S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ1 2010 Earnings Call Transcripts

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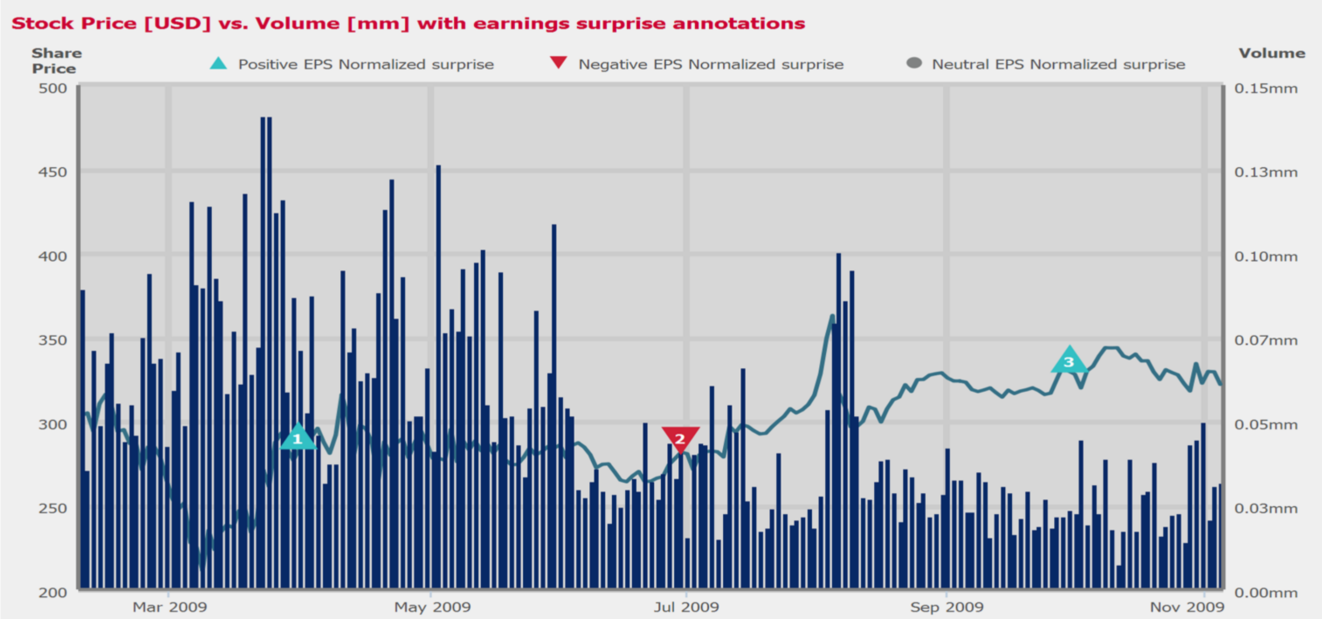
S&P Global Market Intelligence Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.73	3.23	▲(31.71 %)	4.80	18.44	19.35
Revenue (mm)	518.59	536.72	▲3.50	513.60	2058.93	2106.54

Currency: USD
Consensus as of May-06-2010 10:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	5.55	5.60	▲1 0.90 %
FQ2 2009	5.03	4.36	▼2 (13.32 %)
FQ3 2009	4.44	7.78	▲3 75.23 %
FQ4 2009	4.65	-	-

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EXECUTIVES

Richard Reeves Whitt
Co-CEO & Director

Steve Markel

Tom Gayner

Tony Markel

ANALYSTS

Beth Malone
Wunderlich Securities

David West
Davenport & Company

Jay Cohen
Banc of America

John Fox
Fenimore Asset Management, Inc.

John Neff
Acre Capital Management

Mark Dwelle
RBC Capital Markets

Mark Hughes
SunTrust

Meyer Shields
Stifel Nicolaus

Michael Nannizzi
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Presentation

Operator

Greetings and welcome to the Markel first quarter 2010 earnings conference 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, Steve Markel, Vice Chairman for Markel. Thank you Mr. Markel, you may begin.

Steve Markel

Thank you operator and I thank all of you for joining the first quarter Markel conference call.

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 our 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 quarterly report on Form 10-Q. Our quarterly report on Form 10-Q, which is found on our website at www.markelcorp.com, also provides a reconciliation to GAAP of certain non-GAAP financial measures, which we may discuss in the call today.

Again, thank you for joining us. 2010 is off to a very good start. We are very pleased with the way the first quarter is evolving. While the insurance markets continued to be very, very tough they are starting to show some signs of improvement. Our combined ratio in the first quarter came in at 101%. It is not bad in relationship to the current market conditions, or the earthquake in Chile, but obviously 101% is not what we would like to see.

The investment results enjoyed a great first quarter, and we are off to very, very good start on that side, and most importantly book value per share rose to $296 per share, up 4.8% from the level at December 31.

Without any further ado, I'm turning the call over to Richie Whitt, who will review our financial results. He will then turn the program over to Tony Markel, and Tony will talk a bit about the marketplace and our operations. And finally Tom Gayner, will review our investment results. Richie?

Richard Reeves Whitt
Co-CEO & Director

Thank you Steve. I will follow the format I have used in the past. I will start with a discussion of our underwriting operations, follow that up with the discussion of the investment results and then bring the two together with a discussion of total results for the quarter.

Moving right into the underwriting results, gross premium volume was basically flat at about $490 million in 2010. Net written premiums were actually up a little bit compared to prior year at $447 million in the first quarter. Our retentions increased to about 91% from 90% in 2009. We have been hovering in that 90% range for quite a while now.

Earned premiums decreased about 10% compared to first quarter 2009 due to lower growth in net written premiums over the past several quarters, particularly within our property and casualty and professional liability programs in the US.

As Steve said, our combined ratio for the first quarter was 101% combined compared to 95% combined in 2009. The 2010 current accident year loss ratio was at 72 compared to 68 in 2009. This increase was due to $17 million of losses from the Chilean earthquake.

Favorable redundancies from prior year loss reserves decreased to nine points of favorable development compared to 12 points of favorable development in 2009. The decrease was due to lower redundancies in our professional and product liability redundancy programs, compared to 2009 and also included 13.7 million of adverse developments on an errors and omissions program for mortgage servicing companies.

