S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ4 2012 Earnings Call Transcripts

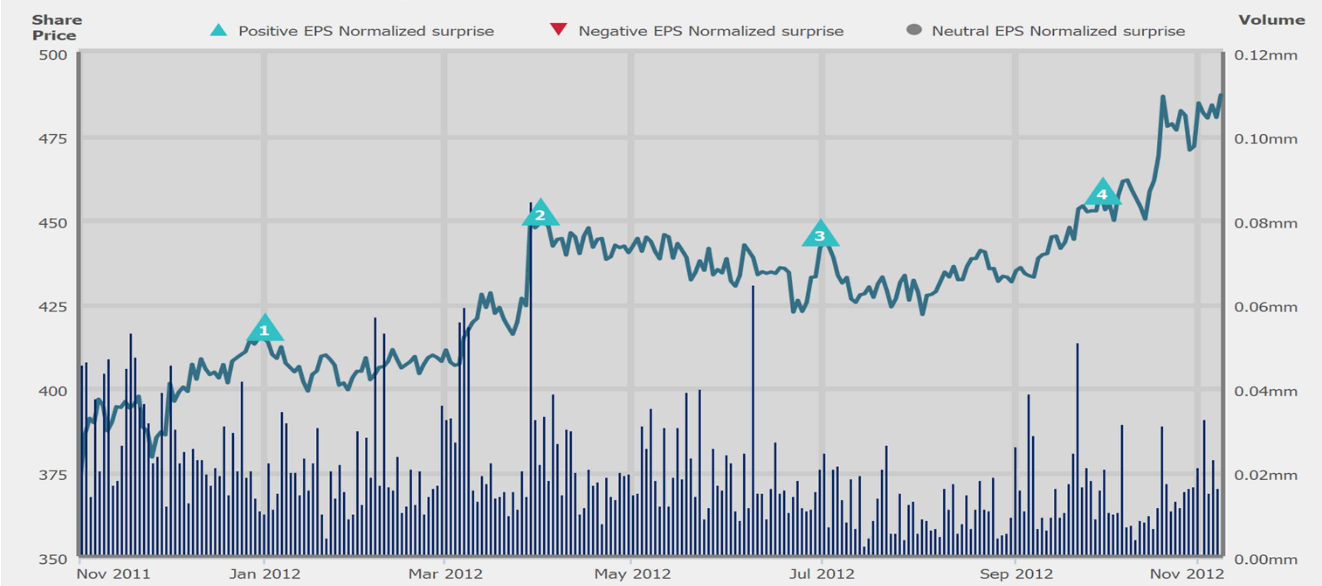
Tuesday, February 05, 2013 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(2.81)	5.63	NM	4.87	15.35	23.51
Revenue (mm)	764.11	807.96	▲5.74	774.49	2956.25	3000.11

Currency: USD
Consensus as of Feb-01-2013 9:47 PM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	4.29	4.43	▲3.26 %
FQ1 2012	3.99	4.97	▲24.56 %
FQ2 2012	3.55	7.87	▲121.69 %
FQ3 2012	4.27	4.88	▲14.29 %

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Call Participants

EXECUTIVES

Anne Galbraith Waleski
Executive VP & CFO

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Thomas S. Gayner
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Macquarie Research

Ronald David Bobman
Capital Returns Management, LLC

Unknown Analyst

Presentation

Operator

Greetings and welcome to the Markel Corporation Fourth Quarter 2012 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tom Gayner. Thank you, Mr. Gayner. You may begin.

Thomas S. Gayner
Co-CEO & Director

Thank you. Good morning everyone. My name is Tom Gayner and along with my colleagues, Anne Waleski, Mike Crowley, and Richie Whitt, we welcome you to the Markel Corporation fourth quarter conference call. Before we get started, we are required to remind you of the Safe Harbor provision. So here it goes. As a reminder, comments made on today's call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate either to Markel or to our proposed acquisition of Alterra Capital Holdings Ltd. and the operations of the combined company after the acquisition. 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. Please refer to the full disclosure regarding the risks that may affect Markel, Alterra, and the proposed transaction, which may be found in our February 4th, 2013, press release, as well as in Markel's and Alterra's most recent annual reports on Form 10-K, quarterly reports on Form 10-Q, and the joint proxy statement/prospectus relating to the transaction.

