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Markel Corporation NYSE:MKL

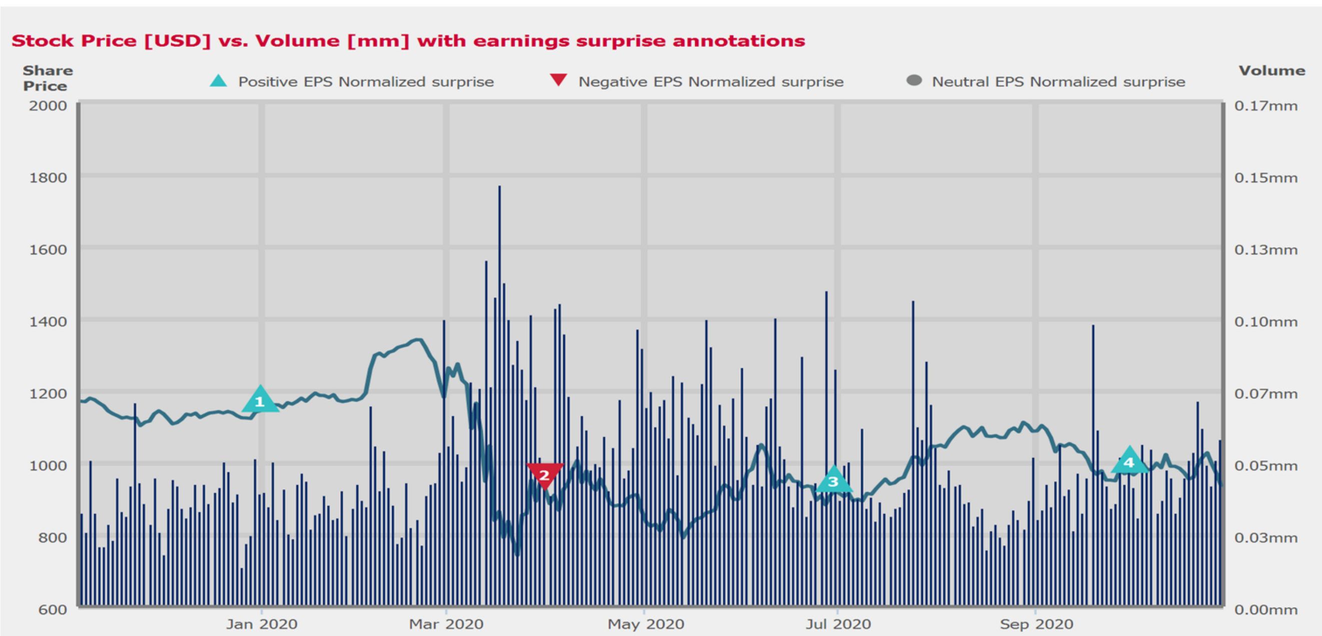
FQ3 2020 Earnings Call Transcripts

Wednesday, October 28, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.36	6.11	▲81.85	10.65	21.05	NA
Revenue (mm)	2310.93	2911.74	▲26.00	2369.68	8569.90	NA

Currency: USD
Consensus as of Oct-28-2020 10:54 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	7.40	10.30	▲39.19 %
FQ1 2020	9.54	8.62	▼(9.64 %)
FQ2 2020	6.65	15.66	▲135.49 %
FQ3 2020	3.36	6.11	▲81.85 %

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Presentation

Operator

Good morning, and welcome to the Markel Corporation Third Quarter 2020 Conference Call. [Operator Instructions]

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in our most recent Form 10-Q, which can be found on our website at www.markel.com in the Investor Relations section. Please note, this event is being recorded.

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

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Emily. Good morning, and welcome. We apologize for the delay in starting the call this morning. We understand that one of the numbers that was distributed was incorrect and connected you to the replay, which, of course, has not happened yet. This is the actual call. We've sent out an e-mail with the correct number, and we see rosters being assembled and something of a slow and arduous fashion. We apologize for that error on our part. We hope others are able to join us in process and that the replay will work as functioned, and we are grateful that you're here this morning.

So good morning, and welcome. As stated, this is Tom Gayner. I'm here today with our co-CEO, Richie Whitt; and our CFO, Jeremy Noble. We're glad you've joined us. And we look forward to briefing you on current conditions as well as answering your questions.

I'm not telling you anything you don't know when I say that 2020 remains unlike any other year. The systemic challenges of the COVID-19 pandemic and all that follow in its way remain immense and unrelenting. That said, I could not be more proud of the efforts of everyone in this organization to truly serve our customers, our associates and our shareholders in the face of adversity. We've provided for claims and financial assistance to our policyholder customers to cover substantial losses and economic costs. Those losses stem not just from the things you see in the headlines regarding the pandemic, but also a spate of natural catastrophes such as more hurricanes than hurricane names, wildfires, a major derecho and ongoing and recurring events and circumstances that we see regularly in our insurance operations.

We continue to provide necessary and desirable products and services throughout our Markel Ventures operations. That includes building the machines, the big bread. Things don't get much more basic or necessary than that. And since man does not live by bread alone, we also produce and provide everything from medical services, housing, house plants to brighten your day and trailers to convey everything from industrial gases to the car you drive. We make truck floors to keep the products you need from falling out of the bottom of the trailer, technology consulting services to manage and keep track of it all and many other items as well. And by the way, we also provide fire suppression services to keep it off from catching on fire.

We're doing our best to keep our associates safe and gainfully employ throughout these tough trying times. We're also working to produce financial results, which create the capital we need to be able to serve our customers and associates. Over many years, and as displayed through the first 9 months of 2020, we've built a system at Markel to be a resilient and robust company. We work to serve and dependably honor the promises we make. We've built a diversified 3-engine machine, consisting of our insurance, investment and Markel Ventures operations. Those components work together to fulfill our purpose each and every day. We're delighted to be able to report our 2020 year-to-date progress in doing so this morning.

