S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

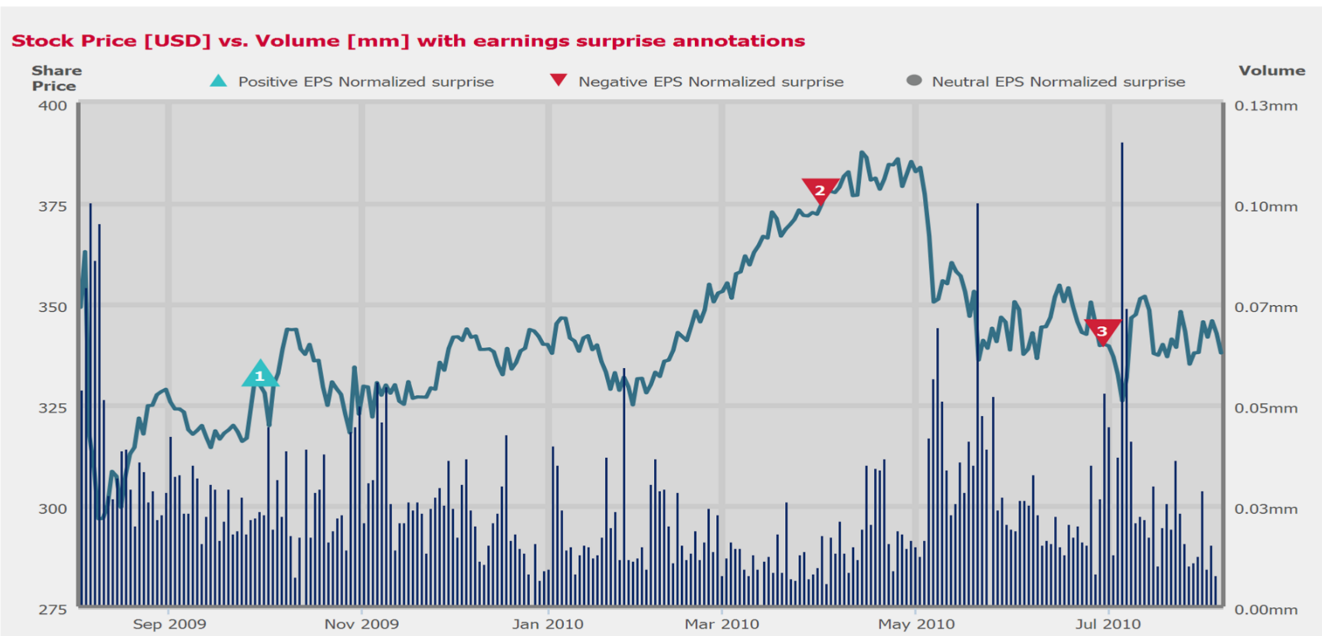
FQ3 2010 Earnings Call Transcripts

Monday, November 08, 2010 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2010-			-FQ4 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.58	5.86	▲63.69	4.05	14.31	16.09
Revenue (mm)	526.23	561.35	▲6.67	520.27	2072.59	2121.84

Currency: USD
Consensus as of Nov-08-2010 2:36 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2009	4.44	7.78	▲75.23 %
FQ4 2009	4.65	-	-
FQ1 2010	4.73	3.23	▼(31.71 %)
FQ2 2010	3.90	2.30	▼(41.03 %)

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Francis Michael Crowley
Vice Chairman

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ANALYSTS

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Beth Malone
Wunderlich Securities

David West
Davenport & Company

Gail Golightly
Wells Fargo

Jack Shirk
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John Fox
Fenimore Asset Management

John Processon
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Mark Dwelle
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Presentation

Operator

Greetings and welcome to the Markel Third Quarter 2010 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Tom Gayner, President and Chief Investment Officer. Thank you, Mr. Gayner, you may now begin.

Tom Gayner

Good morning. I am Tom Gayner and it's my privilege to welcome you to the third quarter conference call for the Markel Corporation. Let me begin by reminding you that the comments we make today are covered by the Safe Harbor provision we all know well. Specifically, during our call today, we may make forward-looking statements.

Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is described under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent Annual Report on Form 10-K and quarterly report on Form 10-Q.

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

This morning, Anne Waleski will review our year-to-date numbers; Mike Crowley and Richie Whitt will comment on our current operations and our insurance operations and then I will discuss our investments and non-insurance operations. Following our comments, we will open the floor for question-and-answer period. Steve Markel is here with us as well and will be available for the Q&A.

With that, Anne?