Finally, please note that the following communication is not an offer in itself or solicitation of an offer to buy any securities or solicitation of any voter approval. We urge the investors and security holders to read the registration statements on Form S-4, including the joint proxy statement/prospectus and all other relevant documents filed with the SEC and sent to stockholders because they contain important information about the proposed transaction.

In addition, Markel, Alterra, and the respective directors and executive officers may be deemed to be participants in any solicitation of proxies in connection with the proposed transaction. Information regarding the interest of these participants can be found in the joint proxy statement/prospectus and Markel's and Alterra's proxy statements filed with the SEC for the 2012 Annual Meeting.

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

With that said, we're pleased that you're joining us this morning; 2012 stands as an eventful year at Markel. We're also pleased with the financial results that we're reporting to you this morning, and we hope you like the numbers as well. More importantly, we hope to give you at least some glimmer of understanding of what is going on around here operationally, and some insight into the underlying business reality that these numbers attempt to describe. The actions, steps, and transactions that we undertook in 2012 changed the arc of our future and we hope that you are as excited and as confident as we are that these are productive steps forward for Markel and its shareholders.

As always, we look forward to your thoughtful questions about the business. And with that as a kick off, I'd like turn things over to Anne.

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, and good morning everyone. I'm really happy to be able to report today that we had an outstanding year. Clearly, as Tom said, there has been a lot going on in Markel in 2012, particularly in the final months. I'd like to take a moment now and recognize all of our associates who have driven our accomplishments and results. Without them and their efforts on a day-to-day basis none of this would be possible.

Our financial results for the year were very strong, benefitting from robust investment performance, underwriting profits on our ongoing business and increased revenue and profitability from our non-insurance operations, which we refer to as Markel Ventures. Our favorable year-to-date underwriting performance was driven by lower losses for catastrophe events in 2012, more favorable development of prior year loss reserves, and lower attritional losses.

Our total year-to-date operating revenues grew 14% to $3 billion in 2012 from $2.6 billion in 2011. The increase is due to a 9% increase in revenues from our insurance operations and 54% increase in revenue from Markel Ventures.

Moving into the underwriting results, gross written premiums for 2012 were $2.5 billion, which is an increase of 10% compared to 2011. The increase in 2012 is due to higher gross premium volumes in each of our 3 operating segments. Net written premiums were $2.2 billion, up 8% to the prior year. Retentions were down slightly in 2012 at 88% as compared to 89% in 2011.

Earned premiums increased 8%. The increase in 2012 was due to higher earned premium volumes in each of our 3 operating segments. Increases in gross, net, and earned premiums have all benefited from higher volume, rate increases and our recent insurance acquisitions in the Specialty Admitted segment.

Our combined ratio was 97% for 2012 compared to 102% in 2011. The combined ratio for 2012 includes $107 million or 5 points of underwriting loss from Hurricane Sandy. The combined ratio for 2012 also includes $43 million or 2 points of expense related to our prospective adoption of the new DAC accounting standards.

The 2011 combined ratio included $152 million or 8 points of underwriting losses related to the catastrophe events, which occurred last year in the U.S., Thailand, Australia, New Zealand, and Japan.

Setting aside the impact of the prospective adoption in the new DAC accounting standard in 2012, and the effect of catastrophes in both 2012 and 2011, the improvement in our year-to-date combined ratio was primarily due to lower current accident year loss ratios in the Excess and Surplus lines in London insurance market segment.

Favorable development on prior year loss reserves represented 19 points on the combined ratio in 2012 that's compared to 18 points of the 2011 combined ratio. The increase is a result of more favorable development on prior year loss reserves in the Specialty Admitted and London Insurance market segments.

In the London Insurance market segment, the favorable development included $39 million from the 2001 and prior accident years. While we believe it is possible that there will be additional redundancies on prior year loss reserves in 2013, we caution you not to place undue reliance on this favorable trend.

Next, I'll discuss the results of our non-insurance operations, which we call Markel Ventures. In 2012, year-to-date revenue for Markel Ventures were $489 million compared to $318 million in 2011. Year-to-date net income to shareholders from Markel Ventures was $13.5 million in 2012 as compared to $7.7 million in 2011. EBIDTA was $60 million in 2012 as compared to $37 million in the prior year. Revenues, net income to shareholders, and EBIDTA for Markel Ventures increased in 2012 as compared to 2011, primarily due to our acquisitions of WI Holdings Inc., Weldship in late 2011 and Havco in 2012.