Clearly, work remains to be done. While our insurance operations remained mildly in the red to the year-to-date, we've recovered dramatically since the first quarter shock losses we recognized at the onset of the COVID-19 pandemic. We've

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accelerated our pace of making tough but necessary decisions to increase the durability and quality of our insurance operations, which will be measured by improved profitability. In our investment operations, we're reporting profitable results through the first 9 months. While that is always too short a time frame to draw conclusions about investing, those results continue a multiyear pattern of conservative and profitable investing. Our investments protect our balance sheet and stand behind the promises we make, and they also produce appropriate returns.

In our ventures operations, we produced outstanding results so far in 2020. The leaders of the ventures business has adapted and figured out ways to surmount unprecedented conditions and circumstances. I am grateful and amazed for their work and accomplishments. The performance of our 3 engines demonstrates the resilience and the spirit of Markel to fulfill our purpose of serving our customers, our associates and our shareholders. We believe in win, win, win as the fundamental architecture underlying Markel, and we're pleased to be able to share how that played out in the unprecedented conditions of 2020 today. Even more importantly, we hope this update provides you with a shared optimism of how we will continue to evolve and build even more resilience and sustainability going forward.

At this point, I'll turn the call over to Jeremy to review the financial details of the year-to-date. Richie will then follow with some commentary on our insurance and insurance-linked securities operations, and then I will speak briefly about our ventures and investment engines. Following that, we will take the questions. With that, Jeremy?

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. Our underwriting, investing and Markel Ventures results continue to be heavily influenced by the effects of the COVID-19 pandemic. But fortunately, we saw positive contributions from each of our 3 engines during the third quarter.

Our insurance operations produced an underwriting profit despite elevated levels of natural catastrophe losses as well as increases to reserves related to the pandemic, reflecting the strong underlying performance of our business. Our Markel Ventures operations delivered meaningful profits, demonstrating their resilience despite economic uncertainty, and our investment portfolio also saw gains amid volatile market conditions.

Looking at our underwriting results. Gross written premiums were $5.4 billion for the first 9 months of 2020 compared to $4.9 billion in 2019, an increase of 10%. This increase was attributable to our Insurance segment, which reported gross written premiums of $4.5 billion, an increase of 13% compared to the 2019 period. This premium growth is attributable to both our growth in our -- and more favorable rates, within our professional liability and general liability product lines as well as growth in our personal lines product lines. Gross written premiums within our Reinsurance segment were consistent with the 2019 period at roughly $960 million. Year-to-date retention of gross written premiums was 83% in 2020, which is down 1 point from 84% in 2019. And earned premiums through the first 9 months increased 10% to $4.1 billion in 2020, primarily due to higher written premium volume in our Insurance segment.

Our consolidated combined ratio for the first 9 months of 2020 was 101 compared to a 95 in 2019. For the third quarter of 2020, we reported a 97 combined ratio compared to a 94 a year ago. Our 2020 combined ratio included 9 points of underwriting losses attributed to COVID-19 for the 9-month period compared to 3 points for the quarter.

As I've discussed the past 2 quarters, we recognized $325 million of pretax net losses and loss adjustment expenses during the first quarter of this year for those policies and contracts where COVID-19 was identified as approximate or direct cause of loss. During the third quarter, we increased our loss estimates on these coverages by $32 million and also recognized $15 million of losses on our trade credit product line arising from the economic uncertainty resulting from the pandemic.

As a reminder, our losses for COVID-19 are primarily attributed to business written within our international insurance operations and are primarily associated with coverages for event cancellation and business interruption losses in policies where no specific pandemic exclusions exist.

Due to the inherent uncertainty associated with our assumptions surrounding COVID 19, which, among other things, includes assumptions around coverages, liability reinsurance protection, duration and loss mitigation factors as well as the fact that the economic impacts of pandemic continue to evolve, our estimates continue to be subject to a wide range of variability.

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During the third quarter, a test case of a sample of business interruption coverages for policies written in the United Kingdom was completed with the court's judgment finding mostly in the favor of policyholders. This ruling was most impactful to certain estimates in our Reinsurance segment where we increased our estimate of losses and loss adjustment expenses of certain treaties following increase in estimated losses by our cedents. Within our Insurance segment, the ruling did not meaningfully impact the reserves previously established for business interruption coverage, given the assumptions we initially made in our policy terms and conditions.

Our estimates at September 30, 2020, also reflect additional data gathered through increased claims reporting and change in our expected duration of the pandemic, which was most impactful to our event cancellation coverages.

In addition to the explicit provision of losses recognized during the quarter on our trade credit product line, as the overall effects of pandemic continue to evolve, further losses indirectly related to the COVID-19 pandemic are possible and may also emerge within our professional liability and workers' compensation product lines, among others, including our reinsurance product funds. To date, we have not seen any other evidence of significant incurred losses increasing for these secondary exposures.

Our underwriting results for the first 9 months of both 2020 and 2019 also reflect losses attributable to natural catastrophes. Our 2020 combined ratio included $101 million or 2 points of underwriting losses from Hurricane Florida, Sally, Isaias as well as the Midwest derecho show and wildfires in the Western U.S., compared to our 2019 combined ratio, which included $43 million or 1 point of underwriting losses from Hurricane Dorian and Typhoon Faxai.

With regards to prior year loss reserve development, consistent with our reserving philosophy, prior year loss reserves developed favorably by $435 million in the first 9 months of 2020, compared to favorable prior year development of $337 million in 2019.

Turning to our investment results. Following the significant declines to the fair value of our equity portfolio during the first quarter, we have seen meaningful recoveries in the second and third quarters. Net investment losses for the first 9 months of 2020 were $231 million compared to net investment gains of $1.1 billion last year, a year-over-year decline of $1.3 billion. As I've mentioned in prior calls, given our long-term focus, variability in the timing of investment gains and losses is to be expected, and we may continue to see volatility in the equity markets due, in part, to the economic uncertainty caused by the pandemic.