Our expense ratio decreased to 38% from 40% in 2009. However, the first quarter of 2010 did include a favorable arbitration settlement, and anticipated insurance recoverable. We wouldn't expect to see those in other quarters, which together benefited the combined ratio by approximately 2 points. In periods, One Markel, or at least program costs were approximately 2 points on the combined ratio.

Turning to our investments results, investment income was essentially flat to 2009 at $68 million. Lower interest rates were partially offset by a larger portfolio. We did have some reallocation of cash to the long-term portfolio in the first quarter, and this should benefit investment income in future quarters.

Realized gains were $16 million compared to $55 million of realized losses in 2009. The majority of the 2009 losses related to write downs for other than temporary declines in the fair value of equity and fixed-income securities. The big story on the investment side, unrealized gains increased $145 million before tax due to increases in both our equity and fixed-income portfolios. Obviously, Tom will be going into further details in his comments shortly.

Looking at our total results for the first quarter of 2010, we reported net income $43 million compared to $16 million in 2009. As Steve said, book value per share increased almost 5% to $296 per share at March 31, 2010.

Turning to the cash flow statements and balance sheet, I will make a few comments. Regarding cash flow, operating cash flow was $4 million in 2010 compared to operating cash flow of $13 million in 2009. Historically first quarter is our lowest cash generating quarter, as we pay employee bonuses, agent incentives, retention contributions and other items of that sort in the first quarter. We obviously would expect the numbers to improve in the second quarter.

Regarding the balance sheet, we held approximately $1 billion of cash and investments at our holding company at March 31, 2010. And finally anticipating questions on the subject, I can confirm that Markel has as much as $15 million of net loss exposure to the recent Transocean Deepwater Horizon rig loss, which has been dominating the headlines. Clearly this situation continues to evolve and our loss estimates could change. Given the severity of the situation, and our reserving philosophy, it is likely that we will reserve for a full exposure in the second quarter.

At this point, I'll turn it over to Tony to discuss operations. Thank you.

Tony Markel

Thanks, Richie. Steve sort of alluded to the current environment in his opening remarks, but I will make a note here that I could have recorded and replayed exactly what I said at the end of the fourth quarter, in reflection of the current marketplace and our view of the current economy.

From our perspective, there seems to be virtually no discernible economic rebound, particularly in the midmarket arena where most of our insurance companies concentrate. And that is coupled, still with the feeding frenzy created by the new hungry entrants into most of the specialty niches, and that continues unabated. Although there is some evidence, and Steve alluded to it briefly that may be the rates are bottoming. But we still don't see any measurable rebound at this stage in the game, and every new and renewable piece of business continues to be a real struggle in a real space.

Unfortunately, we are not planning for or expecting a quick turnaround in either one of those key market barometers. So we have got to keep our nose to the ground stone, with regard to the sales and marketing efforts that frankly have helped us shore up and stop some of the volume erosion, which I will discuss in a minute. As Richie said, our unsatisfactory 101% combined ratio was driven in part by catastrophe losses, primarily the Chilean earthquake, but also the recognition of compressed margins caused by the continuing white hot marketplace.

We cannot, as an industry, deny that margins have been severely compressed, and it has got to come up and reflect the new numbers at some point. I would say with a great deal of pride that our reserve confidence levels continue to be at the same level that they have always been, and I'm not sure that some of the other industry reported numbers reflect that type of continuity and consistency in confidence levels with their reserve. So it is not unusual to end up with a combined ratio creep, as a result of true reflection of the rate levels that have been lost over the last few years.

With regard to the individual segments as we now report them, the E&S, Excess and Surplus lines area, for the quarter has shown net written premium down by 8%, but I would share with you at this stage that the gain in the conversion to the regional One Markel setup in this segment is starting to pay dividends and we were virtually flat in March, very close to it in terms of volume loss, and in April the early returns looked like it is going to be a nice little up-tick.

So, we are starting to realize the momentum and attraction that we have felt all along since the first year. Clearly, if we end up with an uptick in April, it will be strong evidence that this initiative is going to continue to solidify itself with corresponding enthusiasm from the wholesale clients and their personnel alike. This segment is prepared to introduce two new products to the marketplace that I discussed last quarter, or at least introduce to you. And that is a D&O team and a new transportation team, both which are ready to launch sometime before the end of the second quarter, which does nothing more than just broaden our array of products to the One Markel (inaudible), and there is a great deal of enthusiasm out there for them.

During March, we made some substantial improvements in terms and conditions on some of the historic products, historically profitable products, and we are already starting to see the proofs of those changes in increased reduction and the early returns are extremely encouraging. In short, in this E&S segment, the environment is still frankly very unimproved or unimproving, both our continued measures to combat it I think as I said are gaining real traction.

In the Specially Admitted area, it has basically been business as usual. That operation has concentrated a great deal as I mentioned before on coordinating sales and marketing efforts, and their volume through the first quarter has shown a smidgen of uptick, but with the lot of optimism and a lot of potential expansion accounts and so forth on the table.

And the same thing is true in our London operation, where they have shown nice growth as a result of their stability and continuity in terms of management, but in addition the branch expansions and the Stockholm, Singapore, and Madrid along with the acquisition of Elliott Special Risks in Toronto, which has not really added measurably to the numbers yet. But obviously we think it is going to be a real shot in the arm. And those things have contributed to what looks like a very, very solid first-quarter from a volume standpoint in London.

In short, not much change in the environment. A lot of things going on internally to combat them. A lot of investment in the future, Richie had mentioned, referred to the Atlas IT initiative, which is a very, very time consuming but worthwhile project to enhance what we're doing particularly in the Excess and Surplus lines area. So there is a lot of activity within Markel, and unfortunately the outside environment is not particularly great, but I think we are doing a pretty good job of combating it, and as I said earlier, the April numbers on early returns would indicate that maybe we're gaining a little bit of a production toehold.

So, with that needless to say, I'll be willing to answer any questions during the Q&A, and I'll turn it over to Tom Gayner.

Tom Gayner

Thank you Tony. Good morning. As I was preparing for this call, I reviewed the comments I made a year ago on the 2009 first-quarter conference call. I said at that time, " I know that I'm not telling you anything you don't already know, when I report that investment markets remain difficult during the first quarter of 2009. It was the sixth consecutive quarter of decline in the S&P 500, and the biggest percentage decline using that measuring rod since 1939."