Anne Waleski

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

Moving right into the underwriting results, gross premium was up 3% at $1.5 billion for the first nine months of 2010. Higher gross premium volume in the London Insurance Market segment, which was due in part to our acquisition of Elliott Special Risks in late 2009, was partially offset by continuing competition across many of our product lines, particularly within the Excess and Surplus Lines segment.

For the quarter and nine months of 2010, gross written premium included approximately $19 million related to our settlement with Guaranty Bank. Net written premium was up 3% from the prior year at $1.4 billion. Retentions were flat at 90% in both periods.

Earned premiums decreased 7% compared to 2009 due to lower gross and net written premiums over the past several quarters. This decrease was partially offset by earned premium of approximately $19 million related to our settlement with Guaranty Bank.

Our combined ratio was 99% for the first nine months of 2010 compared to 97% in 2009. The increase was due to a higher current accident year loss ratio and a higher expense ratio, partially offset by more favorable development of prior year's loss reserve compared to the same period of 2009.

The combined ratio for the first nine months of 2010 includes approximately $72 million or six points of underwriting loss for two programs that were exposed to losses associated with the adverse conditions in the residential mortgage market in recent years as compared to approximately $26 million or two points of underwriting loss in the same period in 2009.

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

The 2010 current accident year loss ratio was 73% compared to 69% in 2009. The 2010 current accident year loss ratio includes approximately four points of underwriting loss for two programs that were exposed to losses associated with the adverse conditions in the residential mortgage market in recent years as compared to approximately 1 point of underwriting loss in the same period in 2009.

Favorable redundancies on prior year's loss reserves increased to $181 million or 14 points of favorable development compared to $156 million or 11 points of favorable development in 2009. The increase was primarily due to more favorable development of prior year's losses in E&S segment.

Our 2010 expense ratio increased approximately 1.41%. The increase in the expense ratio is partially the result of lower earned premiums compared to the same period last year.

Costs related for our One Markel systems project, also referred to as Atlas, represents approximately 3 points on the combined ratio for the nine months in 2010. During the third quarter of 2010, we decided to defer the implementation of certain aspects of the Atlas initiative and expensed $7.7 million of previously capitalized costs which were included in the expense ratio for the period.

Turning to our investment results, investment income was up slightly to 2009 at $201 million primarily due to having higher invested assets compared to the same period in 2009 although market yields do continue to trend downwards.

Realized gains were $22 million for the first nine months of 2010 as compared to realized losses of $100 million in 2009. The majority of the 2009 losses related to write-downs for other than temporary declines in the fair value of equity and fixed securities.

Unrealized gains increased $327 million before tax in 2010 due to increases in the fixed income and equity securities. Tom will go into further details on investments in his comments.

Looking at our total results for the first nine months of 2010, we reported net income to shareholders of $127 million compared to $108 million from 2009. Book value per share increased 11% to approximately $315 per share at September 30, 2010.

Turning to cash flow and the balance sheet, I will make a few comments. Regarding cash flow, operating cash flow was $173 million in 2010 compared to operating cash flows of $219 million in 2009. In 2009, net cash provided by operating activities included the receipt of $34 million related to our 2008 federal income tax refunds.

Investments and cash held at the holding company were approximately $900 million at September 30 as compared to a little more than $1 billion at December 31, 2009. The decrease from year end is primarily due to the holding company funding stock repurchases and interest payments on debt.

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

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. The third quarter at North America for both Wholesale and Specialty divisions continue to present the same challenges that we have experienced in preceding two quarters with regards to rates and the economic effect on exposure basis. However, from a loss and expense perspective, the third quarter saw significant improvement.

In reviewing the two business segments, I would like to highlight a few key points in both the wholesale and specialty operations. First in our wholesale operations, we made several key appointments in the quarter. John Latham was appointed the President of the Wholesale Division. John has 37 years industry experience and has been with Markel for over eight years.

Steve Girard was appointed Executive Vice President of the Southeast region and will lead that operation going forward. Steve has 25 years experience in the industry.

Sarah Gavlick was appointed Executive Vice President of the Northeast region and will lead that operation. Sarah has over 20 years experience in the industry.

Now, that Sarah and Steve have assumed the leadership positions in the Northeast and the Southeast, we feel we have terrific leadership in all five of our wholesale regions positioning Markel for strong growth now and in 2011.

In addition, Wendy Houser was appointed Head of the Wholesale division's newly formed Marketing department. This will complement our regional marketing capability. Wendy was formally Director of Marketing for our Mid-South region.