With regards to net investment income, we reported $274 million for the first 9 months of 2020 compared to $339 million a year ago. The decline is largely due to lower short-term interest rates and lower holdings of fixed maturity securities in 2020. Net unrealized investment gains increased $298 million net of taxes during 2020, reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines in interest rates during the first 9 months of the year.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures surpassed $2 billion through the first 9 months of 2020 compared to $1.6 billion last year. This increase reflects the contribution of revenues from our recent acquisition of Lansing Building Products, which we completed in late April and the acquisition of VSC Fire & Security, which closed during the fourth quarter of 2019. Excluding the contributions of Lansing and VSC in 2020, operating revenues in our Markel Ventures operations decreased compared to 2019 as a result of decreased demand attributed to the economics of social disruption caused by the COVID-19 pandemic. EBITDA from Markel Ventures was $284 million for the first 9 months of 2020 compared to $219 million last year, reflecting the contribution of Lansing and VSC as well as growth and improved operating results at certain of our businesses.

Looking at our consolidated results for the year. Our effective tax rate for the first 9 months of 2020 was not meaningful due to the small pretax loss in the period. The effective tax rate was 22% for the 9 months ended September 30, 2019. And the estimated annual effective tax rate for both periods was 21%. We reported a net loss to common shareholders of $31 million for the first 9 months of 2020 compared to net income to shareholders of $1.3 billion a year ago. When combined with the contribution of the increase in net unrealized gains on our fixed maturity portfolio, comprehensive income to shareholders for the first 9 months of 2020 was $260 million compared to $1.6 billion a year ago.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $1.3 billion for the first 9 months of 2020 compared to $712 million in 2019. Operating cash flows for 2020 reflected higher premium collections as we've seen strong growth in our Insurance segment over the past several quarters. Invested assets of a holding company were $3.8 billion at the end of September compared to $4 billion at the end of 2019.

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The change in holding company invested assets reflects funds used to acquire Lansing as well as a decrease in the fair value of our equity portfolio, both of which were partially offset by proceeds from our May 2020 preferred shares offering.

Total shareholders' equity stood at $11.9 billion at the end of September compared to $11.1 billion at year-end. We continue to maintain a fixed maturity portfolio comprised of high credit quality investment-grade securities with an average rating of AA. Our debt to total capital ratio at the end of September was 23%, down slightly from 24% at year-end. We have no unsecured senior notes maturing until July 2022. We believe we are well positioned to meet our ongoing capital and liquidity needs, including supporting the growth in our insurance operations as we expect to continue to see attractive opportunities in the specialty insurance marketplace.

With that, I'll turn it over to Richie to talk more about our insurance businesses.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Jeremy, and good morning, everyone. As Tom has already said, the year has -- we saw the continuation of the unpredictable roller coaster year that is 2020 in the third quarter. Despite all that, our insurance operations continued to grow nicely, and we obtained meaningful rate increases in almost all our lines.

Our third quarter was also impacted by a series of small, medium-sized cats, as Jeremy mentioned, for which we recorded an aggregate $101 million of underwriting losses in the quarter, and those were related to multiple hurricanes, Laura, Sally, Isaias, the derecho and the Western wildfires.

As regards COVID-19 losses in the third quarter of 2020, we increased debt provision to $374 million, that was up from our original $325 million provision that we established in the first quarter. While we have revised many of our original assumptions with the availability of additional information, and some of those have been positive, some of those have been negative, the largest driver for the increase in our direct estimates this quarter related to the U.K. High Court ruling on the FCA business interruption test case. That -- the impact of that ruling impacted our estimates within our Reinsurance segment.

There were also some increases required as we now expect the impact of COVID-19 to be felt into the first half of 2021. That specifically impacts event cancellation business. As part of the third quarter COVID-19 provision, we also recorded $15 million of estimated losses in our trade credit product line within our insurance operations, and those claims were related to indirect economic impact from COVID-19.

We're not a but for company at Markel. Cat losses over the past 4 years, including 2020 COVID-19 losses has significantly impacted all of our insurance, reinsurance and ILS businesses. As a consequence, we've missed our underwriting profitability goals over that 4-year period. And as a result, we've implemented many key strategic changes over the last several quarters designed to reduce the number of but for items that could potentially impact our future results. We believe the changes we have made and will continue to make will reduce the volatility of our insurance business results going forward. Given the strength of the current market and pricing trends, and the unique capabilities we have assembled, we're bullish about our opportunity to perform and put more points on the Board moving forward.

Make no mistake, we're realist, and this is insurance, and but for events are going to happen. Our goal is to lessen their impact and deliver stronger underwriting results to account for the inevitable events that will occur.

Now I'd like to discuss our insurance operations, which include our underwriting operations, State National Program Services operations and insurance-linked securities operations.

So I'll kick off with the Insurance segment. Gross written premiums for the quarter were up $96 million or 7% compared to the third quarter of 2019. For the 9 months, premiums are up $503 million or 13%. Premium growth for both the quarter and 9 months was driven by continued organic growth and rate increases in our professional liability and general liability products, along with growth in our personal line product lines. For the quarter ended September 30, these increases were partially offset by lower gross written premiums within certain of our specialty programs due to lower economic activity related to COVID-19 and due to active portfolio management, where we have discontinued writing certain underperforming lines and programs. We're taking the opportunity in this market to remix our portfolio to our most profitable lines of business.

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The combined ratio for the Insurance segment was 94% for the third quarter of 2020 compared to 92 last year. That 2-point increase in the combined ratio was driven by a 5-point increase in the impact of cat losses and 1 point of losses attributed to COVID-19 exposures, partially offset by lower attritional loss ratio and a lower expense ratio. The decrease in the attritional loss ratio was due to decreases in our general liability and property product lines, driven again by premium rate increases.