Well today, I'm also probably not telling you anything that you don't already know, but I will tell you that markets are off to a good start in 2010, and we're pleased with our investment [ph] results. Telling you good news is that you already know is more fun than telling you bad news that you also already know.

Now in no way do returns from any one quarter deserve much in the way of accolades or criticism. It remains more pleasant to have good news for you like you have today. Specifically, we earned 2.6% on our investments during the first quarter of 2010. Our fixed-income were a positive 1.9%, as we earned a coupon attached to the portfolio, plus a smidge of price appreciation as interest rates moved down slightly (inaudible) during the quarter.

On the equity side, we started off the year with a return of 9.3% for the quarter, and we are very happy with the results. As of March 31, 2010, equities now represent 52% of shareholders equity, as compared to 48% at year-end and 43% a year ago. We are continuing to modestly and steadily add to our equity positions in many of the same companies that we have now owned for years.

Our focus remains on the high-quality global leaders with great franchises. While these holdings are starting to produce solid returns for us, we believe they remain attractively priced and we continue to steadily add to our holdings. With equities of 52% of our shareholders equity, we continue to have dry powder and room to continue to increase our equity holdings. Compared to the high-quality fixed-income alternatives that we would invest in, we are not giving up much if any current income, and we're putting ourselves in a position to capture future growth.

Markel Ventures, known as other on the financial statements should aggregate revenues of roughly $40 million in the first quarter. We are very pleased with the results of our controlled subsidiaries to date, and we expect to continue to add to our holdings over time. The total capital committed to Markel Ventures now approaches $100 million, and we expect double-digit cash flow returns from these holdings. Funding for these investments came from our position of excess liquidity, where we have and will continue to earn almost no return with interest rates at current levels.

We remain modestly short in the maturities of our bond portfolio with a duration of 3.8 years. We also remain committed to very high quality securities, as we remain concerned about inflation, the creditworthiness of many borrowers and the possibility of higher rates across the board. We don't want to be in the position of someone who bought a 30 year government bond in Greece six months ago. I'm guessing that person doesn't feel too good about the next 29.5 years.

During the last several years, we have maintained a fortressed balance sheet with excess liquidity and high-quality as the guiding forces. That has served us well and enabled us to continue to take advantage of opportunities in insurance, noncontrolled public investments and controlled company activities. We also managed our investment activities in a very low-cost fashion.

Our total expenses of managing and administering the portfolio are running at 13 basis points a year. I'm pleased that the sum of these advantages adds up to a book value per share that now stands at another record high of $296.

As the fundamentals of our insurance business improves and premium volumes increase, we will look to continue to maintain and use our strong balance sheet to add value. We have the unique circumstance of being able to do that in the insurance markets, the public securities markets, and the private securities markets. I look forward to continuing to press these advantages and I look forward to your questions.

With that let me turn it back over to Steve.

Steve Markel

Thank you Tom. I just have a few closing comments, before we open the floor for your questions. At Markel our focus is unchanged. We seek to earn consistent underwriting profits and superior investment returns to build shareholder value. We are proud of our record of doing so in the past, and expect the same for the future.

I want to thank you for your support, and also hope to see you Monday at our annual shareholders meeting in Richmond, Virginia.
And with that, I would like to open the floor to your questions.

Question and Answer

Operator

(Operator instructions) Thank you. Our first question is coming from the line of Mark Hughes with SunTrust Bank. Please proceed with your question.

Mark Hughes
SunTrust

Thank you very much. I'm sorry if you might have given this earlier. I missed your initial comments, but gross written premium, what was the organic change year-over-year?

Richard Reeves Whitt
Co-CEO & Director

It was about flat Mark. It was 400 - I'm looking for my notes here, Mark, $490 million in the first quarter, we had a tiny bit of FX effect there, but basically numbers were flat to 2009 of.

Mark Hughes
SunTrust

And I heard you say that the London operation was quite strong. What else contributed to that result?

Richard Reeves Whitt
Co-CEO & Director

Well, basically as Tony said, in London we were up a bit, about 7% to 8%. In the US we were down about 6%, 7%. The increase in London would largely be driven by some of the newer products we talked about in recent quarters, such as equine and PFR as well was up. Yeah, I just got it - my guys were helping me out there. Our PFR lines, professional liability lines in London were also. So, up in the UK, down in the US.

Mark Hughes
SunTrust

Great. Thank you very much.

Operator

Thank you. Our next question is from the line of Beth Malone with Wunderlich Securities. Please proceed with your question.

Beth Malone
Wunderlich Securities

Hi, thank you. Good morning. As everyone is aware, there's quite a bit of catastrophes in the first quarter for the insurance industry. And apparently the Transocean event keeps growing in terms of loss. Can you give us a sense of - I guess this is for Tony, how much more capacity would have to come out of the market before we'd start to see a change in pricing? Or whether the dynamic of the marketplace has changed where that's not going to be a catalyst?

Tony Markel

Beth, it is such a (inaudible) relatively small segment comparatively that I think it is going to have to - and don't forget most of the liability, as I understand it is not insured, the cleanup and that type of thing. So, I don't know, frankly I have no real optimism that the loss is going to make any fundamental change across the board. Clearly, we will send messages to the marine sector, where the offshore stuff is a significant piece of it. But I just can't see it being so dramatic in its impact on the rest of the market.

Steve Markel

I would agree with what Tony said. It is having a positive impact on the marine lines, particularly in London, but as Tony says, industry wide I don't think this disaster will impact the overall insurance industry, but clearly it will help the marine lines, and particularly the oil side of the - the rig side of the business.

Beth Malone
Wunderlich Securities

Okay. All right. Thank you. And then a question for Tom, on municipal bonds, there's been a lot of discussion about the quality of those. And you all do have some exposure to municipal bonds, are you changing your attitude or investment strategy as regards to munis?

Tom Gayner

No. The main tool to manage that risk in my opinion is spreads. So we do carefully monitor how much we have in any one jurisdiction, number one. And number two, we are at the top of the ladder of munis, we don't buy special purpose revenue bonds, industrial development bonds, that kind of stuff, or GOs and very essential public services, water and sewer, major airports, things of that nature. So we got the top of the food chain, and we spread it.