Turning to our investment results, our investment income was up 7% in 2012 to $282 million. Net investment income for 2012 included a favorable change in the fair value of our credit default swap of $17 million compared to an adverse change of $4 million in 2011. Excluding the change on the fair value of the credit default swap, lower investment income on our fixed portfolio was offset by increased dividend income on our equity portfolio.

Net realized investment gains were $32 million in 2012 as compared to $36 million in 2011. Net realized gains for 2012 included $12 million of write-downs, other than temporary declines in the estimated fair value of investments as compared to $20 million in 2011. Unrealized gains increased $354 million before taxes in 2012 driven by increases in equity securities. Tom will go into further detail on investments in Markel Ventures in his comments.

Finally, looking at our total results for 2012, the effective tax rate was 17% in 2012 as compared to 22% in 2011. The decrease in the effective tax rate is primarily due to higher earnings from our foreign operations, which are taxed at a lower rate.

We reported net income to shareholders of $253 million compared to $142 million in 2011. Book value per share increased 15% to approximately $404 per share at the end of 2012, up from $352 per share at year-end 2011.

I want to take a moment to remind everyone about the change to our EPS calculations, which first occurred in the second quarter of 2012. This change was required as a result of our recognition of redeemable non-controlling interest for some of our Markel Ventures minority shareholders, who have the option to put their shares to us in the future generally at a big multiple of EBIDTA.

At the end of each reporting period, the carrying value of this redeemable non-controlling interest is adjusted to management's current best estimates of the redemption value. The purpose of the adjustment is to record the potential cash obligations you may have to the non-controlling interest shareholders. For the fourth quarter of 2012, the redeemable non-controlling interest balances were marked down $3.4 million. For the full year, the balance was marked up $3.1 million. The change is recorded through retained earnings and adjusts net income to shareholders in calculating EPS. This calculation will be presented in our 10-K.

Turning to cash flows and the balance sheet, net cash provided by operating activities was approximately $392 million for the year ended 2012 as compared to approximately $311 million for the same period of 2011. The increase in net cash provided by operating activities was due to more underwriting cash flows as a result of higher premium volume, and increased cash flows from Markel Ventures. Investments and cash at the holding company were approximately $1.4 billion at the end of 2012 as compared to a little less than $1.2 billion at the end of 2011. The increase in invested assets is primarily the result of over $400 million in dividends and loan repayments from our domestic and international insurance subsidiaries during the fourth quarter of 2012.

In December 2012, Markel announced that it had entered into a definitive agreement to acquire Alterra Capital Holdings Ltd. for consideration of approximately $3.1 billion. Transaction is expected to close in the first half of 2013.

In January, 2013, Markel announced that it had completed the previously announced acquisition of Essentia Insurance Company. Through Essentia, Markel will underwrite insurance exclusively for Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency throughout the U.S.

At this point, I'd like to turn it over to Mike to further discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks, Anne, good morning. Total gross written premium for Markel North America increased 14.6% year-over-year in the fourth quarter and 10.9% for the 12 months ending December 31st, 2012. The E&S segments gross written premium increased 9.1% in the fourth quarter and 7% for 2012. Markel Specialty segments gross written premium increased 23.4% in the fourth quarter and 17% for 2012.

Within the E&S segment, I'm pleased to report that all 5 regions gross written premium increased in the fourth quarter and for 2012. This steady growth supports our belief that the one Markel strategy is a success and that most services issues are behind us. This belief this further supported by the feedback that we received recently from our binding and brokerage councils when they met in Florida.

During the fourth quarter, our E&S Professionals conducted over 233 agent meetings at NAPSLO and 72 meetings at the Plus conference. This increased interaction with our agents is well organized and it is one of the reasons for our organic growth. The E&S segment's combined ratio for 2012 was 93.7%. This increase over prior year combined ratio was driven by the impact of the change and accounting methodology for deferred acquisition cost and the impact of Hurricane Sandy.

The Specialty Division’s growth was driven by the continued conversion of THOMCO’s business to Markel paper. At the beginning of the year we told you that we expected to book $60 million in 2012 and we actually booked $79 million. We expect to have all of THOMCO’s business converting to Markel paper during 2013. The team at FirstComp continues to execute their plans to improved results through rate increases and geographic reorganization. FirstComp was also a strong contributor to the Specialty division’s growth in 2012 with gross written premium totaling $257 million.