During the quarter, we hosted special events for key agents in each region of the country. Launched the initial programs for new transportation and management liability product and conducted follow-up meetings with our bonding agents. We're receiving positive feedback from these agents regarding our structure, our service and their broader access to our products.

We're now well staffed with an appropriate level of expertise in each region for every product line. These and other actions resulted in an increase in submission activity in all regions ranking from 13% to 30%. However, converting these submissions to new business remains a challenge due to market conditions but the flow of submissions is extremely encouraging.

We continue to believe that we're benefiting from the one Markel strategy and our agents are confirming that. We are being much more proactive in soliciting business and we believe our broad product offerings in the E&S segment can be further leveraged in our new structure to gain market share.

Finally, we are continually reviewing our agency appointments and are replacing dormant relationships with new ones that involve commitments to certain levels of production.

In our Specialty division we also added new talent. We hired a team in our Accident and Health division to create a stop-loss in excess medical reinsurance facility.

Steve Donnelly, Paul Skrtich, Lynn Stoner and Stewart Riley [ph] joined in the third quarter bringing years of underwriting sales skills to Markel. This team includes experienced actuarial underwriting and business development talents.

We also filled the position of Marketing Director at Markel American Insurance Company. Ted Wentzel joined Markel with 20 years experience in marketing and brand management.

A very significant development is the acquisition of Aspen FirstComp. This acquisition closed after the end of the quarter but it's worth discussing because the talent, technology and leadership that is now part of Markel.

Aspen FirstComp is a workers' compensation underwriting company, with smaller, carefully selected risk. Our initial focus with Aspen FirstComp is to provide the support for them to continue growing their business, but clearly down the road, we see great cross-selling opportunities.

In addition, during the quarter, we announced the acquisition of an American Live Stock book of business and closed that acquisition on October 1.

Keeping pace with new methods of distribution, we also took Markel Motorcycle and Markel Boat products live on Facebook. Throughout the Specialty division, we continued to emphasize the importance of being front and center with our agents. Our business development specialists have made over 600 face-to-face visits with our agents year-to-date.

Our senior executives in Specialty division continue with their efforts with larger regional and national brokers to develop meaningful relationship for our specialty products, focusing on those agents with significant revenues that meet our criteria.

During the quarter, policy retention and submission counts were up at our carry alliance operation at Markel Insurance Company, policy retention was down slightly, premium retention was up slightly, and submissions were up 21%.

At Markel America Insurance Company, policy retention was up, written premium was down at the marine and recreational vehicle segment, which is understandable in this economy.

Gross written premium for the Specialty segment was up 8.4% due primarily to the additional of carry alliance operation and Cambridge to the Specialty division and the Agri Risk acquisition completed last year. Without those items same-store volume would have been flat.

Finally, our product line group headed by Gerry Albanese contributed to our optimism for the future by adding significant new talent as well. Ryan Borton [ph] joined Markel as Managing Director of Crisis Management after 17 years with American International Group. Christopher Clark joined as Senior Underwriter Public Entity, Mike Graham [ph] joined as Director of Access Auto [ph].

The PLL Group launched three household product lines. I have already mentioned demand for the liability and transportation products launches in the wholesale report in addition the PLL Group lost and enhanced property offering during the quarter.

In summary, while we continue to face these dawning challenges of the soft market and exposure based reductions due to the economy, we are happy that the initiatives we've taken to strength the wholesale, specialty, and product line leadership divisions will position us for continued success in the future.

I'll now turn the call over to Richie Whitt, President and Co-Chief Operating Officer.

Richard Reeves Whitt
Co-CEO & Director

Thank you Mike, and good morning everyone. I'm going to keep my comments brief today. Our international operations continued to have a good year despite the difficult operating conditions that Mike mentioned. There is no need in going back through that. It's pretty much the same around the world.

Premium volume was up about 13% for the first nine months, that was primarily due to our 2009 acquisition of Elliott Special Risks and that's continuing to come online, it was also due to conditions in the marine, energy and liability market post the Deepwater Horizon loss earlier this year. At Elliott Special Risks, Mario Sousa and the team has done a wonderful job transitioning from an MGA to the insurance company environment.

Business retention has been very good and we are focused on ways to continue to grow our franchise in the Canadian market. Just as an aside, we are holding receptions in Toronto, in Montreal this week to celebrate with our associates and business partners the one year anniversary of the acquisition, things are going just fantastic there right now.