Beth Malone
Wunderlich Securities

Okay. And then, one other question for you on the new types of investments, these private investments where you take control, what's the criteria - what are you really looking for? They seem kind of disparate in the types of business you're willing to invest in. Is there a certain checklist that you go through?

Tom Gayner

Well, Beth you are correct in that they are desperate in what they do, but what they have in common is they produce cash flow. These are wonderful centre of the plate steady Eddy businesses that are not subject to a lot of technological swirl, when you are looking at the business itself. The criteria that we used to selecting this is the exact same criteria that we have had for public equity securities forever and ever, and maybe because we think about it the same way, we have never been interested in buying stock. We have been interested in buying businesses.

And what we look for in a businesses is A, a profitable one with good returns on unlevered capital. So a good return on equity, which does not need bunch of leverage to get there. Two, management teams that have equal measures of talent and integrity. Three, a business that either has reinvestment opportunities and the ability to grow and redeploy that capital at attractive rates of return or capital discipline, i.e., dividends or share repurchases, and one of the beauties of the controlled investments is that capital discipline actually is my job. I approved the capital budgets, and the balance sheets of the company.

So as the managers for those businesses can use capital productively, we support them in that. It is not when they are in good profits, where we bring that extra investment and then we reallocate it, so we don't have to rely on outsiders to do it for us. We do it ourselves. And then the fourth and final discipline is price, making sure we are paying fair prices, which means we will earn a return on our investments which mimic the underlying economics of the business.

So, I think you will continue to see them as somewhat of an eclectic collection, because they serve different industries, but the good news is that they all produce cash, and they do so in a reliable and dependable fashion.

Beth Malone
Wunderlich Securities

Okay, thank you. And then, one last question on the underwriting side of things. Is - can you see or quantify the impact of the economy on pricing or demand on your particular lines of business? Has it been a material factor in pricing? And if we see this improvement in - this recovery from a recession, are we going to see the opposite effect on the kind of risks that you're insuring?

Tony Markel

Beth, I don't think there is any question about it. You know, with our - particularly in the Excess and Surplus lines area, and even though in the US specialty arena, where our focus has always been on sort of middle market. We have never been a real competitor for large Fortune 500 insurance risk, that type of thing.

And therefore it depended on contractors and artisans, and you know middle market business entertainment centers of small and medium consequence and so our focus has always been on the middle market. And that stood us in good stead, because it creates a whole lot less volatility than being over dependent on a limited number of risk.

But the downside is economically I think this is where the red basket has really been hit, and using contractors is a prime example. You don't have to look very far in your own backyard to see construction both commercial and residential down, and all the artisans are dependent upon. And that was really one of the bread-and-butter things that we wrote.

So when construction comes back and that is just one segment as an example, it clearly will increase the number of opportunities and prices themselves. We will see how the marketplace, the insurance marketplace responds, but we are getting hit by the loss of demand in terms of failures and bankruptcies and downsizing revenue even where companies are able to stay in business. So that has had a major impact in addition to what I described as the white hot competition that we got.

Beth Malone
Wunderlich Securities

Okay. Well, thank you.

Operator

Thank you. Our next question is from the line of John Fox with Fenimore Asset Management, Inc. Please proceed with your question.

John Fox
Fenimore Asset Management, Inc.

Yeah, hi. I have three questions. The first one is - maybe I missed it. Is there a breakout between what the value of the public equity portfolios at the end of the quarter and the private investments?

Tom Gayner

No, the public equities are reported as they always have been, as equities, the private or consolidated onto the totality of the balance sheet.

John Fox
Fenimore Asset Management, Inc.

Okay. Well, the line that's investment in affiliates, which used to have a number, is now blank. So you're saying that just all the various asset and liability categories are now consolidated within the…?

Tom Gayner

Yes, and there are two parts to that. That used to represent our investment in first to market. Coming out of that is now in the public equity portfolio as a whole.

John Fox
Fenimore Asset Management, Inc.

Okay. So the $1.5 billion is just publicly traded securities and nothing from Markel Ventures?

Tom Gayner

That is correct.

John Fox
Fenimore Asset Management, Inc.

Okay. My second question is, could you just expand on the mortgage program, or I guess in the E&S segment where you had some reserve take-ups, and just give us a little bit more information about that?

Richard Reeves Whitt
Co-CEO & Director

Yes, John. It is fairly simple. I mean we wrote errors and omissions coverage for some of the mortgage and mortgage servicing companies, and obviously when the mortgage boom was going, there was certainly allegations of maybe some errors in underwriting, and maybe some very quick and dirty applications, all those sorts of things going on. As a result of that, there has been losses, some pretty bad loans made out there, and people are looking for insurance coverage.

So we did insure some of the mortgage servicing companies, and they are getting some knocks on their door in terms of some of these bad loans that people made to try to obtain coverage.

John Fox
Fenimore Asset Management, Inc.

Okay. I mean, I know this is always difficult. But have you gone the limits on this? Or do you feel - obviously, there was a lot of fraud in the mortgage business. So is this a problem that can continue? Or how do you feel about that?

Richard Reeves Whitt
Co-CEO & Director

We think, you know, and this is - I have to caveat it like we always do. I mean we have looked at it really hard, and we put up our best estimate of reserves on it, and we think we have done a pretty good job of it. But, you know, there is still always the possibility it can go out. No. We are nowhere near the limits, clearly.

But the years that were causing the problems appear to be 2007 and 2008, when people think they owe them money. You usually find out about that pretty quickly, in terms of these types of things.

John Fox
Fenimore Asset Management, Inc.

Right.

Richard Reeves Whitt
Co-CEO & Director

So, we don't think it has a terribly long tail to it. So we think we have a pretty good handle on it, but you know, it is reserves.

John Fox
Fenimore Asset Management, Inc.

Right, I understand. It's the insurance business. My last question is a little more strategic. And when I look at your results - and I know it's a soft market. You don't want to write a lot of premium right now, but the ROE is low, and your investment leverage is the lowest it's been in at least ten years, in terms of investments to equity. So if we got a better insurance market, I mean, is this something where you could write a lot more premium and bring that investment leverage up? Or are you running low leverage just because of the uncertain environment and the financial crisis, et cetera? So could you just talk about the - your investment leverage at this point, and what could happen in better times? Or are you going to continue to run low leverage to be safe?