The combined ratio of 107.4% for 2012 for the Specialty division was affected by the change in accounting methodology for deferred acquisition cost, one-time employee separation cost, write off of an IT system and the impact of Hurricane Sandy. As mentioned during the third quarter call, we will begin booking premium for the Hagerty collector car business in 2013 and we’re looking forward to a very successful first year with this fine specialty partner.

During 2012, our product line leadership group and underwriting team achieved an overall rate change of approximately 4%. The property business had the largest increase, however, we achieved positive rate movement on almost every line of business. Also, during the fourth quarter, the product line group transferred 12 experienced underwriters to regional roles in order to put some of our best underwriters closer to our customers. These underwriters produced $4 million of new business in the last 2 months of 2012, which supports our theory that putting more experienced authority in the field will further improve service and ultimately results.

With regards to new products, we’re launching an energy program and an Accountants Professional Liability program. We also picked up a national lawyers program that should result in $10 million of new business in 2013.

Looking back on our results in North America for 2012, we cannot help but feel very good about what we’ve accomplished during the year. Our E&S segment under John Latham’s leadership exceeded budget and prior year revenues, while continuing to improve service, streamline the organization and expand our visibility with agents. As pointed out earlier under the leadership of our Regional President, Steve Girard, Scott Culler, Sarah Gavlick, Susan Swanson and Greg Rubel, all 5 regions grew in 2012.

The appointment of Jeff Lamb to Chief Underwriting Officer for the segment and Evans Nash to the Head of Marketing has increased the cooperation and communication between our product line leaders and our regions continuing to fuel organic growth. In our Specialty Division the appointment of Greg Thompson as President of Markel Specialty completed the leadership team of that division. The continued integration of FirstComp has progressed according to plan under Matt Parker’s leadership. The THOMCO acquisition and integration has also gone according to plan. Markel America grew organically under Audrey Hanken’s leadership, and Carrier Alliance business had a stellar year under Mary Pat Joyce’s leadership.

We reorganized the Specialty Commercial business under the direction of Don Faison and Alex Martin and positioned that unit for successful 2013. Gerry Albanese, Executive Vice President and Chief Underwriting Officer, and his team of product line leaders achieved positive rate movement in vast majority of our product lines, added new products, and enhanced others during the quarter of 2012. Tom Smith and his team did a great job leading the charge on our brand initiatives, website development and sales initiatives.

So often in today’s hurried pace, we fail to take a breath and look back at these accomplishments. I would like to take this opportunity, as Anne said, to thank all of our leaders and associates that comprise Markel’s North American operation and all of our leaders and associates around the world for what they accomplished in 2012.

Now I will turn the call over to Richie.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Mike, and good morning, everybody. Markel International had a great year in 2012. Gross written premium increased 8% to $887 million; significant areas of growth continue to be Marine, Energy and Liability, as well as catastrophe exposed property. Throughout the year we continued to see price increases on catastrophe exposed property and Marine, Energy and Liability business.

However, as the year progressed, price increases in these areas did moderate. Our overall average increase at Markel International in 2012 renewal business was approximately 4%. Cat property increases were generally in the 10% to 20% range, Marine, Energy and Liability had seen mid-single digit increases. All other lines have seen relatively stable pricing.

Despite price increases in certain areas many areas of the market still remains very competitive particularly in our professional liability, retail areas and equine divisions. January 1, '13 renewals were relatively stable. The accounts that were impacted by Hurricane Sandy saw some increases, while all other areas were relatively flat. International's combined ratio for 2012 was 89%, which included 2 points of expenses related to the adoption of the new DAC Accounting Standard. This also included approximately $50 million or 60 points of loss in reinstatement premiums from Hurricane Sandy in the fourth quarter.

The 2012 results, as Anne said, benefited from a $192 million of prior year favorable development across a variety of programs. We've said it many times but I'll repeat it; we always strive to establish reserves that are more likely redundant than deficient. However, the releases we experienced in 2012 are more than we would normally expect and are the results of the favorable developments that I mentioned across the number of products including significant favorable reserve development of $39 million in 2001 in prior reserves. I want to congratulate William Stovin, Germany, Brazil and the entire international team on a great year.