On the marine division, the energy and liability market is firmed considerably post the deepwater horizon loss earlier in the year and our writings have increased approximately $12 million largely as a result. This may be the only hardening portion of the property casualty market at the moment. The nature of the loss has to some extent changed the way people are thinking about these types of risks. Organizations are purchasing additional limits and underwriters are reconsidering their evaluation of these types of exposures.

Our branch offices in Spain, Singapore and Sweden continue to grow and we will be opening a Barcelona office before the end of the year. In addition, our trade credit team, our e-client team and our accident and health team, all of which are relatively new to some extent or another, continue to progress nicely.

All of our underwritings divisions continue to work extremely hard to grow their business profitably, but as Mike was saying it's an extremely tough market and all of our underwriters know that our first priority is always going to be underwriting profitability.

Mike mentioned, the many talented people that have stepped up or have joined Markel in our U.S. operations, we're doing the same things on the international side. One and possibly the only good thing about a competitive insurance market in a tough economy is that it's a great time to invest in talented people.

We always try to take a long term view at Markel and we continue to add individuals and team so they can help move our franchise forward. We've recently added several strong individuals in our open market and delegated property division and have added a talented individual in Hong Kong to represent us in that region.

Despite the difficult market conditions, we're having a good year and continue to build our product portfolio (inaudible) on the international side.

At this point, I'll turn it over to Tom to discuss investments in the non-insurance operations.

Tom Gayner

Thank you, Richie. As my colleagues have said earlier, we've got some pretty good news to report on Markel these days, with a new record high book value per share of $314 plus. While we look forward to this quarterly ritual of showing our recent results with you, quarters are not what we focus on in Markel. This is the company that has been built by generations and looks forward to generations to come.

We're focused on long term results rather than quarter-by quarter-fluctuations. One reasonable shorter term measurement we track is our performance over rolling five year periods.

Over the last five years, the compound growth in our book value stands at over 12.5%. That number fully included the effects of the financial market (inaudible) in the recent years, a relentlessly soft insurance market, recessionary economic conditions and the distracting but necessary reorganization of our business and systems to the One Markel structure.

Going forward, for the change, and by change, I mean increase in book value will continue to be important and directionally correct. The growth in our non-insurance operations should allow us to increase the intrinsic value of the company at a greater rate than the reported change in book value.

During 2010, so far, I'm glad to report that our investment operations contributed to our outstanding financial results. In the first nine months of 2010, the total investment return was 7.7% in local currency and 7.5% after foreign exchange effects.

We were up 11.5% in our equity portfolio and 7% in our fixed income portfolio. I'm pleased with those results and I hope you are as well.

On the fixed income side, we remain as we have for some time a little short on our duration with that statistic at roughly 3.5 years. We remain concerned about the possibility of a meaningfully higher interest environment and we will stay short until those series subside or we have higher interest rate, long-term securities in which to invest. This creates an opportunity cost today where we are giving up some current income. I believe it is the right thing to do to protect our balance sheet against the rising interest rate and we will continue to maintain this posture. We also continue to earn the highest credit quality securities that we can find.

On the equity side, we earned 11.5% on our equity portfolio during the first nine months. Here too, the message over the last several years has been consistent. We own the portfolio of high quality global leaders with great balance sheets and financial performance.

One of the great advantages of pursuing this strategy for the last several years is if the market didn't seem to care about the quality of individual securities and we have been able to accumulate these shares at low valuations. While they're beginning to appreciate, we think there is a long way to go.

Quality, global power houses remained fundamentally attractive to us and we continue to steadily add these to the portfolio. So far this year, the percentage of our shareholders' equity invested in equities has increased from 48% to 52%. We continue to modestly and steadily increase our equity win. We will continue to increase this percentage as we see investment opportunities coupled with increases in premium lives.

Finally, this segues to my last comment. We continue to allocate capital and grow our Markel Ventures subsidiaries. On the income statement, you can see that other revenues totaled $125 million in the first nine months as compared to $58 million in the first nine months of 2009. Other expenses were $109 million as compared to $52 million.

We continued to expand our equity investment activities to include purchasing controlling interest in various companies. The companies are all on track to produce double-digit cash flow margins and double-digit returns on the capital reinvestment. We are pleased with the results so far and we continue to actively pursue opportunities in this area.

Looking back 20 plus years ago, Markel largely was in a position where we could allocate our capital to insurance opportunities within the U.S. Around 10 years ago, we increased the scope of our operations through invest in insurance opportunities around the world. Now, we can allocate capital and invest in any industry anywhere in the world. That's a big runway and an exciting catch for this company.