The Insurance segment combined ratio for the first 9 months was 100% versus 94% for the same period a year ago. The 6-point increase in the combined ratio was driven primarily by 9 points of loss attributed to COVID-19 exposures and 2-point increase from the impact of cat losses. These impacts were partially offset by an increase in favorable development on prior accident year's losses, primarily in our professional liability and product -- property product lines and a lower attritional loss ratio across several product lines due, in part, to premium rate increases and a lower expense ratio. Higher earned premiums for both the quarter and year-to-date within our Insurance segment had a favorable impact on our expense ratio and an unfavorable impact on the prior year's loss ratio.

Moving to the Reinsurance segment. A few weeks ago, we announced that we are creating 1 center of expertise for the global property CAT reinsurance market by closing our Markel Global Re property CAT unit and having Nephila become Markel's single point of entry for serving the property cat reinsurance market. This move allows us to more fully leverage Nephila's market-leading competitive position while also generating operational efficiencies. We believe that the companies that will win in the future are those who most efficiently connect risk with capital. And this strategic move is going to help us do that in the property cat market.

Going forward, Markel Global Re will increase its focus on underwriting and growing its casualty and specialty lines under the continued leadership of Jed Rhoads, President and Chief Underwriting officer.

Gross written premiums for both the quarter and year decreased slightly compared to the same periods in 2019. In the quarter, we saw higher gross premiums in our general liability lines due primarily to new business written and higher rates on that business. offset by lower premiums in our workers' compensation and property lines due to lower premium adjustments and lower renewal premiums within workers' compensation and the unfavorable impact of renewal timing within property.

As mentioned previously, significant volatility in gross premium volume can be expected in our Reinsurance segment due to individually significant deals and the timing of renewals. The combined ratio for the Reinsurance segment was 116 for the third quarter compared to 103 last year. That 13-point increase in the combined ratio was driven by a 3-point increase from the impact of cat losses and a 15-point increase due to losses attributed to COVID-19, partially offset by more favorable development on prior accident year loss reserves. The increase in favorable prior year loss development was due to favorable development in our professional liability and workers' compensation product lines this year versus adverse development that was experienced last year.

The Reinsurance segment combined ratio for the first 9 months was 106 versus 99 for the same period a year ago. A 7-point increase in the combined ratio was driven by a 1-point increase from the impact of cat losses and a 10-point increase due to losses attributed to COVID-19. This was partially offset by a lower expense ratio and more favorable development on prior accident year loss reserves. The increase in favorable prior year loss development is due to more favorable development in our property product line, partially offset by adverse development on our public entity product line in 2020.

Next, I'm going to touch on Program Services and our ILS operations. As a reminder, amounts from our Program Services and ILS operations are reported within services and other revenues expenses within our operating results.

So starting with State National. Gross written premium volume for State National's Program Service operations were down on both the quarter and year-to-date basis, that was driven by the runoff of one large program and the in-force cancellation of another large program, which resulted in a onetime unfavorable premium adjustment in the first quarter this year. While gross written premium is down as a result of these 2 programs, we've seen encouraging new business activity, and we've found a number of new programs that are coming online as we move forward.

As a reminder, almost all of the gross written premium in our Program Services division is ceded. Ceding fee revenues were also down for both the quarter and the year due to the lower gross written premium volume over the past few quarters.

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Moving to our insurance-linked securities operations. Our combined ILS operations have roughly $10.6 billion in net assets under management as of September 30. Revenues from our ILS operations decreased 29% from the prior year's quarter and 8% for the 9-month period. Both the quarter and year-to-date periods were impacted by lower management fees at CATCo due to lower AUM for winding down the operations and reduction in management fees charged during the wind down.

Nephila revenues were down for the quarter due to lower investment management fees as a result of some redemptions in 2020 and an increase in side pocket assets on which management fees are deferred until released. Obviously, the cats that occurred in the third quarter, we had to set up loss reserves for those as well as side pockets and that impacted management fee income.

For the year, Nephila revenues are up with the decrease of Nephila investment management fees more than offset by higher revenues from their MGA operations. Operating expenses from our ILS operations increased for both the quarter and year-to-date compared to the prior year due to the impact of a legal settlement in the CATCo operations. Higher operating expenses associated with the growth in our Nephila MGA operations and start-up costs associated with our Lodgepine operation.

I'll finish with a little bit of market commentary and obviously, happy to pick that up when we get to questions. The trends that we've been discussing in the previous quarters continued in the third quarter. We see continued price momentum in almost all lines. And we believe that this pricing momentum will continue as a multitude of factors such as low interest rates, elevated cat activity, social inflation, COVID-19 losses and economic uncertainty as a result are all likely to persist throughout 2021. We also believe our businesses will benefit as the economy recovers from the impact of COVID-19. While large and medium-sized businesses have shown resiliency to the economic disruption, small businesses, which are a meaningful part of our portfolio, have definitely been adversely impacted.

To sum it up, after a brutal start to the year with COVID-19 losses, we now have an opportunity to finish 2020 with an underwriting profit. We're going to need to push hard over these last 9 weeks to achieve that goal. I want to thank all of our Markel employees who have worked so hard under difficult conditions to give us this opportunity. I want to thank you for your time today. And now I'd like to turn it over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie. In our investing operations, we earned 0.8% on our equity portfolio and 5.4% in our fixed income holdings for a total return of 3.8% after all allocated expenses and FX effects. I am pleased with positive returns in the current environment. Strategically, I believe that the most important role for investments at this point is to preserve and protect the balance sheet of Markel. Given our views about the general level of trade-offs between risk and return on offer today, we believe that our current focus on high quality and liquidity preserve options to make different investment decisions in a different environment. The opportunity cost of our stats seems very low to me. We don't think that we would get paid appropriately for taking meaningful credit duration or many other types of risk right now. As such, we'll stay relatively liquid and ready and able to deploy cash more aggressively when we see the opportunity to earn appropriate returns and compensation for doing so.

