ratio decreased due to more favorable development on prior year loss reserves in '17. On a year-to-date basis, prior year redundancies were $207 million for '17 compared to $126 million for '16. This difference was largely a result of $71 million of adverse development on the medical malpractice and spec med lines last year.

Next I'll go on to the International Insurance segment. Gross written premiums are up $51 million or 19% compared to the third quarter of '16. On a year-to-date basis, writings are up $70 million or 8% to last year. New business in our marine and energy lines during the third quarter of '17 drove the growth in the quarter. Premium growth on a year-to-date basis was also driven by growth in our excess liability lines. Earned premiums are up 10% for the quarter and 6% year-to-date due to the same drivers that gross written premium increases were caused by. The third quarter combined ratio was 136% compared to 91% for the same period a year ago. The 2017 cats added 47 points to the 2017 year-to-date combined. Excluding the impact of the '17 cats, the segment combined ratio decreased due to lower current year loss ratio, partially offset by favorable development on prior year losses having a less favorable impact on the combined ratio due to higher earned premiums, so very similar dollars but a lower combined ratio impact due to higher earned.

The lower current year loss ratio is due to the higher attritional large losses in 3Q 2016, primarily on our marine and energy lines. The year-to-date combined ratio was 105% compared to 95% in '16. The 2017 cats added 17 points to the 2017 combined ratio. Excluding the impact of the cats, the combined ratio decreased due to more favorable development on prior-year losses, primarily in our general liability lines and a lower expense ratio due to lower profit sharing expense and the impact of higher earned premiums on our G&A expenses.

Next I'll discuss the Reinsurance segment results. For the third quarter, gross written premiums for the segment are up $33 million or 17% compared to 2016. On a year-to-date basis, writings are up $106 million or 11% to last year. For the quarter, premiums were up due to the increase -- due to increased Property premiums due to the impact of assumed reinstatement premiums from the '17 cat events. For the year, growth was primarily driven by the 2 new large specialty quota share treaties in the first quarter. Anne mentioned those. They were roughly $137 million. Excluding these contracts, year-to-date premium is actually down due to reductions in our auto and general liability lines. As mentioned in previous quarters, significant volatility in gross premium volume should be expected in our Reinsurance segment due to individually significant deals and the timing of renewals on multiyear contracts. Earned premiums are up 26% for the quarter and 13% year-to-date due to similar drivers as gross-written premium increase.

The third quarter combined ratio was 183% compared to 94% for the same period a year ago. The '17 cat events added 95 points to the '17 quarter-to-date combined ratio. Excluding the impact of the 2017 cat events, the segment combined ratio decreased due to a lower expense ratio. The decrease in the expense ratio was driven by lower profit sharing expenses and the impact of higher earned premiums on our G&A expenses.

The year-to-date combined ratio was 135% compared to 87% last year. The 2017 cat events added 34 points to the '17 combined ratio. Excluding the impact of the cat events, the combined ratio increased due to less favorable development on prior year losses. This was partially offset by our low expense ratio due to the impact of higher earned premium on G&A expenses. Anne discussed the development on prior years was impacted by the $85 million related to the Odgen rate. Excluding this impact from the year-to-date results, there was slightly less favorable development on prior year loss reserves in our property and general liability lines.

Now I'll make a couple of comments about the market. It feels like for the last several quarters I've been saying, the market remains competitive and not much new to report. Coming out of the third quarter, I have some new things to say. The property market is clearly in transition. By that, I mean, post the events of the third quarter, there is clearly momentum building for rate increases. Questions that remain are how much will rates increase and how broad-based will rate increases be. Our sense is the extent of rate increases will play out over the next several months, all the way into next year. As the actual losses from these events are realized by companies and as we get closer to the critically important January 1 renewals, the breadth and depth of rate increases in the property market and beyond will emerge.

