S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ4 2010 Earnings Call Transcripts

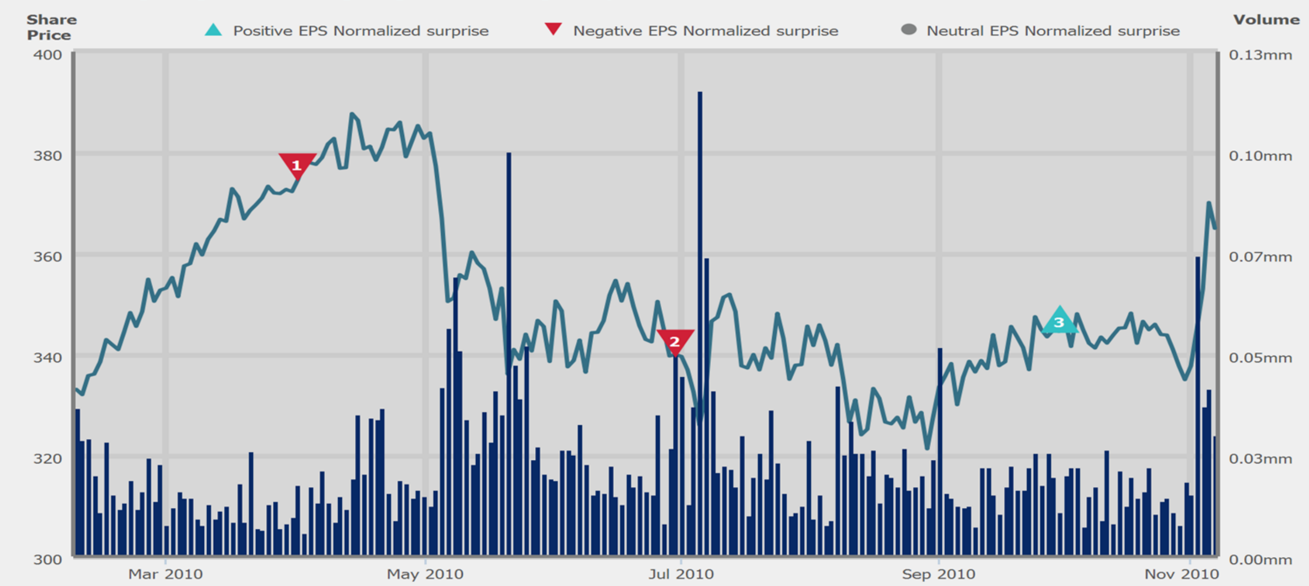
Thursday, February 03, 2011 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	4.38	12.91	194.75	3.55	15.86	23.90
Revenue (mm)	550.38	611.91	11.18	547.75	2135.52	2225.39

Currency: USD
Consensus as of Feb-03-2011 2:30 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	4.65	-	-
FQ1 2010	4.73	3.23	1 (31.71 %)
FQ2 2010	3.90	2.30	2 (41.03 %)
FQ3 2010	3.58	5.86	3 63.69 %

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Call Participants

EXECUTIVES

Anne Waleski

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Tom Gayner

ANALYSTS

Amit Kumar
Macquarie

Beth Malone
Wunderlich Securities

Charles Gold
Scott & Stringfellow

David West
Davenport & Company

Doug Mewhirter
RBC Capital Markets

Jay Cohen
Bank of America

John Neff
Akre Capital Management

Ken Billingsley
BGB Securites

Mark Hughes
SunTrust

Meyer Shields
Stifel Nicolaus

Presentation

Operator

Greetings and welcome to the Markel Fourth Quarter 2010 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Tom Gayner, President and Chief Investment Officer. Mr. Gayner. You may begin.

Tom Gayner

Thank you. And good morning and welcome to the fourth quarter conference call to discss our earnings and economic progress of the Markel Corporation. My name is Tom Gayner and I'd like to welcome you to the call.

Our format this morning should be extremely familiar for our long-term shareholders. Anne Waleski will kick things off with some comments on our financial segment, Mike Crowley will discuss our North American joint operations, Richie Whitt will cover our international operations along with any general corporate issues and then I will cover our investment as well the growing industrial and service operations at Markel. Following our statements we look forward to your questions.

Before we get started, I am reminding you of the Safe Harbor Statement. 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 described under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and on quarterly report Form 10-Q and on pages five to seven of our press releases dated February 3, 2011.

Our press release which may be found on our website at www.markelcorp.com also provides a reconciliation to GAAP of certain non-GAAP financial measures we may be discussed in the call today.

With that, turn it over to Anne.

Anne Waleski

Thank you, Tom, and good morning everyone. I will follow the same format as in past quarters. I will focus my comments primarily on year-to-date results. I'll start by discussing our underwriting operations, followed by a brief discussion of our investment results and bring the two together with a discussion of our total results for the 2010 year.

Moving right into the underwriting results, 2010 gross premiums were just under $2 billion up 4% compared to 2009. The increase in 2010 was due to higher gross premium volume in the Specialty Admitted in London Insurance market segment.

For the year ended December 31, 2010 the Specialty Admitted segment included $41 million of gross written premium from our new first comp workers compensation operations. The increase in gross written premium in the London Insurance market segment was due in part through our acquisition of Elliott Special Risk in late 2009.

Net written premium were approximately $1.8 billion, up 3% to the prior year. Retentions were down slightly in 2010 at 89% compared to 90% in 2009. Earned premiums decreased 5%, primarily due to lower earned premiums in the Excess & Surplus Lines segment as a result of lower gross premium when compared to 2009. The decline in consolidated earned premiums was partially offset by the additional of approximately $37 million of earned premiums from first half.

Our combined ratio was 97% for 2010 compared to 95% in 2009. The increase is due to a higher current accident year loss ratio and a higher expense ratio partially offset by more favorable development of prior years loss reserve compared to 2009.

The combined ratio for 2010 included approximately $75 million or four points of underwriting loss for two programs that were for losses associated with the adverse conditions in the residential mortgage market in recent years, as compared to approximately $35 million or two points of underwriting loss in 2009.

The combined ratio also included $33 million or two points of underwriting loss from the Chilean earthquake in the Deepwater Horizon drilling rig explosion which occurred in February 2010 and April 2010 respectively.