Now I would like to just turn to Alterra and just talk about what we have been doing since the announcement in December 19th. We have been extremely busy since that announcement. Before the end of the year, we filed our joint proxy, which went effective on January 18th and was mailed that next week to all of the shareholders. The shareholders' votes are scheduled for February 26.

We are in the process of obtaining regulatory approvals. We already have clearance under the Hart-Scott-Rodino Act and have made filings with Insurance Regulatory Authorities in the UK, Ireland, Brazil and the U.S. While we can't predict the timing of the approval process with any great certainty, we believe that this transaction could close as early as April 2013.

During January, we made multiple visits to most of the Alterra offices and held meetings with Alterra's associates. These visits have confirmed our findings from due diligence; Alterra's people are extremely impressive and will be great additions to Markel. We formed a cross-functions integration team led by Peter Minton, CEO of Alterra, and that's comprised of associates from both Markel and Alterra. The team is working on a short-term tactical and long-term strategic goals for the integration.

Our short-term goals are to quickly integrate the companies under the Markel brand with as little disruption to Alterra's customer base as possible. Our goal was to be able to layout the new organizational structure in detail to our Alterra associates shortly after the shareholder vote in February.

At a very high level, we envision a structure that includes the existing Markel insurance operations of E&S, Specialty and International plus reinsurance and large account business units. We are just getting started on the task of building the new Markel, but we are pleased with the progress to-date and are excited for the deal to close so that we can move on at full speed with the integration process.

Now I would like to turn it over to Tom.

Thomas S. Gayner
Co-CEO & Director

Thank you, Richard. Comprehensive. I want to start off my comments with that word and I plan to repeat it about a thousand times because it is such an important descriptor of how we think about things at Markel. I suspect that we have new folks joining the conference call compared to previous periods and would like to convey a bit of how we view our challenges and opportunities in running this business.

At Markel, we think about things comprehensively. We have a comprehensive set of tools to create comprehensive income and all of them worked in 2012. The sum total of our comprehensive income from doing so was approximately $500 million. Just to provide you with some frame of reference on that number, the entire retained earnings of the Markel Corporation didn't exceed $500 million until the end of 2004, 8 short years ago. 2004 was the year we celebrated the 75th anniversary of Markel. That means we made more money in 2012 than we made cumulatively in the previous 75 years up to 2004.

Now 2012 is just the latest chapter in the story of Markel and these results would not have happened without the hard work, the values and the culture that was created by all who went before. That said, the results are cumulating nicely and the work of 2012 has produced even better outcomes in the years to come.

The components of comprehensive income are one, underwriting results; two, investment results; three, Markel bankers' results; and four, capital management results. On cylinder one, underwriting results Anne already gave you the numbers, and Mike and Richie spoke about our insurance operations. Fortunately, we have got some good underwriting trends in place in our insurance operations and we are all optimistic about the prospects for the existing Markel's activity as well as those at Alterra and we are even more optimistic about the prospects for the combined organization.

On cylinder 2, the investment side, today is the fun day to report our investment returns. The numbers are good and it's always more fun to talk about good results than bad results. That said, before I get too far into the numbers for 2012, I would like to reiterate that these numbers are just outcomes. They are mere shadows capped by the underlying reality of the values and principles that guide our approach.

The joy with Markel is that our values and principles remain unchanged. Every year, every quarter, every month and every day, we try to do our best to serve our customers across diverse markets whether that means meeting insurance needs, supplying banking of drenching equipment or slicing pickles. We also stick to conservative and time tested principles on how to manage the investment funds these activities generate.

In 2012, the results were very pleasant; in some years they will not be as good. The good news though is that when you work from the right set of principles and values more years are good than not, and time has a way of validating a sound long-term approach such as what we've practiced at Markel for decades. In 2012 all the factors available to produce comprehensive income were positive. All of them contributed to the total and there were no negatives. The total investment return of the portfolio was 9% whereas 19.6% our equity investment and 5.1% on our fixed income portfolio.

Over the last 23 years, we've earned nearly 200 basis points of excess return per year compared to the S&P 500 Index on our equity investments and we earned more than 350 basis points of excess return from our equities compared to the Barclay's Aggregate Fixed Income Index. We are happy to accept a bit of volatility to earn these returns since they add up the real months in the pockets of Markel shareholders over time, and 2012 continues to build upon this record of adding value.