At Markel, we are seeking rate increases on all property business. However, we're not taking a one-size-fits-all approach. On loss-free or better-rated accounts, the necessary increases will be smaller. On loss-impacted or relatively more aggressively rated accounts, we'll need larger increases. We also believe that rate increases are needed more broadly than just Property business. We believe there is very little, if any, margin left in Casualty business, and then rate increases are required in casualty lines as well. The spillover effect of increasing Property rates into other lines of business could take longer than finding the new higher market level for Property rates, but we do believe this is going to occur. We will be actively seeking appropriate rate increases across all of our Casualty lines. A longtime industry veteran recently said to me, "Talk doesn't move market pricing. Earnings and capital destruction moves market pricing." It is clear that these events represent meaningful earnings and capital destruction to the industry, and the only logical response will be for companies to raise prices to more adequate levels.

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Next, I'd like to make a few comments about our Markel CATCo operations. They obviously were also impacted by these events. Assets under management, including funds held that will be used to settle catastrophe claims, increased to $4.5 billion at September 2017, up from $3.4 billion at September 2016. As of September 2017, Markel's investment in the Markel CATCo funds was approximately $204 million. During the third quarter, we recognized a loss of $52 million due to change in the net asset value of the funds due to the estimated losses from the third quarter events. Consistent with our conservative approach to managing our loss reserves, we have impacted the value of our investment in the funds based upon the higher end of Markel CATCo's previous released estimated range of results for the year. The CATCo team is currently working hard to determine the extent of clients' losses and required side pockets, renew clients with appropriate rate increases and raise capital needed to meet 2018 client demand. We believe we are making good progress on all fronts but will not have the full picture until closer to year-end.

Finally, just an update on State National. The day before our last quarterly call, we announced entering into an agreement to purchase State National. Today, I'm happy to report that this Tuesday, State National shareholders overwhelmingly approved the deal. The transaction remains subject to customary closing conditions including one-related -- or excuse me, one remaining regulatory approval in Delaware, and we expect to close the deal before the end of the fourth quarter. We are very excited to welcome the State

National team to Markel. We look forward to adding the premier fronting platform in the U.S. as well as adding a recognized leader of collateral protection insurance for credit unions and regional banks.

Now, I'd like to turn it over to Tom. Thank you.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. Markel enjoys a relatively unique position in that we have 3 powerful engines to drive this company forward. Richie described our insurance engine circumstances, and I'll pick up with our investment and industrial products and services engines. The investment engine produced excellent results during the first 9 months of 2017. We earned 17.6% on our equity investments through September 30. More importantly, our longer-term record remains one of the finest in the investment industry. We've outperformed the S&P 500 index by more than 100 basis points over decades, and this record continues in 2017. We do so at extraordinarily low costs and with a high degree of tax efficiency. Currently, we have roughly 64% of our equity capital invested in publicly traded equity securities. This is enough to give us a meaningful return in pleasant environments like what we've experienced so far this year. It is also balanced and conservative enough to provide a measure of safety and liquidity to absorb bad days and remain in a position to make positive investments in more turbulent times.

In our fixed income operations, we continue to execute our strategy of owning high-quality, plain vanilla bonds and matching the duration of our portfolio to that of our insurance liabilities. We earned 2.8% on our fixed income holdings through September 30, and we continue to earn the coupon. There were no credit losses to report as has been the case for quite some time. That is how it should be. I'm delighted to report to you that is also how it actually is.

Our industrial products and services engine, known as Markel Ventures, also produced substantial positive results. We earned EBITDA of $115 million versus $133 million in the prior year. When you look at those raw numbers, I would suggest that you also look at a couple of additional items. One, we recognized a $20 million loss due to storm losses on inventory from Hurricane Irma. That number represents the cost of inventory that was damaged by the storm. As we pointed out in the 10-Q, we recognized nothing for future insurance recoveries from that loss. Let me assure you as fellow shareholders that we were insured for that loss, and we do expect meaningful recoveries in the future.