In our Ventures operations, I want to be clear. The news is excellent. The managers and teams of the Ventures businesses continue to respond superbly to rapidly changing and disrupted business conditions. I am grateful and amazed at their skills, professionalism and dedication to their associates and their customers.

For the first 9 months, revenues at Ventures grew 28% to just over $2 billion compared to $1.56 billion a year ago. EBITDA for the 9 months increased 29% to $284 million compared to $219 million a year ago. This record-setting financial performance was broad-based. While this is the first full quarter of results from our most recent acquisition of Lansing Building Products, the entire group demonstrated resiliency and the value of diversification.

We operate an array of different industrial and service businesses that are market leaders in what they do. They serve a wide variety of customers and experience economic cyclicality and variability from many factors. We would normally expect volatility from their results, not unlike what we experienced from our investment portfolio when we look at short-term time frames. That said, I think this year's results stand as a dramatic validation of the value of Markel Ventures to the overall purpose and future of the Markel Corporation.

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For your reference, I checked my notes from the third quarter year-to-date conference call from 5 years ago in 2015. In that year, we reported revenues from Markel Ventures of $784 million for the first 9 months and EBITDA of $76 million. I don't remember the exact economic circumstances and conditions of 2015, but I'm pretty sure it didn't include dealing with the worldwide pandemic.

Our efforts to build an enduring and resilient system at Markel continue to unfold. I'm hopeful that the evidence we've offered you this morning about our short-term and long-term progress provides you with some confidence in our win-win-win mindset as we seek to build one of the world's great companies.
With that, Emily if you'd be so kind as to open the floor. We'd love to answer some of your questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Just going back to the insurance business and the premium volume. I guess, I was surprised that the growth had decelerated from the second quarter. And it feels like part of the explanation is that we're taking the opportunity in the market to remix some lines of business. Maybe you can help us think about the extent to which this pressured top line growth, how long may this remixing take? And look, just given the opportunity in the market and the extent of pricing, what are your early thoughts on 2021? Why would we not see double-digit growth next year?

Jeremy Andrew Noble
Senior VP & CFO

Sure. Thanks, Phil. Yes, third quarter, there were a lot of different things impacting the third quarter, but one in particular was, I mean, we are taking the opportunity to remix and really focus on growing what we call our green classes, our most profitable classes. So we've become -- we've been very aggressive, I think, this year in terms of moving away from business that wasn't meeting our profitability goals, closing some of those down, closing down programs that we weren't -- we didn't see meeting our goals. And some of that, that's starting to add up and that impacted the third quarter. Also in the third quarter, July 1 is a big date for us, and we had a really good July 1. August, September, they tend to be less busy months for us, and that sort of continued this year.

So all in all, I'm very pleased with the growth we showed in the third quarter, giving all the moving parts and all the things we are doing. Also it's fair to say the economic struggles have impacted, I think, small business to a great area than maybe larger businesses. And we saw the massive amount of stimulus that was put into the economy in the first 6 months, that wasn't there in the third quarter. And I think some of that had been used to pay premiums in the first 2 quarters by some businesses.

So we saw a little bit of that in the third quarter. But I'm not particularly concerned about it. We've seen a few of our numbers so far for October. And I would tell you, they're very strong. So you say why wouldn't we grow double digits in 2021, that's certainly going to be our goal to grow double digits in '21.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. Got it. And sticking with insurance and understand and appreciate that you're not a but for company. But when I look at the underlying loss ratio, but for cat losses in COVID, there was a pretty good improvement in that attritional performance. Can you help us thinking about the potential contributions of rate versus trend? Any COVID frequency benefit from a lack of economic development and the remix in the business, presumably, that's going to have a benefit as well.

So if you could just kind of bifurcate all these moving pieces to help us understand what's going on here?

Jeremy Andrew Noble
Senior VP & CFO

I'll do the best I can. We've gotten to a point where our year-to-date rate increases are double digit, low double digits at this point. So rate is certainly a part of it. The remixing is also a part of it. We are growing the most in the lines of business that we, again, call our green classes, which are our most profitable classes. We are shrinking classes, and you saw that some in the third quarter that we haven't seen the profitability that we would like to see. So all those things are at play. And yes, we saw a very nice decrease in the attritional loss ratio so far in the year. And the goal is to make sure but for events don't stop that from being what the result looks like as we go into 2021.

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So unfortunately, for the last 4 years, there's been a lot of cat events that have prevented what has been some pretty nice underlying performances, prevented that from showing up in our combined ratio. And so we've been taking a lot of steps to mitigate and hopefully reduce the number of those but for events.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And last one for me, and then I'll requeue. I was just hoping you could provide a little context on your appetite to grow reinsurance and the potential outlook for 1/1?

Jeremy Andrew Noble
Senior VP & CFO

Well, obviously, now Markel Global Re is going to be focused on casualty and specialty lines. And we do think there is an opportunity in the casualty and specialty lines to grow. We're seeing rate increases. I talked about we're seeing increases in our general liability reinsurance programs and some of that are -- some of that is obviously new business we're writing, but a lot -- some of that increase is also just underlying rate increases in the primary business. We're going to be cautious though. We haven't seen the profitability we have wanted to see in those 2 areas over the last couple of years. So first and foremost is making sure it's profitable. And once we're convinced, it's profitable, we'll look to grow it in this environment.