Steve Markel

I mean you are right, and it is an important point, and I think we are in the process of increasing our commitment to the longer term assets, and particularly publicly traded equities. It is a process, it is also slow. And I think if we had been perfect, we may have put more money in a year ago, when we were more conservative, but it could have been another shoe, and it could have been the worst thing we could have possibly done.

You know, we have always practiced sort of dollar cost averaging in terms of moving in and - you know, we don't typically make huge decisions that would move the needle in massive ways. And so, the question is, we are not in a rush to rush to get rich. We will rather do it slow and steady, and we would be moving the leverage or the equity exposure higher over time.

But likewise, we see the opportunity to do some of the public or the privately equity things as well. So, we are cautious. And we hope to see other insurance opportunities. So,…

John Fox
Fenimore Asset Management, Inc.

My question isn't so much around the equity percentage - I probably didn't phrase it very well. But if I look at your total investments to your shareholders' equity, it's 2.5 times.

Steve Markel

Well, that is more a function of the premium volume and the mix of long tail versus short tail premium. It is - that is running about 2.5, 2.6 times as opposed to 3, 2 or 3 years ago, 4, 5 years ago was 4-to-1. I think 4-to-1 is not likely to happen again.

John Fox
Fenimore Asset Management, Inc.

Right. But even 3-to-1 would significantly increase your return on equity.

Steve Markel

And we would love to see that number higher, and that is more a function of writing long tail business, and the dollars of premium relative to the dollars of capital, and the dollars of premium has been flat lining for the last several years. And so we will take a spurt in that number to cause the total investment leverage to return.

And we would hope that would happen in a harder, less competitive market and likewise where it must have happened, it just means we have excess capital in the insurance business and opportunities to do something else with that excess capital.

Tony Markel

Let me jump in and try to answer your question as well. One of the key things to keep in mind is there is very straightforward math involved. For instance, over the last five years roughly, when we have been dealing with those soft insurance markets and not much in the way, if any, of premium growth. Well, the really, really great news is that we have been compounding the book value, the shareholders equity at about 11% through that period of time, which is our guess.

Now what can and should happen is that if you get into the hard insurance market, probably the initial spurt of growth in the insurance premium volume will be faster than that. It will be a bigger number and that will create a definite access because that’s the reserves and the liability for growth happen in a period of time, and that is where investment leverage, which we speak of directly comes from. And we would love to have an environment, where we have greater investment leverage because what that means is we are reacting to the conditions of a hard market. We can’t carve the hard market, but you can be rest assured that we will react in exactly the way you would like us to, should we find ourselves in one.

John Fox
Fenimore Asset Management, Inc.

Right. So the answer to my question is that you're not running, you know, extra low to be extra conservative. If you could write another $500 million or $1 billion of premium at the right price you would.

Tony Markel

If the market would give us an opportunity we would beat them more than half way.

John Fox
Fenimore Asset Management, Inc.

And then you would have more invested assets and the returns will go up.

Tony Markel

Absolutely.

Steve Markel

I would say that would be a very good thing.

John Fox
Fenimore Asset Management, Inc.

Right. Okay, thank you.

Operator

Our next question is from the line of John Neff with Acre Capital Management. Please proceed with your question.

John Neff
Acre Capital Management

Hi. Thank you. I was just wondering if you could elaborate and maybe differentiate a little bit more between your comments,

Steve, I think, about not seeing a rebound in premium pricing versus the written premium volume stabilization that you saw in March year-over-year than the up-tick in April. In other words, if pricing isn't cooperating yet, what is it about the One Markel traction that's driving the up-tick in written premiums if pricing is not a tailwind here?

Steve Markel

I think the simplest way to describe it is you know, we quote a whole lot of business that we don't get to write, and I think as Markel One is gaining traction, we are both quoting a lot more business. So the number of quotes we are submitting or issuing is higher, but also the percentage of those who come back and say, yes, I'll buy, is also increasing and so you're right that the pricing is not held a lot better, and we're still missing more than we're getting. But it's not as draconian as it was the end of last year or January and February. Again it's not a long enough period of time that I would wave too many flags but it's nice to have at least at least some positive news.

John Neff
Acre Capital Management

Yeah.

Richard Reeves Whitt
Co-CEO & Director

Steve, this is Richie, I might just jump in there, Steve nailed it. I mean, pricing is no better and in some places it's actually worse, but one of the things we've seen as a result of One Markel is their submission volume is up significantly, and as a matter of fact in the last quarter submissions we're up roughly 15% over the previous year, and really you know, you got to get time to bat in this business, the more time to bat you get the more you can find, and it's a tough market, but we are generating more time to bat with the new model.

Tony Markel

And I would add if you go back to the fundamental reasons of the entire transition, the regional One Markel structure, it was to become further important and meaningful to our wholesale distribution partners in both product expansion and proximity, and service not implying any change in underwriting risk selection pricing, and as they said, has both received and Richie said, the number of quotes is going up because the value of the Markel franchise as a result of the conversion to the regional structure is becoming much more apparent to our wholesale partners.

We're doing a better job in servicing them, and they are giving us more shots at the business that they had been placing elsewhere because of the changes to One Markel. So the volume increase that we have been struggling for recognizing that we had to achieve it without compromising underwriting integrity at least for the short run looks like it's getting some traction.

John Neff
Acre Capital Management

Thank you very much.

Operator

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

David West
Davenport & Company

Good morning. First one, I think, for Tony. The 10-Q mentioned one reason for the lower premiums at the Excess and Surplus, and higher at Specially Admitted was a shift in the way property liability coverage was being distributed. Could you give a little more color on that, please?

Tony Markel

We just - I think Richie you will have to back me up on the specifics, but I think it just refers to changing some of the products in terms of recording David over from the E&S side to the specialty admitted side. I don't think it's anything many more fundamental than that. Richie.

Richard Reeves Whitt
Co-CEO & Director

Yes, Dave, Tony hit it right on the head. We had two programs that we for management purposes transferred over to the specialty division from the Excess and Surplus line side of the house, just because of some of the characteristics of that business. So, it felt more like the specialty side of our business.