On the fixed income side, we are at 5.1% for the year, and I'm very pleased with this result. I remain of the belief that the number one feature in the investment landscape is that interest rates are too low. They keep going lower and lower although the early days of 2013 are a tad different so far. Our response to this development is to keep floating bonds of shorter and shorter maturities.

Simply put, we just don't think that we are being paid appropriately to accept the risk of other longer term bonds. And that effectiveness is that we are tactically building our balances of cash and cash like fixed incomes [indiscernible]. Don't worry we haven't fallen in love with cash and we do not expect to have this barbell of cash at one end of the investment portfolio and equities to Markel Venture's operations at the other end with very little in between for us. What we have created is the option of redeploying this cash when opportunities arrive. Fortunately, the low interest rate and a flat yield curve the opportunity because of doing so is minimum.

We're incorporating this thinking into our anticipated actions once the Alterra deal closes and I want to assure all of our shareholders that the mantra for fixed income as well as our equity activity is safety first.

I believe that we will be presented with interesting and attractive investment opportunities over the next several years and we have relatively unique structural and tactical advantages, which should create good outcomes for Markel. Stay tuned.

On cylinder 3 at Markel Ventures, we enjoyed revenues of approximately $490 million in 2012, up over 50% from $317 million in 2011. Markel Ventures EBITDA grew over 60% from $37 million to $60 million and we remain optimistic about our opportunities in 2013 and beyond. Markel Ventures contributed cash flow to the comprehensive picture at Markel in excess of the reported net income since the amortization expense related to purchase accounting is a non-cash charge not reflective of the underlying profitability of the Ventures Company. I'm pleased with the results of our Markel Ventures Group and the returns that they are producing. Currently, we remain somewhat quiet on the acquisition front given our focus on Alterra, but the opportunities to grow and expand the future at Markel remain vast.

As the old saying goes, when your only tool is a hammer, everything looks like a nail. The beauty of Markel is that we are not limited to working with just a hammer. When you look at our opportunity set in insurance, investment, industrial equipment and machinery, healthcare, real estate, our other products of services along with the cylinder 4 our capital allocation discipline in activities, we have a comprehensive tool kit of hammers, drills, screwdrivers, wrenches, saws, measuring tapes, T-squares levels and duct tape. We have and will use all of them at appropriate times and places to create the sort of comprehensive returns for years like what we are reporting today. This is an amazing and unusual tool kit that continues to grow well for our shareholders and we look forward to working on the projects on our to do list in 2013 and beyond.
With that, I would now like to open the floor for your questions. Latanya, if you could open up the call please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Dwelle with RBC.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just a few questions to start off with. Richie, you gave the amount of Sandy losses that had impacted Markel International. Could you provide the same information for the other 2 segments?

Richard Reeves Whitt
Co-CEO & Director

But I didn't do that.

Anne Galbraith Waleski
Executive VP & CFO

I don’t think I have the breakout. The details will be in the K for sure. The total was $107 million, so you can probably take Richie’s number and back out for the other 2 but I don’t have the split with me.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Is it fair to assume that nearly all the rest was on the E&S segment just by majority?

Anne Galbraith Waleski
Executive VP & CFO

Hold on, I’m looking at something that Mike just handed me.

Richard Reeves Whitt
Co-CEO & Director

Mark, we’ll give you a call with that but I don’t think we got the numbers handy.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

The second question I had, you had indicated the Essentia deal will close or has closed and will begin booking revenues for 2013. In general, what’s the size of the gross revenue opportunity there because maybe something what they did in 2012 for example?

Richard Reeves Whitt
Co-CEO & Director

We don’t have the final 2012. Keep in mind that we don’t own Hagerty; it’s a privately owned firm. What we've said so far is if you go back to couple of years ago and look at the best reports that they’ve booked $170 million in Essentia. So you can -- that’s a fact and then you can assume that they are a growing organization and we expect them to continue to grow in 2013.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. So $170 million is kind of my baseline starting point I can assume what I want over top of that?

Richard Reeves Whitt
Co-CEO & Director

Yes.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Tom you normally provide the duration of your portfolio, the fixed income portfolio could you give us that information?

Thomas S. Gayner
Co-CEO & Director

Sure. Including the cash its less than 3 years now, which is a record low.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So really no change from kind of which you had said in the third quarter?