The 2010 current accident year loss ratio was 71% compared to 68% in 2009. The 2010 current accident year loss ratio included approximately three points of losses from the two programs that I just mentioned that were impacted by the adverse conditions in the residential mortgage market in recent years.

These same two programs contributed one point of loss to the 2009 current accident year loss ratio.

Favorable redundancies on prior year's loss reserve increased to $278 million or 16 points of favorable development compared to $235 million or 13 points of favorable development in 2009. The increase was primarily due to more favorable development of prior year's losses in the Excess & Surplus Lines segment and the London Insurance Market segment.

Our 2010 expense ratio increased approximately 1.5 points to 42%. The increase in the expense ratio is partially the result of lower earned premiums in Excess & Surplus line segment compared to the same period last year.

Costs related to our adverse system initiative represent approximately three points on the combine ratio in 2010 compared to two points in 2009.

Turning to our investment results. Investment income was up 5% in 2010 to $273 million, primarily due to having higher invested assets and higher dividend income compared to 2009.

Net realized investment gains were $36 million, compared to net realized investment losses of $96 million in 2009. Realized gains in 2010 included $12 million of write-downs for other than temporary declines in the estimated fair value of investments compared to $90 million of write-downs in 2009.

Unrealized gains increased $244 million before taxes in 2010 due to increases in fixed income and equity securities. Tom will go into further details in his comments.

Looking at our total results for 2010, we reported net income to shareholders of $267 million, compared to $202 million in 2009. Book value per share increased 16% to approximately $326 per share at December 31, 2010, an all-time high to Markel Corporation.

The effective tax rate was 9% in 2010, compared to an ETR benefit of 2% in 2009. In both years, our effective tax rate differs from the statutory tax rate of 35%, primarily as a result of taxing them as investment income and tax benefits associated with foreign operations.

For the year ended 2010, the effective tax rate include an 11% income tax benefit related to foreign operation as a result of a change in our plans regarding in our earnings considered permanently reinvested in foreign subsidiary.

Turning to cash flow and the balance sheet. Operating cash flow $223 million in 2010, compared to operating cash flow of $282 million in 2009. In 2009, the net cash provided by operating activities included the receipt of $34 million related to our 2008 federal income tax refund.

Investment and cash held at the holding company was just under $900 million at the December 31, 2010, as compared with slightly more than more $1 billion at the end of 2009. The decrease is primarily due to the holding company funding the acquisition of Aspen Holding Incorporated, stock repurchases and interest payments on debt.

At this point I will turn it over to Mike to further discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks Anne. Good morning. This good morning my comments will be brief. I know that all of you are as tired of the soft market as we are, but in the world we live in and we will continue to manage our business accordingly. North American operations performed adequately during the quarter. Clearly, there is continued room for improvement and we remain focused on our key objectives as we enter the new fiscal year.

As reminder those objectives include continued process improvement, `control and reduction of operating expenses and pursuit of new business through intelligent research and persistence and the attraction of top talent to fill open positions.

In support of these goals during the fourth quarter the E&S segment continued to leverage the One Markel strategy in several ways. By increasing the commitment to our corporate account executive program designed to enhance our international relationships by centralizing broker assignments, coordinating all interactions through consistency and establishing strategic plans for each of our national relationships, by introducing a new product Markel Priority as the market alternative for smaller transaction account seeking property, casualty, D&O or professional liability coverages.

This offering also includes a streamlined automated process which has been well received that we began binding business on this product in November. We also launched a formal technology project for an overhaul of our wholesale broker portal.

Phase one should be completed by April. This new broker portal report will provide improvement in context of the functionality and ease of use for online transactions with our wholesale brokers.

And they also reassigned 8,800 underwriting support professionals in the role of working directly with regional underwriting staff to improve the speed of our close time and issue times.

Our Specialty Admitted division was significantly expanded with the completion of the acquisition of Aspen FirstComp in October. FirstComp is a workers compensation underwriting company for small carefully selected risks.

We are confident that the additional management and support talent joining Markel and the sales and marketing discipline that they bring to our company along with their knowledge and use of metrics will significantly broaden the growth opportunities for all of Markel's specialties.

In addition to the Aspen FirstComp acquisition we continued our technology and process improvement initiatives, designed to improve efficiency in our Property and Casualty operations. And we launched several new initiatives, examples include exclusive new [Markel] program, an advertising agreement to promote general insurance with David's Bridal, which is the largest distributor of wedding gowns in North America. A new data breach coverage opportunity with one of our carrier alliance partners and a new variety of Admitted dealer products in several states.

Also our product line leadership group headed by Gerry Albanese, our Executive Vice President, Senior Underwriting Officer added new talent in the fourth quarter. Glen Mangold will join Markel as product line leader and Managing Director of our Architects and Engineers, lawyers and agents and brokers professional liability. Glen has 24 years experience and was most recently with CNA.

With the addition of Glen over the last 12 to 18 months we have strengthened our product development in product line management with new leadership for architect and engineers, transportation, management liability, D&O, crisis management and property. All of these leaders are fine-tuning and refreshing our offerings making them more attractive and competitive from the coverage standpoint without jeopardizing our underwriting discipline.

The product line group also launched four new high profile product lines in the quarter. I have already mention Markel Priority. In addition Markel Priority they launched railroad protective, primary auto and access auto.

We are also pleased to report that [Scott Chowminow] joined Markel last quarter as Managing Director Markel actuarial. Scott has over 25 year of actuarial experience in causality, rate making and reinsurance and a special expertise in workers compensation. Scott reports to Brad Kiscaden our Chief Actuarial Officer.

The number of new opportunities we have for generating business in both E&S and the specialty segment is exciting. However, we all know turning those opportunities into premium dollars remains the same challenge due to soft market that it has been throughout 2010 and we expect market conditions to remain soft in 2011.

In summary, we have our heads up, our eyes on the ball. We are realistic about the hurdles ahead. We are also very confident that we are in a position to success in 2011.

I'll turn it handing over to Richie Whitt. Richie?