David West
Davenport & Company

Any rough dollar figure on that?

Richard Reeves Whitt
Co-CEO & Director

It was about $6 million.

David West
Davenport & Company

Okay, very good. And, Richie, while I've got you on the line, a couple of odds and ends, the sequential change in the amortization rate was pretty substantial. Could you give some color as to your expectation for that line item going forward?

Richard Reeves Whitt
Co-CEO & Director

I've got some people stirring for some numbers, but the big change obviously Dave is we have the two acquisitions in Markel Ventures in the fourth quarter, Ellicott and PSI, and so that obviously increased it for the quarter. For the full year, we are thinking about $15 million.

David West
Davenport & Company

Okay, thank you. And the tax rate - I guess you would say that roughly just under 31% would probably be a reasonable estimate for the full year at this point?

Richard Reeves Whitt
Co-CEO & Director

Yes, I think in that range its pretty good for the full year, and the saying everybody needs to keep in mind is and this is a good thing, you know, Markel International has been pretty solidly profitable the last few years and you know, at best Markel International's tax rate will be 35% when it's profitable, and that's going to tend to offset the very nice impact we had from our muni portfolio in the US. So you know, that's sort of high 20s, 30 range is pretty good we think.

David West
Davenport & Company

Very good. And it looked like you repurchased some shares, a little over $4 million. Is that something - was that a one-time event? Or something you think you maybe might continue doing?

Richard Reeves Whitt
Co-CEO & Director

Dave, we issue a little bit of restricted stock in the first quarter of each year and that was actually just in the market to sort of keep everything flat, and actually ended up buying a little bit more than we issued in restricted stock.

David West
Davenport & Company

Great. And then, I guess for Tom, a couple of questions. Tom, it looks like in the Q, the ParkLand Ventures, you made a pretty good acquisition there. I think $23 million was deployed in the first quarter. Any comment on the relative size of that? Does that double their operations? Or what impact does that have at ParkLand?

Tom Gayner

It is slightly more than doubles the size of their operations. Exactly, there was a single purchase transaction from a large seller, who decided that running and managing the multiple home business is actually tougher than it might look on a spreadsheet in a big-city, but we have some experience of actually doing it and we are looking for transactions like that probably from a standing start in 2008, has gone from zero to 4 communities in 2009. We went from 4 to 12, and that particular acquisition could become 12 to 19 in one fell swoop, and we've subsequently closed on one more since then. So, as we stand right now, we are in 20 communities.

David West
Davenport & Company

Okay, great. And was that - large transaction, was that done kind of in the middle of the quarter, at quarter end or - ?

Tom Gayner

First part of March I think.

David West
Davenport & Company

First part of March. Okay, great. And then, as you noted, you had a very nice increase sequentially in your net investment income. It didn't look like your credit default slot impacted things much. But was this sequential increase mostly from the redeployment of excess cash?

Tom Gayner

Yes.

David West
Davenport & Company

Okay.

Tom Gayner

And let me make one other point, and this actually technically relates to John Fox’s questions. John, the statement that you made about the ROE coming down because of the reduced leverage, while that is true in the GAAP net income sense of things, and the comprehensive income sense of things, I fundamentally disagree with that proposition and you can get back in the queue and we can go back and forth on it if you want.

It is one of the things that will happen as leverage comes down is that we can increase the allocation of the portfolio to equity, where we would expect to earn a higher rate of comprehensive income and that ties back to the fundamental strategy of matching. When we have growing insurance premium revenues and growing insurance flow, we’ll match that off in fixed income, but if you went to the other extreme, and just wanted to picture it in your mind, if we had absolutely zero investment leverage at all, we would have a 100% equity allocation to the portfolio.

So we won’t get to either extreme, but we will follow the direction of whatever the inherent leverage of the businesses is, which has the effect really of maintaining the same sort of expectation of comprehensive return on equity no matter what the conditions are. And I think that adaptability and flexibility is one of the things that’s very different about Markel in a lot of other places. I just wanted to make sure I’ve got that point across.

Richard Reeves Whitt
Co-CEO & Director

Well, and I think Tom makes a really good point there. As Markel Ventures grows, the investor leverage, while always an incredibly important metric, it is going to be harder just to focus on that, because as we said we’re looking to buy controlling interests in these companies to fully consolidate it in our balance sheet, and they are not financial institutions such as insurance companies. So, as we go forward we are not just going to be looking at investing some leverage to where we think about the kinds of returns Markel Corporation is building.

Tom Gayner

So, Dave do you want to ask any questions on John Fox’s behalf while you have the microphone.

David West
Davenport & Company

No, I think you've been very responsive. Thanks.

Tom Gayner

Thanks.

Operator

Thank you. Our next question is from the line of Michael Nannizzi of Oppenheimer & Company. Please go ahead with your question.

Michael Nannizzi
Oppenheimer & Company

Thank you. Just - Richie, if I could ask one question about the expense ratio in E&S, it looked like it came down a bit in the first quarter, both relative to the fourth in last year. And I think you had mentioned somewhere about a couple of points of difference resulting from a one-time item in the quarter. But it looks like it's about maybe 20 million different notional. Is there something else in there that or is that a good run rate to think about?

Richard Reeves Whitt
Co-CEO & Director

Well, I think the, you know, in terms of overall expense ratio that’s sort of 40 expense ratio, unfortunately that’s really about where we are today. We had a lot of moving parts in the first quarter is, I guess the best way to put it. As I said we have that arbitration settlement that’s benefited us, and obviously I wouldn’t expect that to reoccur in future quarters. We also had and we didn’t necessarily mention this in the Q, because it just was - it didn’t raise to the level of materiality, but we did have some lines of business last year that were running a little hot, and so we have reduce the deferred acquisition costs on them, and they’re doing better this year.

And so we’re actually increasing deferred acquisition costs, and you kind of get the double impact there. So there was a lot of noise in the first quarter, but I think you ought to think in terms of 40 as an expense ratio right now for us given the sort market.