Thomas S. Gayner
Co-CEO & Director

90 day short.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

The last question I had was really just kind of a pricing environment sort of question. You had suggested kind of mid-single-digits. Is that very broad across most of the product lines or I guess my comment specific to the E&S and Specially Admitted business is that fairly broad across most lines of business or there is some that are standing taller than that?

Thomas S. Gayner
Co-CEO & Director

The property is standing taller in both segments. The larger increases were in the property segment and then more modest increases in some of the casualty lines. On average middle single-digits and we expect the same kind of environment in the early part of this year.

Operator

[Operator Instructions] Our next question comes from Ray Iardella from Macquarie Group.

Raymond Iardella
Macquarie Research

Tom I can certainly appreciate duct tape being a tool. I appreciate that analogy. One question I just want to hit on quickly was the portfolio. I mean assuming that the Alterra acquisition goes through, maybe you can talk about kind of what you envision for the portfolio sort of longer-term just given that their portfolio allocations are a little bit different than Markel?

Thomas S. Gayner
Co-CEO & Director

Sure longer-term it will be recast into the nature in the form and substance of the same way we have been doing things at Markel for a long time. The barbell right now is a tactical decision that is not a fundamental strategy. It’s just to preserve optionality and time when there is very little opportunity cost to do so. Longer-term, what we would hope to do is to deploy a good chunk of that into the equity sort of securities and things that earn positive total returns over time and the speed and the pace of that were largely driven by opportunities.

Raymond Iardella
Macquarie Research

And then I guess on the fixed income side any sort of type of asset class so it is more attractive I know in terms of duration short but corporate or municipal bonds, any color there?

Thomas S. Gayner
Co-CEO & Director

In general, sort of cash is king in that regard because if you had some numbers of relative returns or basis point on top of the benchmark rates, it still -- it’s a very low nominal total return. So the idea of taking credit risk for small amounts of bps it doesn’t seem like that good an idea to me. So we have very high credit quality and just higher and higher all the time. And by the way I mean that also is a tactical statement about today’s market should the opportunity set be different and the rates in different securities be different and more attractive over time, we are completely intellectually open-minded and willing to go wherever it makes sense to -- sense to go.

Operator

Our next question comes from Matthew Berry with Lane Five Capital Management.

Matthew Berry
Lane Five Capital Management, LP

I have a quick sort of long-term question, which is if we were to see an extended period of inflation. Could you just talk me through the sequence of impacts across the business, across sort of current year expenses and then prior year reserve adjustments, current year reserves and so on? And then the steps that you take and how we would see that impacting the financials?

Thomas S. Gayner
Co-CEO & Director

Sure. Matthew, its Tom. You can’t be precise in sequencing these because you really don't know what the form and nature of the question would hit. So the ultimate answer to your question, though is that rough, rough, rough, essentially 1/365 of whatever business is on the books, whatever expense picture we have, whatever operations we have that sort of expires each day and you come to visit the next day and you get to re-price your insurance rate, you get to rethink about what resources you need to run the business and you try to make good kind of just logical decisions on account of that. We are not victims of huge fixed commitments and huge fixed assets, which can be trapped in the form of inflate --inflationary environment. And we get to redo 1/365 of our business every single day and what would happen in the period of inflation, deflation, stable, crisis whatever as we rework that business the next day when we came to the office.

Operator

Our next question comes from Graham Niehard [ph] with Loeb Capital.

Unknown Analyst

I'm just calling on the deal front. I'm just wondering, if there is sort of any updates in terms of the regulatory approval front and just timeline in general?

Thomas S. Gayner
Co-CEO & Director

Kind of as I said earlier, we are proceeding apace with the regulatory approval. Obviously the states and the various regulatory entities you can't control their timing but things seem to be moving along nicely. And with any luck we think, we could get this done in April.

Operator

Our next question comes from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a couple of questions as it relates to the combination. On Markel investment portfolio and the equity holdings that you have, where liquidity isn't an issue, should we assume that you'll sort of gross those positions larger reflecting the larger investment portfolio that you will now be managing?

Richard Reeves Whitt
Co-CEO & Director

Yes. I don't want to imply that's going to happen, the day one after the close that will depend on as you say liquidity and relative pricing and what looks attractive to do but over the period of time that's exactly what should happen.