Richard Reeves Whitt
Co-CEO & Director

Thanks Mike and good morning, everyone. The international operations had a good year despite the difficult operating conditions as Mike mentioned. Our premium volume was up about 11% for the year. This was primarily due to our 2009 acquisition of Elliott Special Risks that we mentioned previously and due to conditions in the marine, energy and liability market, post the Deepwater Horizon loss earlier this year.

International finished the year with a 95 combined, which is a good result considering the Deepwater Horizon loss and Chilean earthquake earlier.

But 2010 was an extremely busy catastrophe year on the international front. Our team did a really nice job controlling the catastrophe exposure from producing an underwriting profit for the year.

As Mike said, the markets remained competitive and it's certainly no different on the international side. The January 1 renewals in London were flat to slightly down in most lines of business.

On the positive side, marine, energy and liability continued to see increases in the 10% to 20% range. However, on the other side, U.S. property catastrophe rates were down 5% to 10% on average. It appears that underwriters have forgotten the catastrophe can and will occur in the United States.

All the international underwriting divisions continued to work extremely hard to grow the business profitably. But it's a tough market, and we know your first priority is always going to be underwriting profitability.

Anticipating the questions, we do have the exposure to the recent floods in Australia. We currently estimate that our exposure to the January floods are in the range of $10 million to $15 million. This remains a developing situation and the numbers could change. Also, with most of you know a Category 4 cyclones has hit Australia in past 24 hours. We obviously will be accessing our exposure to these events over the coming weeks.

Obviously, I was told that the folks in Australia have had a real tough time over the last couple of months and we hope it will get better soon. To sum it up despite a difficult market conditions and incredibly difficult catastrophic year, William Stovin and our international team, had a another solid year.

We're off to a good start in 2011 and we're optimistic that despite conditions that we can continue to grow our international franchise profitably.

At this point, I'll turn it over to Tom to discuss the investments and Markel ventures.

Tom Gayner

Thank you, Richie and good morning. In our guiding statement at Markel, known as the Markel style, there is one thing that saved our pledge to our shareholders is that we will build the financial value of our company.

And today's Markel, which strapped on a third engine compared to the previous two, the power of the growth of the financial value of your company. I'm delighted to report to you that all three engines were working in 2010, as you can see from the 16% growth and the book value per share of this year to a new record high of $326.

We are also optimistic that all three will continue to do so going forward. The first and main engine is insurance. Anne and Mike and Richie all gave you some data and some comments that described what is going on in the insurance engine at Markel these days and I won't repeat their remarks.

Suffice it to say that insurance market remains challenging but through confident retooling and adaptation, geographic expansions, acquisitions and creativity, we're doing pretty well in the fundamentals of insurance. We continue to achieve underwriting profits and that is no small statement in today's world.

The second engine is the investment operation that connects directly with insurance. I'm pleased to report that we enjoyed a wonderful year on our investment operation. The total portfolio return in local currency was 8.1% or 7.9% after conversion of our results to U.S. dollar.

As always let me remind you that we run a matched book to best of our ability and whatever foreign exchange factor affects our investments its offset by an equal and opposite effect on our underwriting operations.

In the fixed income deposits, we earned 5.4% in total return, which essentially matches the coupon from the portfolio in aggregate. That is exactly what should happen overtime. We work diligently to avoid credit losses and we do not aggressively trade the portfolio in the negative sum gain of trying to be a superior guesser of the future direction of interest rates of relative credit spreads. We simply look at our liabilities from the insurance side and match them up against the portfolio of high quality fixed income security.

As always, we temper that match with an common sense, which continues to suggest to me that rates are headed high not lower. As a result we continue to maintain bond maturities at a lower level in our insurance book. That means we accepted lower current income in exchange for protecting our balance sheet against the risk of rising interest rates and lower bond prices.

During the fourth quarter and so far in 2011 this strategy has showed a maturity, has helped us as rate now seem to be rising somewhat from the recent ultra low levels.

On the equity side, we enjoyed a fantastic year. We were up 20% as compared to the return of 15.1% for S&P 500. More importantly over longer periods of time we've earned 6.2% in for last five years and 7.6% over the last 10 years as compared to 2.1% and 1.1.% for the S&P over the same five and ten year period. This is simply massive out-performance.

While it's wonderful to celebrate and enjoy the backwards looking view over of the last five to ten years, the key now is what happens next, I think that the evidence suggests our investment discipline works overtime. I remain confident that our current focus as high quality global leader in our equity portfolio is the right emphasis for our holdings.

Commodities and more trading oriented strategies made well out pace us over the next year or two but I do not think that chasing those trends is a wise decision for Markel.

At year end equities represented 54% of our shareholder's equity accounts as opposed to 48% at year-end 2009. That comes from the steady ongoing investments made during the year relative to the light of appreciation we've been doing.

The third value creation at Markel now is the Markel Ventures Group. Our other revenues in 2010 were about $185 million and this stems largely but not exclusively from the Markel Ventures Group. We also enjoyed a productive fourth quarter with the acquisition of controlling interest in RetailData and Diamond Healthcare just before year end.

RetailData founded and led by Christie and David Cottrell serves grocery, general merchandise, convenience stores and consumer products industry. They collect and gather pricing, products and placement data for their customers, the retailers and enjoy a 20 year record of growth and financial performance. With the backing and partnership now in place with Markel, the company should be able to fully develop its international activities in consumer product initiatives. Christie and David remain with the company.

Diamond Healthcare founded and led by George White is a leading provider of Behavioral Healthcare Services throughout the United States. There were primarily two hospitals and currently serve over 85 hospitals across the country. They bring specialized knowledge and skills for this field and enjoy 25 year record of success. George and his leadership team remain with the company just has been the case at all of the Markel Ventures company.

The Markel Ventures group now include these two recent additions as well as the AMF Bakery Equipment group, Parkland Ventures, PSI and Ellicott Dredge. To-date all of the evaluations have performed as we have expected at the time of acquisition. We are now in the business providing you guidance for steering reports you towards our investments.

As fellow solid shareholders though we want you to have some sense of the growing size and scope of this group. Currently we expect total revenues in excess of $250 million and more coverages in 2011 and we expect to convert double digit percentages of each dollars to cash. This is now our third engine which works to create value for Markel shareholders.