Operator

Our next speaker is Jeff Schmitt from William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Could you speak to the M&A environment for Markel Ventures? I guess I'm wondering if the tough economic conditions are just sort of creating opportunities where some targets may be temporarily impaired, looking for a partner. I don't know if you're -- if you do those types of situations or other opportunities popping up here in this environment?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. Thanks, Jeff. This is Tom. I would say there's a lot of M&A being done, but not at prices that we're going to do it. Frankly, over the last 3 or 4 years, we've not made a lot of outgoing calls or solicited things, but some businesses have been attracted to the long-term nature of Markel. So we have grown almost in spite of ourselves. We observe a lot of transactions, and we're rubbing air off our head scratching our head, looking at the valuation. So I think the circumstances you lay out will probably happen someday, but we're kind of watching the break go by.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then on the Lansing acquisition, obviously, revenue is up a ton from that deal, but profits in Markel Ventures were up a lot, too. Is that from Lansing, I guess, is building products or is that struggling now and so we could see profitability pick up?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes, I want to reiterate, that profitability is across the board. So yes, everybody's feeling COVID in one way or another. But again, I just take my hats off to the managers and people of the Markel Ventures operations. They've done a just -- grateful and amazed are the 2 words that accurately describe the circumstance. So that's not concentrated in any one place.

Obviously, the revenue pickup is pretty big with Lansing because that is a business where -- I mean, it's a distribution kind of business. So revenues are disproportionately high compared to EBITDA relative to the rest of the Markel Ventures set of businesses. The returns on capital will be similar, but it's across the board, the group is doing very well.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

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Okay. And just one more on the Insurance segment. The -- I guess, the [NPW] growth, I think you referenced in the Q that a program was put into runoff there. I think it affected the retention amount. What program was that? Or what was the size of that program?

Thomas Sinnickson Gayner
Co-CEO & Director

Well, we put a handful of programs and lines of business into runoff that we're not performing. The particular one that I think that was mentioned there was being referred to was a program -- it was a program for municipals, and it had a heavy property exposure in it that had really not performed well. And so we chose to walk away from that. I think the impact in the quarter was $20 million, $30 million, if I'm not mistaken.

Jeremy Andrew Noble
Senior VP & CFO

Not so much to gross yet.

Thomas Sinnickson Gayner
Co-CEO & Director

Yes.

Jeremy Andrew Noble
Senior VP & CFO

I mean, I think it's for a period of time until that program transitions, we're sort of serving it in the front-end capacity. So it influences the net retention versus what we've seen so far on the gross written premium.

Thomas Sinnickson Gayner
Co-CEO & Director

But yes. Jeremy is right. We're still fronting that for the next carrier at this moment. So it hasn't impacted our growth that much at this point, but we're not retaining it net. So over time, that will come through as well.

Jeremy Andrew Noble
Senior VP & CFO

And that's a good example where I think we'll find the opportunity to kind of make up for that premium reduction by focusing on profitable classes that we're seeing opportunities.

Operator

Our next question comes from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A couple of questions. The reorganization or change in the property reinsurance business that's going to Nephila. Can you just talk about that in a little more detail? In particular, I guess what I'm curious about is, is that effective for 1/1? Is it effective immediately? And in general terms, about how many millions of premiums are impacted kind of maybe using this year's year-to-date as a run rate or something like that?

Thomas Sinnickson Gayner
Co-CEO & Director

Sure, sure, Mark. It's effective for 1/1. So no 1/1 business will be renewed on Markel's books. And if those clients are interested, Nephila will offer renewal quotes on that business. It's about $200 million of premium. It's obviously cat-driven premium that, to the extent it is renewed, it will renew within the Nephila funds.

Obviously, what that does for us in terms of Markel's balance sheet as it removes that volatility from Markel's balance sheet. And as we go forward, to the extent we want to take cat risk, it's a cleaner option, I think, to do it from -- do it within the Nephila funds to invest in the Nephila funds. It shows alignment with our investors. It's very easy to calculate how much capital I'm allocating to cat. It's whatever the investment is, makes that math simple.

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And then obviously, Nephila, with its management of roughly $10 billion of AUM, they have market presence market cloud that we just were never going to be able to achieve at Markel Re. So the logic just made too much sense in terms of making that move.

Mark Alan Dwelle
RBC Capital Markets, Research Division

The logic did seem to make quite a bit of sense. On that same topic or generally in that same topic, with the legal settlement you've now achieved in cat code, does that accelerate or change any of the time line on finalizing the runoff there?

Thomas Sinnickson Gayner
Co-CEO & Director

No. The runoff is really dictated by the settlement of the contracts with cedents. And the team there has made terrific progress settling with cedents. I think we're down to about $1.2 billion on AUM, which I think is, I don't know, $1.2 billion or so down from the beginning of the year. So they've made great progress. As is always the case, that last bit takes a while. So they're working really hard to do it. But no, that settlement really is unrelated to how long it will take to return all assets to the investors.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then the other question that I had, you provided a very helpful table in the Q related to the various COVID-related charges that you took. There are a few items within that table, though, where it showed effectively a negative charge. Were those just reclassifications between the Insurance and Reinsurance segments? Or was there some actual release of reserves or take down of reserves associated?

Jeremy Andrew Noble
Senior VP & CFO

Mark, it's Jeremy. There were a few pockets, actually, where we reduced our reserves from initial expectations. Some of that we saw in our U.S. property relative to our initial sort of reserves, also within our international book in the U.K. relative to business interruption. We kind of commented about the sort of the contract between putting some reserves up in our Reinsurance line associated with the FCA test case, but we really haven't seen the frequency of claims reporting for some of the business interruption relative to our initial expectations there. So there were a couple of situations where we reduced reserves, netting against those increases.

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. Mark, I tried to kind of allude to that in my comments. I mean, obviously, we took our best shot back in the first quarter at coming up with reserves for COVID. Obviously, since then, we've learned a lot more, and my guess is we'll continue to learn as we go through this because we've never seen this situation before.

As a result of those learnings, in some areas, we felt reserves could come down. In other areas, we felt reserves needed to go up. And my guess is that, that will probably continue as we go forward, we'll continue to adjust as we learn.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Of the total bucket of sort of $375-ish million, is most of that still in IBNR at this point? Or has there been significant paydowns relative to that for certainly some of the event claims I would think have paid at this point?