Michael Nannizzi
Oppenheimer & Company

Okay. So like somewhere in the low 40s there, just like the other portfolios. Okay. And then, if I could, just one question about the E&O that you wrote on mortgage servicing companies. Was this the first quarter where you recognized some changes to the loss picks? And can you talk about any other - what other business similar to that you write as well? Thank you so much for answering my questions.

Tom Gayner

Sure. You know, we’ve been watching that for a while Michael, and the numbers really haven’t been as substantial in the previous quarters. So now we’ve been watching it probably for the last year or so. We did bit of a drains up here in the recent quarter, and you know, put up a more material numbers of $13.7 million that we talk about in the Q. In terms of other business like it, we’ve talked about the universal program, which of course had been impacted by sort of the mortgage boom, but they’re totally different programs, and they are really the only two things that we have that seemed to have been significantly impacted by I’ll call it the mortgage crisis.

Michael Nannizzi
Oppenheimer & Company

Okay, great. Thank you again for answering my questions.

Operator

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

Meyer Shields
Stifel Nicolaus

Okay, thanks. If I can start with Tom, can you give us a sense as to the gross dividend yields on the recent additions to the equity portfolio?

Tom Gayner

I'm sorry Meyer, I am going to ask you to speak up a little. I am kind of having trouble hearing you.

Meyer Shields
Stifel Nicolaus

Is it probably me. I'm sorry. Is that better?

Tom Gayner

Yes, thank you.

Meyer Shields
Stifel Nicolaus

Okay. Can you ballpark the dividend yield on the recent additions to the equity portfolio?

Tom Gayner

In terms of the controlled company?

Meyer Shields
Stifel Nicolaus

No, in terms of the equity securities.

Tom Gayner

And the dollar side of amounts.

Meyer Shields
Stifel Nicolaus

Yeah, I'm asking - yes.

Tom Gayner

I mean, basically we are putting kind of $15 million a month into the equity portfolio, and that's really been consistent for the last 12 to 18 months.

Meyer Shields
Stifel Nicolaus

Okay. And the dividend yields on those, have they been in line with the current portfolio?

Tom Gayner

In general, you know, 2.5%, 3% on a lot of the names. Some of them are lower than that. It is interesting, we have been buying Wal-Mart for three or four years now. When we first started buying Wal-Mart, probably the yield was 1.5%. Well, the stock price is about the same as what it was three years ago. The dividend since I think bumped by double-digit amounts each of the last four years. I can't remember what Wal-Mart's exact yield right now, but probably up to 2.5% and I sure do like the trend.

Meyer Shields
Stifel Nicolaus

Okay.

Tom Gayner

And the point is there isn't a whole lot of give ups between what we get on the dividend on book prices like that, versus and we get in the short-term portfolio. In fact when it comes out of the short-term portfolio, usually it's a bump.

Meyer Shields
Stifel Nicolaus

Right. Okay, so that's what I thought. And with regard to the shift from the Excess and Surplus lines to Specially Admitted, is there actually a change in the paper? Is this actually going through admitted paper? Or is it just a management decision or something?

Richard Reeves Whitt
Co-CEO & Director

No, no change in the paper. Nothing like that. It was really just the management change, and again it was largely because just one of the characteristics of that business, the folks that were over managing the specialty site, I mean it just did better with those guys.

Meyer Shields
Stifel Nicolaus

Okay. That covers me. Thanks so much.

Operator

Our next question is from the line of Mark Dwelle, RBC Capital Markets. Please go ahead with your questions.

Mark Dwelle
RBC Capital Markets

Yeah, I think most of my colleagues have beaten you up enough. But I've got two last couple of questions, the Transocean loss, would that be London market?

Steve Markel

Yes, that's all in our London market operation.

Mark Dwelle
RBC Capital Markets

And the second question is - and this question is specifically for Tony - you commented in your remarks that you had made some improvements related to some particular E&S products, and that had improved terms and conditions. And when I think of improved, I would think tighter, which obviously wouldn't generate more sales. Maybe you can just clarify a little bit - I'm sure you are not relaxing your terms and conditions - so what you really meant by that?

Tony Markel

No, in fact we all Mark. We over the last one of our staples and most profitable lines have always been the small binding authority, where we give authority to MGAs in the field with an underwriting box of some restrictive nature, and it always put us in good stead. Well, the market frankly caught up with us and passed us, and we woke up you know, about a year ago and realized that we were losing market share the economy affects this area as well, but we were still even losing market share, the available business in that segment.

And we realized that some of our forms were antiquated and really hindered production because they're confusing. Some of our carriers had done a better job of simplifying what they we're doing. So we did make some enhancements. We actually cleaned up the policy, we broadened some terms with a definite sensitivity to the exposure involved and in general, I think in one fell of swoop, we caught up from having fallen behind three or four years ago, but it is an enhanced product that we think dramatically increases our traction to our wholesale partners with very little, you know, very little retreat should I say on the underwriting terms and conditions.

Mark Dwelle
RBC Capital Markets

Okay.

Tom Gayner

And Mark if I could actually jump in as the investment guy talking about the insurance side of the house, to some extent the reasonable analogy to think about a budgeting process, and if you had a budgeting process that looked at what you did last year have been adjusted for this year you know, over a period of time, that's how the process works, but it is a certain way of doing things. That's completely different from a zero-based budgeting process, where you look at things and from a ground up nature.

And I think much of what Tony saying is we look to lot of these forms, where there were certain things that we had developed clauses and exclusions for over the years, and we would start each year with all of that, plus whatever else we learn this year. Well, some of that language that was probably 15 years old becomes quite antiquated, and those are exclusions that really are not relevant in today's world.

So the real fundamental underlying effort, which ties to everything you're hearing around here about Markel One, and taking a fresh look and trying to be easier to do business with is to look at what does the insured needs, and what are the risks and what is the fair price to underwrite and take that risk. So it's almost like there was a zero-based budgeting approach to a lot of the forms, which play out in terms and conditions that I think address the things Tony was talking about.

Mark Dwelle
RBC Capital Markets

Okay. That's helpful. One last quick question - Tom, amongst the $480 million something that you've got in foreign debt investments, any of that in any of the countries that are popularly called - well, we know what they're popularly called - just anything with some unusual exposures there?

Tom Gayner

We are personally not Greeky [ph] at all.

Tony Markel

Well pushed.