We are pleased to be able to report the comprehensive results of 2010 to you and we now look forward to answering your questions.
Operator would you be so kind to open the floor for questions.

Question and Answer

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions). Thank you. Our first question today is coming from the line of Beth Malone with Wunderlich Securities. Please state your question.

Beth Malone
Wunderlich Securities

Thank you. Good morning and congratulations on the quarter.

Tom Gayner

Hi, Beth.

Beth Malone
Wunderlich Securities

I have a couple of questions. Could you, please explain a little bit more about the tax credit? And you did indicate that you recorded in the fourth quarter? And does that suggest that there's going to be a different tax rate in 2011 than what we saw in the first three quarters of 2010?

Richard Reeves Whitt
Co-CEO & Director

Beth, it's Richie, how are you doing?

Beth Malone
Wunderlich Securities

Good.

Richard Reeves Whitt
Co-CEO & Director

Basically, the biggest difference between the 4% to 5% rate for us in what we end up recording is municipal securities. For the last two years, that’s not been the case because we have had two foreign tax-oriented items go through.

Last year, the UK government made some tax changes to their regime that produce a benefit for us and we recorded that last year and so we got the benefits for the full-year. This year in the fourth quarter, we made the assessment that we would not have to repatriate or bring back capital to the U.S. that we had earned in foreign operations. And what we have been doing for the last couple of years is obviously establishing a tax liability on those earnings or U.S. tax.

When we look at things this year and the opportunities we have to reinvest in foreign operations as well as some s restructuring, legal restructuring we did at our foreign operations, we now longer believe we will be bringing those earnings back and as a result we no longer needed that tax liability on the books.

So, that was recorded in the fourth quarter and over the last two years, as I said, we had two slightly different foreign tax issue that affected the tax rate. Going into 2011, all things being equal we would expect the primary driver of our tax rate difference being what it is in 35% being the municipal bonds. And so we would expect today to be in the low 20s in terms of the effective tax rate for 2011.

Beth Malone
Wunderlich Securities

Okay, great. Thank you. And speaking of municipal bonds, Tom, could you, what was your, there's a lot of controversy surrounding the municipal bond market and what's Markel suggestion? Are you going to deemphasize muni bonds due to the concerns about the credit quality or what?

Tom Gayner

I am going to walk you through this Beth in how we would think about the municipal bond portfolio. So in rough order of magnitude, we would expect to have about half of the fixed portfolio and munis. So in rough, rough terms that $3 billion and that's roughly the same as what the shareholders equity account is. The first thing we would do is we will have the highest quality and be at the top of the food chain in terms of what we are in that portfolio, that we're [GOs] and essential products and services, that's step number one.

Step number two, is we would have a 10% rule that we would not have anything more than 10% in any one sale. So for instance, California or Illinois or New York or wherever story you want to talk about, remember there would be a 10% limit of that $3 billion or $300 million that will be exposed to anyone of those states.

Within each of those states, we don't buy one bond for $300 million that's says California on it. We buy some bonds lets say LA Airport and some that say City of Los Angeles. Some that say City of San Francisco and some to say GO of the State of California. So that further disperses and spreads the risk, it is the prudent way of managing things.

And then the last and final point if you want to imagine nightmare scenarios. My personal is that if there were a severe problem in one of those entities, you would not be looking at a zero you would be looking at restructure. So it was a 5% bond that was due in 10 year my guess, that will be restructured and become 3% bond during 15 years, or something like that.

So it's a very high sense on the dollar recovery or mark-to-market and net, net, net, net I think the municipalities and states where they all face the crisis that you read about in the headlines, also there is growing sense of reality within the world of government, that they have to live within the means that they have the credit market.

So in many ways, kind of that back to the 70s, show lot of dimensions and one phrase from that era was the bond vigilantes. The bond vigilantes are reckless and they are at municipal credit and they are enforcing some market discipline. So, between that and the specific concrete risk management steps that we have, I am comfortable with the exposure that we have.

Beth Malone
Wunderlich Securities

Okay, thank you. And then one last question for Mike. You mentioned that you've added some talent to your operations as well as expanded into new markets. How do you -- it seems difficult to contrast that with the obvious pricing pressure that is taking place in all the markets?

Francis Michael Crowley
Vice Chairman

Yes, that almost all of that talent that I mentioned were filling open positions and replacements. For example, Glen Mangold who I mentioned on the call will replace Mark Henderson who retired earlier in the year. So, we are absolutely being disciplined with regard to our headcount. As I mentioned before we have a organized process where Ritchie and Pam Perrott, our head of HR and I get together on a monthly basis to look at all of the positions, look at requests for hire and we are not expanding our head count. While these are replacements, upgrades, changes in talent to open positions.

Richard Reeves Whitt
Co-CEO & Director

And I want to add to my comment that one of the good things about going through a soft market or tough time is, there is a lot f talent around and this is a people business and the great thing about the last couple of years is that we've have because of our consistent performance a long- term record, in the culture of Markel, really been a bright shining light that has attracted a lot of people.

So there are lot of people that would like to be part of Markel and more so than would be the case in normal environment and we're trying to take advantage of that to make sure that we have the best possible team on the field. A couple of the people are moved but when we look at the situations where we have particular expertise or a team on board, you can be assured there is a number attached to that and we're doing some per-formas long before we agree to do it.

Beth Malone
Wunderlich Securities

Okay, and just one clarification. So, when you are adding people or expanding margins, I guess in order for you to maintain the conservatism you have already demonstrated in the past, that means you're -- are people sitting idle that you're not going to write business in this particular market? Or are you entering markets where you do believe you can price the product profitably?

Tom Gayner

We are entering a market what we believe we can price profitably and keep in mind that all of these people during all can be a long time who as I see underwriting officers overseas and make the decision of whether this talent comes on board or not. We do not people that we mentioned in the third quarter as well are up. So the people are busy; the challenge we have in those with the in the marketplace

Beth Malone
Wunderlich Securities

Okay, alright. Thank you

Operator

Thank you. Our next question is from line Amit Kumar with Macquarie. Please go ahead with your question.

Amit Kumar
Macquarie

Thanks and good morning.

Tom Gayner

Good morning.