Jeremy Andrew Noble
Senior VP & CFO

Yes. Certainly, Mark, I don't know if you're right to hand, but I think more than half of that is still in IBNR. So we've seen -- certainly, we've seen increased claims reporting from the encourage standpoint. And we've had some settlement activity, but there's still a significant amount of that, that's sitting in IBNR.

And it's a good example, the amounts that have been put up in the third quarter, that's principally all in IBNR.

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Operator

Our next question comes from John Fox from Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

Richie, I'm curious what your expectation is for State National. You mentioned some new programs coming on. When do you expect that would start growing again?

Richard Reeves Whitt
Co-CEO & Director

I think it will -- those were big programs that came off in the first quarter. And it's -- we probably talked enough about it. One of those programs was very much an opportunistic program and when that company received their upgrade of their ratings, they no longer needed State National's program services, fronting capabilities. So we knew that was going to go away. The only way it was a little surprising to us, not so much that it went away, but how it went away that it -- on a cut-off basis and that premium all just moving to the new carrier.

But we've seen a number of new programs coming on. Unfortunately, none of those have been quite as large as the 2 that went away, but we'll start to see premium ramp up from those new programs. And more importantly, we really like the activity we're seeing. And I think it's just what's happening in the market. It's a very interesting exciting time in the market right now. There's a number of new players trying to get themselves set up to hopefully take advantage, I guess, of the conditions. And fronting services is a very attractive way to get going quickly. So we're receiving a lot of inquiries.

John D. Fox
Fenimore Asset Management, Inc.

Okay. Great. And you mentioned, probably not a quote, but you have not met your underwriting goals over the last few years due to the cat losses and that you're remixing the business. So I'm assuming you're aspiring to a higher underwriting profit. Can you share like what you're thinking about in terms of when you're mixing the business and what type of combined ratio? Or is it premature for that?

Richard Reeves Whitt
Co-CEO & Director

John, given the rate increases we are seeing, given the interest rate environment that Tom and the team are having to contend with, we said we need to be around the 90 combined. And I'd love to see it lower. But I think it's got to be something around the 90 because we just can't put the pressure on Tom and team to generate returns in this low-to-no interest rate environment.

John D. Fox
Fenimore Asset Management, Inc.

Right. Okay. Great. And then I understand there was a settlement in a lawsuit, so maybe you can't talk about some of this. But to the extent that you can, what is the run rate expenses or profitability at ILS Investment Management segment?

Richard Reeves Whitt
Co-CEO & Director

Well, I'm going to -- it's not going to be an exact quote from Mr. Noble. but Mr. Noble and I were talking the other day. And unfortunately, I don't think I've seen a run rate quarter yet. There's just been a lot of noise, unfortunately.

But here's where we are, John. I think we have had success in attracting new AUM for January 1, so that will be coming on board for 2021.

So the 2 things that impact our ability to make -- to create a return in ILS are the amount of AUM and how many losses we have. Well, we can't do much about the number of losses, although I would tell you, the last 4 years have been brutal. But rates are going up substantially. So I think that business is going to be better priced. I know that business is better priced going forward, giving us a better opportunity to earn on that for our investors and thus earn fees. So there really hasn't

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been a good run rate quarter yet. But I think going into '21, we've got some momentum, both in terms of rate increases we're receiving and so the profitability of the business we're writing and investors signing up to invest in the funds.

Thomas Sinnickson Gayner
Co-CEO & Director

And John, if I could tag on to Richie's answer because there's one very, very important nuance that, I think, often gets lost in the communication of how this business works and its newness to Markel.

So when Richie talked about the losses that occur, in the old days, when we were writing that business on our balance sheet, that would be dollar-for-dollar our capital that would have a loss and would show up in the combined ratio. The business we write. This is where we're managing other people's capital. So the loss ratio really has a profound, but indirect effect on the management and performance fees. So there's exponential returns on our capital when industry losses come in at a more -- at a lower level than what they've been the last couple of years.

And to Richie's point about, we haven't seen a normal run rate, we've not been in an environment where you start to see kind of what your normalized expectation of management and performance fees that Nephila hasn't been earned over many years, and we would expect to normally describe the business.

John D. Fox
Fenimore Asset Management, Inc.

Okay. Well, let me -- this prompts another question. So if I think about traditional asset management, which everyone on the call is familiar with, you would take average AUM x a fee. And if I do that, I get about 140 basis points on Nephila revenue annualized. And that would be my revenue and then expense profit margins and investment management, about 30% on average. So -- but it sounds like there's a third dimension, which is the amount of loss -- cat losses also going into that.

Thomas Sinnickson Gayner
Co-CEO & Director

Well, here's the thing. So like traditional asset management, if you were talking about a company that manages mutual funds where performance fees have historically not been part of it, your math is exactly right. It's assets under management x the management fee minus the expenses, boom shakalaka. There's your profitability.

In the 2.0 version of investment managers, and there's plenty of them out there, that's only part of the equation, then there's another variable of performance fees based on how well you did for your investors. And that's the aspect that I'm just highlighting here. Yes.

John D. Fox
Fenimore Asset Management, Inc.

Okay. So it's 3 dimensions, not 2.

Thomas Sinnickson Gayner
Co-CEO & Director

Correct.

Richard Reeves Whitt
Co-CEO & Director

So John, obviously, given the last 4 years, there hasn't been a lot of performance fees earned because there's been pretty above normal or above previous normal cat activity. So that's impacted it. And also, there is -- this business is highly leverageable. At $10 billion of assets under management, it would look very different under $12 billion or $13 billion or $14 billion of assets under management because we really don't need to add a lot of additional cost to manage that. We can scale the business pretty substantially.

Operator

Our next question comes from Phil Stefano at Deutsche Bank.