The 2 fundamental principles of accounting are conservatism and matching. In the fundamental covenant of what accounting is meant to do, those principles mean that whenever there is a choice about how to present financial outcomes, you are supposed to present things in a more conservative rather than aggressive way. You're also supposed to match revenues and expenses in the period in which they occur. I would suggest to you that this $20 million of expense is about as conservative as it could possibly get. I would also suggest to you that I, as a former accountant, struggle to understand how this third quarter expense comports with the fundamental principle of matching revenues and expenses in the same time period.

When you go from the covenant of accounting principles to the contractual process of GAAP accounting, rule-makers necessarily delve into definitions, processes, terms and procedures that are necessary to create actually journal entries. I'm told by our GAAP accountants that the expense of the inventory losses are certain and knowable as of the end of the third quarter. I'm also told that the insurance recoveries are not knowable enough or precise enough to do the other half of the journal entry, where we would report a receivable on our books in anticipation of a future claim that we expect to collect. What all this means is that in the not-too-distant future, we should to collect insurance proceeds from this loss. And at that time, we will record the entire amount as income in that period with no associated expense.

Secondly, we recognized $10 million of expense in the period for paying out an incentive earn-out from a previous acquisition. I remind you that paying an earn-out greater than what we expected means that things have gone even better than we originally anticipated. Let me say it plainly, that's a good thing.

On the surface, though, we were reflecting that unalloyed good news as an expense flowing through the income statement. In my fantasy world of GGAAP, that stands for Gayner generally accepted accounting principles, I would consider that payment a balance sheet item and a capital transaction of payment for an income-producing asset rather than a period income statement expense. The good news for fans of GGAAP and GAAP is that we will all agree to the same number in the future periods. The payment has been expensed, and the future expenses for the earn-out will be 0, no matter how you go about accounting for the issue. Adding these 2 items, which total $30 million, to the reported EBITDA of $115 million doesn't seem completely nuts to me. Feel free to make your own judgment about my logic. I apologize for the accounting digression, but I think it is critical to discuss this issue in order to understand and more fully appreciate the underlying economics of the business.

Finally, I want to close with a reminder that at Markel we are about the task of building one of the world's great companies. We do this by building a durable and sustainable win-win-win organization that does things for our customers, shareholders and associates rather than to them.

The results of 2017 demonstrate the reality of this mission in spades. First and foremost, we are responding to losses suffered by our policyholders with claims payments that we currently estimate to be more than $500 million. This is a win for our customers. We are there for them when they need us. This is true, not just to the insurance, but in our industrial operations where we build bakery equipment and car trailer, truck floors, dredges and dorm room furniture, among other things, and where we provided housing, medical care, IT consultants and other valuable services to our clients.

Secondly, we created a win for our shareholders with positive overall returns from our investment and industrial engines. Additionally, we're creating a win for our shareholders with the transformative acquisitions of SureTec and Costa Farms so far this year and expectations that State National will soon follow. These new additions to Markel expand the revenue base of your company by approximately 1/3, and we are funding these purchases without raising any equity to do so. We filled a balance sheet over the years that can respond to the highest catastrophe year ever and pay for 3 meaningful acquisitions all at the same time. Ladies and gentlemen that's a powerful statement.

Finally, as it says in the Markel Style, our covenant that describes how we operate this company, we are creating a win for our associates by providing an atmosphere in which people can reach their personal potential. This is a company full of people who are creative, adaptable, continuously learning and dedicated to our customers, shareholders and fellow associates. We continue to celebrate the task of serving each and every one of these people, and we take joy in doing so. We continue to travel down the path of becoming one of the world's great companies through our daily acts of service that are our jobs.

Thank you for your long-term support and partnership as shareholders and your provision of the financial capital required to complete this mission.

With that, we look forward to your questions.
Kate, if you would open up the floor for questions, please.

Question and Answer

Operator

[Operator Instructions] The first question is from John Fox of Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

Yes. I have a few questions. The first one is, I guess, my only surprise in the quarter was, well, high rate of gross premium written, which is in the low to mid-teens, ex the acquisition. And I'm just curious given my sense within a soft market for a period of time and your disclosure in the Q about most premium rates are kind of trending down, where are you seeing opportunity to write business at really double-digit gross premium written rate? Then I have an unrelated question.