Amit Kumar
Macquarie

Just going back to your comments on Australia, can you just expand a bit more? Is that a property or is that business interruption? What sort of losses should we expect?

Richard Reeves Whitt
Co-CEO & Director

Amit, it's going to be primarily property and we don't, we certainly have a right in Australia, we are not a huge writer in Australia, so we're seeing some releases out there people putting our estimates of their numbers, we are not going to see numbers like some of theirs, but clearly we do write in Australia. We write, we have an open market property that will pickup some losses there.

We also write some treaty property reinsurance, so we will have some losses there but at the same time for example, the national flood program we don't write that. A lot people obviously are picking up the loss on that program, we are not on them. So certainly we are going to have losses but we don't see it as a huge mover for our first quarter result.

Amit Kumar
Macquarie

And did Q4 have any impact or no?

Richard Reeves Whitt
Co-CEO & Director

Small, certainly yes. The flooding, started before the end of the year. So we did have some losses come in as a result of the flooding that occurred before the end of the year but it will vary in theory.

Amit Kumar
Macquarie

Got it. And can you tell us expand on that discussion a bit. There has been a lot of chatter about exposure to a Middle Eastern Egypt and can you remind us if you'd write any political the risk and covers for those type and would you have any exposure?

Richard Reeves Whitt
Co-CEO & Director

We do write some were exposure that tends to find it ways to London and into the marine market. So, we could pick up some exposure in that account. But are not -- I would say, at this point we are not aware of anything but it is possible. We are not expecting anything significant. But certainly it is possible.

Amit Kumar
Macquarie

Got it. Just moving on quickly on to the recent releases, I was a bit surprised at the level of releases and I sort of go back to the discussion on London Market segment and previously you talked about releases coming from 2004 to 2008 accident years. I am wondering if this quarter's releases were also from the same time frame?

And then maybe, can you remind us what are the carriage reserves for this folk as a percentage of, I guess, $5.4 billion total reserves.

Tom Gayner

Well, in terms of the years involved, certainly 2004 to 2008, there were releases in that area. In addition, we had some releases from year prior to that. We had some releases in the 2002 and prior areas of the book. And one thing I might just say and I think you would go back and look at our results over the years, we do obviously are pleased. We have got an IBNR every quarter. But we obviously do the most work leading up to our year-end results. And this is the result of that and the conservatism that we exercise.

In the first couple of quarters, we tend to be very conservative and as the picture for the year develop throughout the year, you know, the third and fourth quarter tend to be a little bit heavier in terms of releases and I think that this year was, similar to last year in terms of the team but maybe they are little more relieved as this result

The theme but may be a little more release as this result have been resolved. About Markel international, about 40% of loss reserves so that gives you an idea of the magnitude but that's sort of theme and it did have some relief it's from earlier exiting years, the 2002 and prior buckets where we went back and did some review to say the reserves and realize that we had some redundancy there that may be deployed through P&L.

Amit Kumar
Macquarie

That's very helpful. And just final question on Aspen. Previously we talked about Aspen's business plan for 2011 and there had been some discussion on retaining $140 million out of $300 million.

Can you just sort of refresh us where you stand on the thought process, and how we should think about this going forward? Thanks.

Tom Gayner

Well, glad to hear that, in terms of 2011, our best estimate right now is that we would be retaining roughly $200 million for comp business this year. That's highly subject to change because the workers' comp market is competitive as the overall profit market is, the workers; comp market is even more competitive and we've talked about it about 100,000. It's going to be underwriting profit for us and that is exactly the philosophy at first comp as well.

So those guys, they're going to be very careful given where the workers' comp market is today. But we think we could retain probably around $200 million this year to that business. Everything have existed as we expect. It's probably also where a point now, this is a year transition for both obviously they've had a hybrid MGA and risk bearing model in the past and we are going to moving to primarily a risk bearing model so we got that change occur in this year.

Also our conservatism in loss reserve is something we've been very proud of over time and that Markel was moving them obviously to our reserving philosophy.

As a result of that it is we expect that first half will be an underwriting loss for 2011 as we work through these things. And that underwriting loss just to due to sense of that could be on the order of $30 million for 2011 as we work through changes and process. And I'll just tell that not surprising one, that's something on the table as an expectation since we did the acquisition.

Amit Kumar
Macquarie

Got it. Okay, very helpful, thanks so much.

Operator

Thank you. Our next question is from Mark Hughes of SunTrust. Please state your question.

Mark Hughes
SunTrust

Thank you, good morning. In your comments you could make on where the reserve stand today, there is some discussion lot of the favorable release trends having run their course in 2011 there is not as much quite lined up - sorry 2010, not as much lined up for 2011. Any comment you have to make on that?

Richard Reeves Whitt
Co-CEO & Director

Mark, I guess there is clearly the peak of the market in 2006, 2007 on the line of business and so the despite this has not been the strong we had several years. We always have been to establish a consistent and conservative margin safety in the reserve.

And I guess, one of the way I would answer that is at the end of 2010 we believe the margin of safety in our loss reserve to be consistent with 2009 that we believe in how that will come through earnings in the future will completely depend on how there's no in behave and given the pricing with and given that the market with moving now we did no.

Tom Gayner

But in terms of the balance sheet not should we think about Markel there was a consistent margin at the end of December 2010 to 2009. I want to comment where you a balance sheet because whether it recognizes an income this year or not those dollars are on the balance sheet and in the investment portfolio the whole time in generating investment in company and it can be amortized enough how much of the talent so we have every financial company earning report as the or not between the income segment and the balance sheet. And the balance sheet is undefeated and there's with Markel.

Mark Hughes
SunTrust

Thank you for that. Any more granularity you can provide in terms of pricing, or kind of exposure units, economic activity among your policy holders, as you look at 4Q relative to 3Q as you progress through the quarter? Any more nuance there?

Francis Michael Crowley
Vice Chairman

No new launches. We see things that's still that still very competitive and looking out in 2011 we expect more value. Hopefully economic activity will continue to pick up phenomenally and that will an effect. But we can't quantify that here today but we'll and watching the way we run the business with keeping in mind that 2011 will work like 2010 with regards to write and exposure of it.