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Philip Michael Stefano
Deutsche Bank AG, Research Division

Richie, on the 90% combined ratio goal that you had talked about, I assume that, that's a reported number that includes cats and all the but fors?

Richard Reeves Whitt
Co-CEO & Director

Yes. It has to include cats and but for. Yes, we need to get to that sort of level, I think, given the interest rate environment.

Philip Michael Stefano
Deutsche Bank AG, Research Division

And how do you think about the dynamics of pricing versus where you stand today and getting there over the next couple of years?

Richard Reeves Whitt
Co-CEO & Director

I feel very bullish about that. I think we talked with your first set of questions about the improvement in the underlying attritional. So I think there's more room for that to improve. And we've obviously been working very hard to reduce volatility from cat losses. So I'm bullish as we go into '21.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And the last one is a numbers question on Ventures. Can you help us frame the contribution that Lansing could have over the next couple of quarters? Or what we could expect, maybe there's some seasonality to the business as we think about the revenue growth into mid-2021?

Richard Reeves Whitt
Co-CEO & Director

Yes. I think when you look at the quarter, given current business conditions, that's a reasonable run rate kind of revenue thoughts that you should have. Typically, seasonality, building products tend to slow down a little bit in the wintertime. We're not seeing that right now, just things housing-related are white hot, but we'll see how it goes. And we've not owned it long enough to really give you any seasonal pattern. Although the common sense would tell you that construction tends to be more warm weather than cold weather.

Philip Michael Stefano
Deutsche Bank AG, Research Division

I didn't see a stand-alone Lansing number. Is that something you have at your fingertips for the benefit in the quarter?

Richard Reeves Whitt
Co-CEO & Director

No. Part of Markel Ventures. That's knocking the whole thing.

Operator

Our next question comes from [Charles Gould] from [Truist].

Unknown Analyst

I have a why not instead of a but for. Ventures has done [indiscernible] been facing horrific conditions, whether they're fires or storms or COVID, and yet you have maintained and grown the equity of the company during this horrific period. Over my many decades in this business, I've seen many companies that had share repurchase plans, not buy when the price was low but buy when the price was high. I know you're very attuned to value when you make that decision.

But the skies -- if the skies are not perfectly blue now, but it seems like you are envisioning times when they're going to get a lot bluer than they are currently. The pricing is good. Ventures is doing well. You feel good about all the insurance

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arms. Why not take the handcuffs off the statement that you're not open to buying shares back today. You've got cash, I believe, of $4.5 billion, I've never seen. If that's correct. I haven't seen that ratio to value of the company in your history. Why wait for the last cloud to clear to have the ability to pull the trigger if you choose to do so? It doesn't mean you have to in the last quarter of the year, but you would have told the market that you want to have that arrow back in your quiver, and you may or may not use it.

Thomas Sinnickson Gayner
Co-CEO & Director

Right. Charles, this is Tom. Thanks for the question. And really, the long tent in the pole from my point of view is the regulatory and rating agency environment that we continue to need to be sensitive to. So in the environment which we continue to be in, the current growth rate of what we're experiencing in our Insurance business has regulators and rating agencies being very particular about the amount of capital we have and the form in which it is held. So we continue to work with them to try to make them as comfortable as we possibly can, and that's an ongoing process. And at the point where the growth rate slows down a little bit, that will actually free up sort of the regulatory capital and rating agency capital that we need to be sensitive to for the Insurance business. But other than that, I agree with everything you said.

Unknown Analyst

Well, then the other signal would be insiders should consider doing heavy buying since they see things going so well.

Thomas Sinnickson Gayner
Co-CEO & Director

From your mouth to God's ear.

Unknown Analyst

Just give me the phone call, I can make it happen.

Operator

And our next question comes from Bob Farnam at Boenning and Scattergood.

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

Maybe one more question for Richie on the Reinsurance segment. Obviously, if you included the cat losses, I think I looked at last night, you had a cumulative loss over the last 10 years or so. So those but for cat events have been pretty sizable. It seems to me that by consolidating the property cat business through Nephila, you are going to be reducing a lot of the volatility in that segment. So my question is more if it's going to be looking more like casualty and specialty going forward, what -- how has that performed? And how far away from that 90% combined ratio are those pieces?

Richard Reeves Whitt
Co-CEO & Director

Yes. It has not performed as well as it needed to, Bob, is what I'd tell you. And that -- I can't remember whose question it was, but I said before we grow it, we're going to make sure we've guided it at the right price at the right level of profitability. And we're seeing really nice rate increases on the primary side, not all of that has flowed through to reinsurance yet. So we're going to be watching that really closely. But I am bullish on our opportunity to get that to a good profitability level. But I think it is -- I think reinsurance is a little behind primary at the moment. And so we're going to keep working on it. And once we are comfortable, you'll see us grow it.

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

Okay. So my point is, all right, for reinsurance, we take $200 million of the property cat out, maybe take a lot of the catastrophe losses out so that's kind of a way to back into what the other pieces have how they've performed. And I think obviously, the COVID, you probably consider that casualty and specialty is that -- or is that considered cat? Is that -- how are you working it?

Richard Reeves Whitt

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Co-CEO & Director

That's mostly coming out of the property policies, not entirely, but mostly.

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

Okay. All right. Good. That's -- so is that the right way to think about it? It's kind of remove a lot of the cat exposure, the cat losses, taking the premium out and that might give you a run rate of the reinsurance sector going forward?

Richard Reeves Whitt
Co-CEO & Director

Yes. And what I would tell you is if you do that math, that combined ratio has not been good enough. And the market has been softening for probably going on 8 to 10 years. So we have been increasing rates at least the last 2 years. And I think it's on the right track, but it's not where primary is yet. And that's why we -- you haven't seen growth there yet. Growth is available. We don't want it until we're absolutely positive the profitability is there.

Operator

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

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you very much for joining us. Thank you for your long-term support. We look forward to connecting with you again next quarter. Thank you. Be well.

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

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