Richard R. Whitt
Co-Chief Executive Officer and Director

All right . Thanks, John. I'll try to tackle that one. There's no doubt the market is competitive, and we've talked about it in previous quarters. There's only a number of lines where we're probably shrinking or actually shrinking, but there are some areas where we've found opportunities and we're growing. In London, we found a particular marine and energy program last year that we added to the book this year, and so that's coming on line. That number was 0 last year, and that program is coming on line. It could be $50 million or $60 million by the end of the year. Similar things happened in the U.S., where we found another program. Property -- it was kind of a property package sort of program. And again, it's probably a $60 million to $70 million opportunity that's coming online that would have been 0 last year. So we've had some nice pickups like that, very, very targeted rifle shots. And then we're growing in other areas such as the -- our classic auto program. We're seeing some nice increases in our national markets over in London, which is retail business, which has been -- it's a stickier business. It's a -- it doesn't move around as much in terms of price, and so it's a good place to grow. So we're -- I guess I would say we're not surprised by the growth. These are things that we kind of put in the works in 2016, at the end of 2016, and knew they would come online during 2017. And hopefully, the goal would be each year to find a few things like that, a few gold nuggets amongst what is otherwise a fairly competitive market at least up until now.

John D. Fox
Fenimore Asset Management, Inc.

Right. Okay. Well, I hope you're not surprised Richie. But...

Richard R. Whitt
Co-Chief Executive Officer and Director

No.

John D. Fox
Fenimore Asset Management, Inc.

How do you think about the return on equity or the returns on that business? When you find these pockets, was it -- you think about, gee, they have a good combined ratio or you say, gee, we can write $2 a premium for $1 equity and a 90% combined and that's a good return. How do you think about or identify that's a good niche?

Richard R. Whitt
Co-Chief Executive Officer and Director

We, first and foremost, as we always do, focus on what we think we can write it in terms of a combined. So we're not gonna bring on a program we think we're going to have a 110% the combined on it. We -- these are programs...

John D. Fox
Fenimore Asset Management, Inc.

Yes. I thought -- right.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes. They are the programs we believe we can make an underwriting profit on.

John D. Fox
Fenimore Asset Management, Inc.

Okay, great. And then my second unrelated question is you've reported $2.5 billion at the holding company at the end of the quarter. Of course, $900 million is going out for the acquisition, insurance acquisition. Do you guys have a kind of a minimum you'd like to have there, like a Berkshire talks about their minimum? And if so, do you need to reload that? Or can you just talk about the -- your liquidity and kind of a minimum you'd like to have?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Yes. John, I think we're comfortable. You'll note that the balance was flat to year-end, and we've closed out the 2 acquisitions already year-to-date. We're comfortable that we can absorb the State National acquisition and still have sufficient liquidity. I don't think we feel like we have to replace that. We will, as we have always done, be opportunistic about that. So if there is some option to do that and it makes sense for us economically, we'll certainly look at it. But we're not concerned about the liquidity levels around the organization.

John D. Fox
Fenimore Asset Management, Inc.

Okay, great. And then my final question was I understood -- you mentioned the Odgen rate which I understand is going back up. Could you just either confirm that or not? Or -- and would it have any impact going forward ?

Richard R. Whitt
Co-Chief Executive Officer and Director

There is -- the government has picked up the issue. The U.K. government has picked that issue up. And what they've really said is they will look at that rate more often. I think it had been something like 15 or 16 years since they had last looked at it, and they made this rather aggressive move. I think most people believe it will come back up, but that's not their biggest issue right now. I think they're focused on Brexit. So when that change occurs, we'll obviously take a look at it and see what it means for us. But that could take -- we believe that could take a while. They've got a lot of bigger things to deal with.

John D. Fox
Fenimore Asset Management, Inc.

Okay. I won't pencil anything in.