Mark Hughes
SunTrust

And then final question on -- Tom, your current outlook about the risk for inflation. Obviously rates are moving up. Where do you see it now versus three months ago?

Tom Gayner

Well, I mean, I had the same concern that has three months ago and frankly I had it for couple of years now and driving home last night I stopped and actually bought the glossaries for dinner and cried. It wasn't going up.

Mark Hughes
SunTrust

Very good. Thank you.

Operator

Thank you. Our next question is from line of Doug Mewhirter of RBC Capital Markets. Please state your question.

Doug Mewhirter
RBC Capital Markets

Hi, good morning.

Tom Gayner

Hi, Doug.

Doug Mewhirter
RBC Capital Markets

Most of my questions have been answered, I guess. The first question would probably be posed to Tom. I realize that you are definitely much more of a bottom-up investor and you definitely don't do a lot of top-down asset allocation. But given where your opportunities are at, regardless of the opportunities you may see with Markel Ventures, because they are more opportunistic, where are you sort of shading your new money, new cash flow, these days?

Tom Gayner

Well personally, it's pretty much in the same place we seen over the last couple of years. The list that which we call the call [Blue Chip] the brand name that you would recognize not only in the U.S. but increasingly every single place around the world.

While we have really good year that did almost, that year was almost too good and it surprised me a little bit because you know last year and coming out of 2008 the risks on and risk your assets are the things that have sprint to the head the most and if you look at some of the smaller and see roughly 3000 or something compared to S&P 500. The smaller, I'd say for the purposes of argument more riskier has, lets say, the purpose of this argument, well this year, half of the class are moving to hedge faster.

We had a really good year while remaining very high quality. And as I think about sort of what might be talking about a year from now, I would not be surprised again given when we are talking about inflation. As for the commodity oriented thing, we might sprint ahead of this year. But we are not sprinters, we are marathoners.

And as long as I continue to put new money and the same sorts that come in that we didn't do in the last couple of years, that franchise in the world had reasonable price. That's where the bulk of the money is in.

Doug Mewhirter
RBC Capital Markets

Thanks, that's helpful. My second and last question, is maybe for Michael or perhaps Richie. We've heard a lot of pretty down-beat commentary on workers' comp. And I realize that when you went to buy Aspen, you had a much longer time frame in mind.

But does Aspen have -- does its book have any particular characteristics that maybe was attractive to you because it may not be, to use a delicate term -- hammered by the current conditions as much, where the maybe the loss costs aren't -- inflation isn't quite as bad, or you have a better way of controlling frequency, or medical costs, or something like that?

Francis Michael Crowley
Vice Chairman

The best way I can answer that they were, this is my -- there were two things that we really attractive and several things were really attractive towards the back half. Along the lines of your question, one of the things that has impressed us is their knowledge of their new metric and their analysis of their business and as luck would have, they actually are having their strategic planning meeting here in Richmond. As we said and I would have attended that meeting yesterday and came away even more impressed with their knowledge of their business.

Clearly that didn't take away from the risk, you didn't take away from the challenges so that their management team, those at business, they fix it and they don't do things that they don't understand. And another thing that was attracted to us and was the opportunity as we discuss before to cross sell our cost to their customers and their product to some of our customers and we are actively working on that strategy right now and identifying how we're going go by but we think there's upside opportunity there. And lastly, we are more impressed today with their management and their leadership. They've got terrific leadership team.

So with their strength in the business, various of metrics that is very helpful and the cross sell opportunities, we feel is good about acquisition today as we didn't, we first look at that it's actually better. The one's that have market is that but we think we've got a team here that really understand the sticks to the knitting on the small accounts and in the small town and overtime they will perform well for us.

Doug Mewhirter
RBC Capital Markets

Okay, thanks. That's all my question.

Operator

Thank you. Our next question comes from the line of Meyer Shields with Stifel Nicolaus. Please state your question.

Meyer Shields
Stifel Nicolaus

Thanks guys.

Tom Gayner

Hey Meyer.

Meyer Shields
Stifel Nicolaus

I guess, let me start with Richie. Do you think -- can you contrast the amount of the reserve development this year that was from settling claims at lower than reserve amounts to just actual actuarial adjustments?

Richard Reeves Whitt
Co-CEO & Director

Settling claims versus actuarial adjustment. I just I want to make sure I understand that question. How do you differentiate from the two?

Meyer Shields
Stifel Nicolaus

Well, in one case you have liabilities. You just have a more optimistic expectation for what you're going to pay.

Richard Reeves Whitt
Co-CEO & Director

Yeah. Well, let me try this way. I wouldn't say that things are settling tax or that we settle out and it's sort of a enormous claims in the in the fourth quarter or in the third quarter where there was a big range around it in terms of volatility and so we were holding a lot of IBNR.

I think quite honestly it just really more of the same, but there probably the addition was as I said in the previous answer we did where we release from in the 2002 and prior sort of bucket if you will at Markel International where we probably haven't at those years in a while, we just not looked at, but probably hadn't looked at those because this would have let them sit there and cleared with some redundancies in that bucket. You know our professional liability booked in the US, the year that we looked, continue to look good and so we made releases there.

But there nothing shot out as unusual in terms of the big claims or anything like that. And we are very consistent process of what we have done in the past, nothing unusual.

Meyer Shields
Stifel Nicolaus

Okay, now it's very helpful. When you look tax in the year 2010, did your expectations for change at all over the course of the year?

Richard Reeves Whitt
Co-CEO & Director

I don't think so. The one thing I will say, that the expense ratio in the both quarter was up with that and I think it got a deal, little careful about that expense ratio because you know obviously we some nice redundancies from prior action year throughout 2010 and when that happens obviously we increased bonus accrual related to those prior [accrual] years. So, we've got - the loss reserve coming down as a result of prior action year, we got current year expense ratio going up because we are putting up additional bonus accrual on so on the fourth quarter I don't know what the numbers would be but if you look at the your combined ratio. It looks half and part of that is because the ratio is getting hit for prior year developed in favor to be in their bonus approval you're putting up.

But I think in terms of 2010 you know the pricing it's because we've had you know the s on to it. We had to give up some over the past two years that we know its not going to be good as 9 or its not going to be good as 8 but it is going no in terms of what it looks like.