Ronald David Bobman
Capital Returns Management, LLC

Then I had another question on the combination sort of corporate organizational structure and what I mean is obviously you have got I presume numerous U.S. insurance entities that are capitalized that you use for different purposes and lines and I'm sure Alterra brings some number of those as well as I believe you both have a presence at Lloyd's, if I am not mistaken. I am wondering if there is much material opportunity for you to sort of streamline where capital fits in the sort of underwriting entities globally and for you to sort of more efficiently or at least to sort of extract capital out from under some of these regular entities?

Thomas S. Gayner
Co-CEO & Director

There is certainly opportunity to streamline it significantly. On day one, the goal would be to make sure we don't disrupt anything we are doing for clients. So we'll do the short-term things first and then we'll come back and start looking at the legal entity structure. But I think it's safe to assume we can over the next year or so really streamline the capital in the various companies. We don't need as many insurance companies as we will have after this deal is completed and we'll work on what's the best solution for that and make sure our people have the right paper available to write the business.

Ronald David Bobman
Capital Returns Management, LLC

How about Lloyds?

Thomas S. Gayner
Co-CEO & Director

Lloyds will have -- we'll go forward with one syndicate and one managing agent and that would be Markel Syndicate 3000.

Operator

Our next question comes from Meyer Shields with Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I apologize if this has been covered before, but can you go through I guess the progress on the FirstComp book and any reserve changes that happened in the fourth quarter?

Anne Galbraith Waleski
Executive VP & CFO

I think the book is progressing as we expected it would probably even from early days after the acquisition and there weren’t really much in the way of adjustments during the quarter.

Francis Michael Crowley
Vice Chairman

Yes they are -- this is Mike. They are absolutely executing on plan. They've really reorganized with regard to geography and where they are writing business. We have given them different targets moving them incrementally to where we want them to be and they've hit every target that we have laid out there for them and we are operating a year advanced. We have already given them their target for 2014 and they are executing on that as well. So we are very pleased with the progress they have made and what they are doing in that business.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Excellent. And I think, Mike you talked before about the more rapid conversion of THOMCO premiums onto Markel paper. Is that because THOMCO is growing faster than you expected or are you just converting it faster?

Francis Michael Crowley
Vice Chairman

We convert it faster. When we set out to do this we weren't sure of the timeframe of converting some of these programs. I guess, we'll finish converting them in 2013 so 2014 would be the first year that we have a 100% of the THOMCO business on Markel paper but we just converted a little faster. But they are growing and they did have a good year.

Operator

Our next question comes from Doug Mewhirter with SunTrust Robinson.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

I just had one question about the, I guess, the liability side especially your loss cost trends maybe in the North American business. It seems like it still a pretty benign I guess legal or judgment environment especially on your longer-tail business. I just did want to, if you had any color on that Mike just how the trend -- looks like you still have a considerable amount of favorable development. I realize a lot of that is conservatism. Is there any -- have you have seen any changes or fluctuations in the underlying drivers behind frequency of severity especially in the long-tail bonds?

Richard Reeves Whitt
Co-CEO & Director

I don’t think -- well this is Richie. I don’t think we’re seeing anything significant but trend continues to move out there although I think it’s fair to say and I think most people would say it’s probably been more benign than we would have expected over the last several years. But there clearly is some trend out there just not to the level it’s been in some historical periods. So we still need to get price increased to deal with the trend that is there and I’ll get on the soapbox a little bit and say the whole market needs some rate to continue -- the rates to continue to move to get to a good level across the various lines.

Francis Michael Crowley
Vice Chairman

And I’ll add that that we were very disciplined Gerry Albanese and his team very disciplined in getting rate in 2012 and we expect them to operate exactly the same way in 2013.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

So would it be fair to say that you are at or maybe slightly above loss cost trends with the ratings right now?

Francis Michael Crowley
Vice Chairman

Every line is going to be a little bit different, but certainly our intention is to set our pricing to be above the loss cost trends because we want to set each ones, who had underwriting profit. But each one of our products is in a different place. We've got over 100 of them and we have to do sort of portfolio management as you would expect.

Operator

[Operator Instructions] There are no further questions in queue at this time. I would like to turn the call back over to Mr. Gayner for closing comments.

Thomas S. Gayner
Co-CEO & Director

Thank you very much for joining us. We look forward to chatting with you again soon. Good bye.

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