Richard R. Whitt
Co-Chief Executive Officer and Director

But it is -- the one thing I'll say, John, is it's interesting. The government set the rate at negative 0.75%. The reality is the market has basically ignored that. And when deals are settling, when claims are setting, they're settling at something between 0 and positive 1% rate. So as often is the case, the market sets the rates. The government doesn't.

John D. Fox
Fenimore Asset Management, Inc.

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Right. Because everyone knows you're making a positive return on fixed income, and I mean, you're over reserved at minus 7.5%. So yes, it makes sense.

Richard R. Whitt
Co-Chief Executive Officer and Director

So it is interesting. Deals -- claims that are settling are settling in that 0% to plus 1% range.

Operator

Your next question is from Scott Heleniak of RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Appreciate the thoughts on pricing. And just wondering if you see any early signs of pricing moving since the storms. Anything you can share there. And is there a sense of -- as others. I know you guys talked about casually pricing moving. I mean, everyone that we've heard has certainly talked about property and reinsurance. But do you get the sense that others are going to follow suit with that? Just anything anecdotally you can share on that front would be appreciated.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes. Sure. We're seeing the ability to raise prices on property. We are definitely seeing that ability I would say in terms of the market, how much and what you do on loss-free accounts, what you do on non-cat exposed accounts. It's a little all over the place right now, and I think -- but I think that will develop. As we go forward, the market will kind of find a level. But we are seeing the ability to push for rate on property accounts, certainly. It may take a little longer to be able to push and get rates in casualty lines and other specialty lines, but I think that's going to happen. I do believe that's gonna happen, but I do believe that could take a little longer than what we're seeing right now on the property side.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. That's helpful. And I wanted to ask you about the California wildfires. Appreciate you guys putting the loss estimate in there, and it was interesting -- and we've heard a lot of industry loss numbers out there, anywhere from a few billion to $10 billion. And just wondering what kind of industry loss estimate you guys might have assumed when you came up with your number for that, that you might be able to share.

Richard R. Whitt
Co-Chief Executive Officer and Director

We tried as best we could, and we've noted in there this is an ongoing and developing situation. So that range is -- it's got a lot of estimation to it. So we try to build it bottom up as best we could. I think we see those industry numbers as well, and I think we're thinking it's anywhere between $3 billion to $6 billion or $7 billion event. And unfortunately, it's growing every day because there are still fires out there. So that one is very tough to pinpoint right now. I can't caution enough about the volatility that could be in that number.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. The -- and then expense ratio. You have to benefit from the reinstatement premiums received and lower contingents paid, I believe you guys said. So was it -- the run rate in the quarter, was that still kind of in the 38% to 39% range is sort of a normalized rate if you were to take those out of there? Any major change in there or...

Anne G. Waleski
Chief Financial Officer and Executive Vice President

The expense ratio also benefited in the quarter from the increase in gross written, which I think -- yes. As that comes into earned, we'll continue. So I think the run rate is likely to be 37%, 38%.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. All right. And just the last question on the $20 million inventory loss charge from Irma, was that specific to one particular operation? Or was it multiple operations?

Richard R. Whitt
Co-Chief Executive Officer and Director

One.

Operator

The next question comes from Bob Farnam of Boenning and Scattergood.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

I think -- just a follow-up question on Scott. We're talking about the California wildfires. Do you get a sense whether that's going to be more of a -- in your insurance operations or reinsurance operations where you see most of the losses there?

Richard R. Whitt
Co-Chief Executive Officer and Director

That's hard. It is really hard to say right now. It's gonna hit both. And in fact, it's probably going to hit more widely through our portfolio because, I mean, it's gonna be classic cars. It's gonna be camps. It's gonna -- it is just all over the map in terms of where it might touch our portfolio. I don't think it will be outsized on insurance or reinsurance. I think it would be fairly well spread.

Operator

That are no additional questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Tom Gayner for closing remarks.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you very much for joining us. We look forward to connecting with you next quarter. Thank you, everybody.

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