Meyer Shields

Stifel Nicolaus

Okay. That's very thorough. One quick question for Mike, if I can. Obviously the continuing rate competition that we're seeing now does not involve decreases that were as big as they were, let's say, two or three years ago.

Should that pattern continue where we get smaller and smaller decreases into modest increases just because of back momentum? Is that the hard market we should be anticipating whenever?

Francis Michael Crowley
Vice Chairman

Is that the now I don’t think you can a model that the decreases are going to get smaller, smaller, smaller and then climbing a little bit and then gets larger and larger and larger. I don’t think that’s- that’s just no the way this business work.

You know I think, everything that I’ve seen and everything that I’ve brought and it is harder for but I think we will see in 2011 a market that will to what we saw on the third and fourth quarter.

The decrease in is better than were further back but they will be and I think I would be at third quarter and fourth quarter and you look at 2011 it’s more the same.

Meyer Shields
Stifel Nicolaus

Okay. Thank you very much.

Operator

Thank you. Our next question is from the line of Jay Cohen of Bank of America. Please state you question.

Jay Cohen
Bank of America

Yes, thank you. A couple of questions, first is can you quantify what the tax benefit was in the fourth quarter?

Anne Waleski

Jay, I may pick that up with you offline, I may not have quarter number here .Don’t worry, I'll call you after this you must know.

Jay Cohen
Bank of America

That would be great, that would be helpful. Thank you. And then also in the quarter, I am looking at sort of the other revenues mind if the other expenses presumably if that’s the ventures business, it looks like the income, the net of those two was down quite a bit. Can you talk about why that might have been and maybe correct me if I am wrong, but I thought that was most of the ventures business?

Richard Reeves Whitt
Co-CEO & Director

In terms of revenues Jay, yes, in terms of the net income right now, no, and that is because of the Aspen MGA business. And as we said in 2011 is going to be sort of -- that came on board October 15 that obviously onboard till 2011 but we are booking a loss right now on the Aspen MGA business both in the quarter and probably for the full year of 2011.

That is because that MGA business set up with a base commission and then a contingent commission baked on profitability. Right now to be conservative we have booking loss reversed that would result in no contingent commission being paid on the MGA business and thus we're recording in a loss.

Jay Cohen

Bank of America

Great. And that I think is going to show up the other expenses right?

Richard Reeves Whitt
Co-CEO & Director

Correct.

Jay Cohen
Bank of America

All right. Were there any additional losses in a quarter associated with the guaranteed bank contract or the E&L from mortgage services, the issues that impacted in the third quarter?

Richard Reeves Whitt
Co-CEO & Director

Very, very quite quarter from a standpoint of those things.

Jay Cohen
Bank of America

Okay. That's all I have. I appreciate it.

Richard Reeves Whitt
Co-CEO & Director

No problem.

Tom Gayner

Thanks Jay.

Operator

Thank you. Our next question is a follow up from the line of Beth Malone with Wunderlich Securities. Please state your question.

Beth Malone
Wunderlich Securities

Okay, thank you. I am just wondering these really severe storms we have been experiencing in 2011 or do you anticipate that they could have an impact on your losses for the first quarter?

Richard Reeves Whitt
Co-CEO & Director

Sure, Beth. I mean, obviously, with now the snow and things, roof collapses, you think that we will of course have exposure to that. Typically, when you have a bad winter or stormy winter, a property results aren't that hot at the end of the first quarter.

So, given what we have been seeing across the U.S., I would expect their property numbers wont look too terrific at the end of the third quarter. But often that doesn't necessarily mean we end up with bad property year. You can go to the rest of the year and have a pronounced year. So, it would not surprise me at all -- we thought this was property year.

Beth Malone
Wunderlich Securities

Do you think, with that in mind, is that going to have any affect, do you believe, on the pricing?

Richard Reeves Whitt
Co-CEO & Director

I doubt it. I just don't think it is big enough, you know, I am sure the run in to the billion, but I just think it's so wide spread and you know, the standard lines area and the various things, I just don't think it would be big enough in those things.

Beth Malone
Wunderlich Securities

Okay. All right. Thank you.

Operator

Thank you. Our next question is from John Neff with Akre Capital Management. Please state your question.

John Neff
Akre Capital Management

Hi, thanks very much. Probably a question for Tom, but you mentioned the three engines driving the increase in book value per share. I was wondering if you could possibly give us the attribution? What if anything, did Markel Ventures and the acquisition of Aspen contribute to that growth this year? Thank you.

Tom Gayner

From the book value point of view, the traditional two main engines are the insurance and investment where you are going to see drive the book value per share. The Markel Ventures group actually will start to contribute income and cash flows and things of that nature. But I can't make any change we have in the book value of Markel Ventures other than a cushion of very small amount of income.

Operator

Our next question is from the line of David West with Davenport & Company. Please state your question.

David West
Davenport & Company

Good morning, just one question. I wonder if you can give us an update on the likely expenses associated with the Atlas initiative this year, or is it -- should that be winding down?

Richard Reeves Whitt
Co-CEO & Director

We currently - we've got two things going on, we're probably going to be moving away from Atlas initiative. We are getting to the point probably after 2011 where it is really just run rate, indefinite technology for that business. So the Atlas initiative will probably wind down in 2011. We still have it going as a result of that, Dave warehouse initiative and Mike mentioned some of the initiatives around. Go through the website and so that ought to make business easier for them to do with us.

And we would - something wrong in the order, probably to what had this year. It's a little bit lumpy we have this year. So I think it was roughly 3 points on the ration this year. Probably its going to be less than that in 2011.

David West
Davenport & Company

Thanks very much.

Richard Reeves Whitt
Co-CEO & Director

Thanks David.

Operator

Thank you. Our next question is from Ken Billingsley of BGB Securites. Please state your question.

Ken Billingsley
BGB Securites

Good morning. I wanted to follow-up with some commentary that you had on -- I think you talked about rates and reserves and how the implications maybe were in the past going forward. But on the rate side, could you just talk about maybe a new versus renewal rate, what you're seeing, and also what you're doing, from termed and condition to deductibles, what competition you're seeing there on the ones that you're winning, and the business that you're not winning?