Operator

Thank you. Our next question is from the line of Jay Cohen with Banc of America. Please proceed with your question.

Jay Cohen
Banc of America

Thanks. I guess for Tony, two questions. The first is, you talked about the one program you brought in terms a little bit. From a marketing standpoint, are you seeing a bigger picture trend of terms and conditions loosening up among your competitors? And then secondly, Tony, if you could, talk about - or

Richie - talk about the claims trends that you're seeing from a frequency standpoint?

Tony Markel

Sure Jay, without question the number of new entrants, the with regard to the surplus of the industry has created all kinds of issues, and increased competition, not the least of which has been starting to broaden terms and conditions, eliminate exclusions, accepting exposures that heretofore were sort of frowned upon, all in the name of trying to at least stabilize volume if not increase it.

I think clearly the where we - and let me go back to Tom’s comment, Essex, which was our primary E&S carrier, original one and was well known to this binding authority business had created policies of a very restricted nature. And it served us in good stead, but it got to the point where a lot of the endorsements had no applicability to the insured, and scared the hell out of the agents both wholesale and retail in selling it and the potential that it had for E&O and so forth.

So we really appealed more to the agent in terms of policy cleanup, and eliminating some unnecessary frankly production - that things that negated production. We eliminated and claimed the policy of more in response for our wholesale and retail channel partners. Then we did dramatically increasing the terms that were passed on to the insurer.

But I would tell you as a general rule that the market has clearly let its guard down over the last three or four years with regard to exposures that they in generally had to stand prior to that.

Jay Cohen
Banc of America

That's great. And what about from a claims standpoint, are you seeing any change in the frequency which, I guess, generally for the industry has been fairly good?

Richard Reeves Whitt
Co-CEO & Director

Jay, this is Richie. We are clearly seeing frequency tick up in the triangles, well, not frequency, but clearly we are seeing the deterioration in pricing in our triangles, but quite honestly we have not seen quite as much as we sort of built into our rates or our picks. So, I mean it is holding up reasonably well. But clearly if you look at our triangles, and I guess if you look at anybody else's triangles, you are starting to see the fact that we have been given that rate for the last five years.

It may be the trend isn't as bad as we put up, when we put up the current accident year, but it is clearly there. And as Steve and Tony and everybody had said, the entire industry is at a place where the returns just don’t make sense right now.

Tony Markel

Jay, I don't think there has been a significant change in either frequency or severity with the possible exception of a couple of lines. The whole issue relative to the northward movement of the triangles is associated with the get back of premium over the last three or four years.

Richard Reeves Whitt
Co-CEO & Director

Exactly.

Jay Cohen
Banc of America

Yeah, that makes sense. And then, you brought up the causative return. I guess, looking at your numbers, on an operating basis, if you take out the development and you take out the cash [ph], you're kind of in a low-to-mid single-digit return. And clearly, you guys have a more unique investment style. And you add value and grow book value through that as well. But it's got to get pretty hard to overcome on an operating basis, where there are pretty low returns at this point. And part of the issue is the capital. And clearly, you have the ability to take that excess capital and generate returns in the investment side. But the other issue potentially is to reduce the E, which is something you haven’t done historically? Any thoughts about a more aggressive buy-back at this point?

Steve Markel

Probably not at this point in time Jay. I think the bigger issue, and you are sort of hitting on it. We probably are looking more conservative in the way we handle the loss reserve thing. I think you would try and certainly I believe strongly that in the next three or five years, you will be able to prove through hindsight that in 2010, the vast majority of property casualty insurance companies are operating at huge underwriting losses. And that is not sustainable.

And we will see a better insurance market because people don't want to throw away capital. They are running business at lousy rates. And we will see more and more companies throw up their hands and say, this isn’t for me. And we will have opportunities to grow and expand and build our business in lots of different ways.

And I think today, more than ever having a strong financial position, and being in a position of strength is going to pay us huge dividends. And so we are quite prepared to - and you are right, we have several hundred million dollars worth of excess capital right now. And if we saw, it is smart just to buy back stock that would be an option, and if we were pessimistic about the insurance industry for the next 10 or 15 or 20 years, maybe we would do that.

Likewise, if our shareholders were not long and stable supporters of Markel, and were looking for an exit in the next week or two, or month or two, or year or two, the circumstances might be very, very different, where this pressure to try to buy stock to hold the stock price up for something. And that is just not the way that we think about it. And so it is a very different and distinctive characteristic that you are dealing with at Markel.

Jay Cohen
Banc of America

Okay.

Tom Gayner

I would like to hop in with one additional addendum to Steve’s comments that it is something of a paradox, and Richie and I were talking about it just the other day, you know, internally the energy level and the enthusiasm that exists around the halls is really something quite extraordinary. And if you look at the numbers, you sort of wonder why that would be.

Well, I can tell you in the history of (inaudible) Markel that this is not the first time something like this has happened. Because when you get the right people in the right positions and you can see that the business things you have been working on, and problems that you really have gained a lot of ground on, the very nature of insurance accounting itself with the lag features means that the outside world can't really tell that for a while, and then you layer on top of that the fundamental conservatism of Markel, our lag of what the underlying reality inside the building is going to be even further delayed from what people from outside the building can see.

And having been here 20 years, I mean I remember the early days of the Shand deal, I remember the early days of Terra Nova, and I remember paradoxical periods like this, when an outside observer might say, why are you guys so happy. And what is it you are so upbeat about. And the point of fact, when we knew we have taken on some really big hairy projects and really stretched ourselves to make it happen. But we could tell that it was working. And I think right now, the initiatives around the company, fundamentally on the insurance side and on the investment side, we just have a big sense that it is working.

So that translates into energy, and I think you will see it in numbers over the next two, three, five years. I don't know when, but the ingredients are there.

Jay Cohen
Banc of America

Got it. Great answers. Thanks.

Tony Markel

Well, ladies and gentlemen, we very much appreciate your support of Markel and your participation in the call today. As always, the management team at Markel will be available to answer any questions you might have. So if you have anything further, don't hesitate to pick up the phone and give us a call. And again, I would like to remind you that we are having our annual shareholders meeting in Richmond, Virginia on Monday, and look forward to seeing many of your there. Have a great day.

Operator

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