Francis Michael Crowley
Vice Chairman

Probably the best way I can answer that is that, two things, one we’re not out buying business. We look at new business were the same and I think the answer if you will, that we do the renewal business and use the experience we have a lot of business we write on renewal when we look at new business opportunity.

So I don’t see if we give it out but I will tell you that other carriers are very aggressive in the new business arena right now and that certainly is challenge for us. From a peer rate standpoint, again, it’s hard to say, I try to say, that I still look at 2011 like I look at 2010.

What was the other part of your question?

Ken Billingsley
BGB Securites

Just, on that, I guess my -- the question on that, on the new versus renewable, are you having more success with holding rate on renewal business? I'm going off of commentary that we're hearing from some surveys that have been out recently.

Francis Michael Crowley
Vice Chairman

I like say that it is easier we got better from a percentage basis of retaining business than writing new business. It is challenging to new accounts. Its feeding [frantic] in a lot of the things that we do. With regard to deductibles and coverage, as I said earlier, a lot of our product line leaders are looking at our coverage forms. We did other depreciation analysis like formed last year we’re refreshing those forms but the hand making an amend the improvement or with a strong on underwriting profit. We’re not going to jeopardize underwriting profit but we do need correct forms and look in those on a regular basis.

Ken Billingsley
BGB Securites

And then from a shopping standpoint, are you feeling like you are being shopped, your business is being shopped a little bit less than, maybe, it was back in 2009?

Francis Michael Crowley
Vice Chairman

I don’t know if I can answer that, accurately I mean our business gets up I don’t know that’s in more it was in the past or maybe

Ken Billingsley
BGB Securites

Sure thank you.

Operator

Our next question is coming from the line of Charles Gold of Scott & Stringfellow

Charles Gold
Scott & Stringfellow

Congratulations lady and gentlemen on the quarter. The question's about the investment income line. It looks like that had a nice bump up in the quarter and was the highest of the year, if I'm correct on that. Obviously some of that can be attributed to dividend increases and increased size of investments.

But I wonder whether the municipal problem we are going through now could also be a blessing and whether now some of that money is rolling over at a higher yield rate than the money it's replacing? In other words, your roll-over rate now positive instead of a negative?

Richard Reeves Whitt
Co-CEO & Director

Yeah. I think that you correctly answer to that question and its current and everything have to refer back to the earlier comment about where the money is going and of global blue-chip company 2010 with a pretty mature dividend and increases. So in many cases those yield in has been about and we took as much as alternative found solution.

As we have one frame to refer to sort of that set of companies and from its corporate shifts beginning inflation adjusted yield because of the pass through nature of the company and their ability to raise prices and we're doing well enough but that’s pure cash which they're in turn even to pay dividends to buy that stock.

Charles Gold
Scott & Stringfellow

My other question, Jay alluded to, which was the number of the other line where the revenue and the expenses were the same, and I think the answer had to do with Aspen's expenses, being on the expense side. If you take that out, were the margins roughly the same as the first three quarters for the other income and expenses?

Richard Reeves Whitt
Co-CEO & Director

I think roughly so, and yes, in terms of the looking at our real business management looking the businesses we own that exactly what happen. There distortions in purchase accounting especially in the amortization line when you buy something and creating amortization expense that are skewed a bit in the financial presentation part. If you were a businessman, you were looking to see at these business they are performing as expected.

Charles Gold
Scott & Stringfellow

Congratulations. Thank a lot.

Anne Waleski

Thank you.

Operator

Thank you. Our next question is a follow-up from Meyer Shields of Stifel Nicolaus. Please state your question.

Meyer Shields
Stifel Nicolaus

Thanks. I apologize, this is a question because of my ignorance. What's the tax rate on the international underwriting profits. If the -- pardon me, if the profits aren't going to be repatriated?

Anne Waleski

They are not going to be pace graded. We are on providing taxes for them. But as your question is what is the statutory rate in the UK it's about 28%.

Meyer Shields
Stifel Nicolaus

Okay, I guess, what I am asking is whether we should apply a different tax rates to the underwriting profits of the London look? It would still be in those low 20s if you are doing it on an effective rate. They also are tax exempt.

Anne Waleski

Yeah. I think it's probably safer, just then to try to put it on or break it into the pieces of these things. I would just tell you that, you know, we would expect the low 20 sort of tax rate next year as long as it has some other change in the tax code or other things going forward.

Meyer Shields
Stifel Nicolaus

Okay, I guess what I'm asking is whether we should apply a different tax rate to the underwriting profits of the London book?

Anne Waleski

Yes.

Meyer Shields
Stifel Nicolaus

Thank you.

Operator

Our last question is a follow up from Amit Kumar of Macquarie. Please state your question.

Amit Kumar
Macquarie

Thanks. Just very quickly going back to the point you made on Aspen and the $30 million underwriting loss expected for 2011. I assume that is for the current loss picks for their business. But when you look at Aspen's loss reserves, was there any adverse reserve adjustment in Q4 results relating to Aspen, and how do you feel about their loss results going forward?

Richard Reeves Whitt
Co-CEO & Director

Well, I would say, going forward, we feel good about what we're setting reserves up at. And we feel about the reserves on the balance sheet today. During purchase or at purchase, there was an adjustment made to Aspen's loss reserves. It not get the fourth quarter or without fourth quarter earnings but there was an adjustment made, the loss reserves, sort of bring them in line with that reserves and standards.

So, I can say that we feel good about the reserves and we believe they are in a consistent level with the rest of the company. But two things. Worker comps, its relatively new to us. And two, worker's comp is incredibly volatile in the sub-market right now. So, to tell you how to think confidence that I have with the reserves that's been even though we take the price increases we don't, market is volatile and we don't where that could end up.

Amit Kumar
Macquarie

Thanks for the answers.

Tom Gayner

Thank you

Operator

There are no further questions at this time. I will turn the floor back to management for closing comments.

Tom Gayner

Thank you very much. We are delighted to finish up 2010 in a way that we did and we look forward to the next quarter and make our next set of report to you. So if have any further questions we look for answering offline. Thank you. Bye, bye.

Operator

This concludes the Markel conference. You may disconnect your lines at this time. Thank you for your participation.