Through all of those eras and changes, the shareholders of this company have earned outstanding returns as the value of Markel continued to compound at attractive rates. We are all excited about the opportunity to continue to do this and we now look forward to your questions.
Operator, would you be so kind as to open the floor for questions?

Question and Answer

Operator

Thank you. (Operator instructions) Our first question is coming from Liz Malone of Wunderlich Securities.

Beth Malone
Wunderlich Securities

Hey, good morning. Thank you. Congratulations on the quarter. Couple of questions. On the medical stop-loss team that you acquired, where did they come from?

Tom Gayner

They were independents. They got affiliated with several other companies and they're out on their own at that point.

Beth Malone
Wunderlich Securities

So they were like an MGA or broker?

Tom Gayner

Yes. That' right.

Beth Malone
Wunderlich Securities

And then on the two programs that you all saw adverse development the cost of $76 million I think I understood it, could you give us a little more color on what that was, was it banks or trusts or what were the losses exactly?

Richard Reeves Whitt
Co-CEO & Director

Two programs really. One was a program where we provided I guess you would call it portfolio coverage for loans to banks and credit unions, and so to covered potential credit losses in those portfolios, the policies were retrospectively rated, so the rates changed as the performance change and that was the Guaranty Bank situation that we resolved this quarter. That was in that program. The other program would basically an errors and omissions program for companies that provided services to mortgage brokers or other people within the origination of mortgage loans that was an errors and omissions program.

Beth Malone
Wunderlich Securities

Was it at all affiliated with this latest thing about mortgages, the foreclosed properties being improperly?

Francis Michael Crowley
Vice Chairman

No. it has nothing to do with that. This is sort of predates all of that mess, where they are having difficulty, the paperwork sounds like its rather messy and who owns the properties and so forth, and difficulties in foreclosing. This has nothing to do with that.

Beth Malone
Wunderlich Securities

I'll ask one more question and get back in queue, but I have to know what did you mean by Facebook, marketing on Facebook?

Francis Michael Crowley
Vice Chairman

Well, our Markel American people are testing different methods of distribution to see what kind of the responses we got. We market products at Markel American on a direct basis to consumer (inaudible) and so they've opened up access to Markel American on Facebook just to see what kind of response we might get from the public to develop an opportunity to market that way in addition to the way we market now directly through the Internet. We're just testing the distribution.

Beth Malone
Wunderlich Securities

Okay. All right. Thank you. I'll get back in queue.

Operator

Thank you. Our next question is coming from Jack Shirk of SunTrust.

Jack Shirk
SunTrust

Thank you very much. The $18.8 million in revenue recognized on the gross line for the Guaranty Bank, is that all this quarter?

Richard Reeves Whitt
Co-CEO & Director

Yes, that was all in the quarter.

Jack Shirk
SunTrust

I don't know if you have it, but do you have any idea of how much Elliot Special Risks contributed to gross in the quarter?

Richard Reeves Whitt
Co-CEO & Director

We have that. Just shuffling the paper for a moment.

Anne Waleski

$18 million in the quarter.

Jack Shirk
SunTrust

And then just shifting gears to Aspen. What's your outlook there for pricing for workers' comp next year and just kind of your thoughts there on recent loss trends with some of the other workers' comp here reporting more current accident year loss than (inaudible)?

Francis Michael Crowley
Vice Chairman

The market there remains competitive like all property, casualty lines and we're looking at that now. Aspen is in the process of developing their business plans for 2011 and in doing so they'll be working with the Markel actuaries as well as their own to determine what approach we'll take to pricing. We haven't finalized that yet.

Richard Reeves Whitt
Co-CEO & Director

Jack, I'll just add to that. It’s safe to say, at Markel, we try to be more likely redundant and deficient, and so we understand what the workers' comp market looks like and it looks a lot like our other markets and we're going to use an abundance of caution on those reserving and pricing to make sure we get it as right as we can.

Jack Shirk
SunTrust

Right. Thanks very much.

Francis Michael Crowley
Vice Chairman

Thank you, Jack.

Operator

Our next question is coming from John Fox with Fenimore Asset Management

John Fox
Fenimore Asset Management

Hi, good morning, everyone. I have a couple of questions. Number one, following-up on Aspen, you've disclosed kind of a $300 million in premium. Do you have a sense at this point, how much of that you guys might write next year in 2011?

Tom Gayner

We really, don't yet, John. Obviously, we're making (inaudible) around country to transition some of that business to Markel paper. It's hard to say at this point.

John Fox
Fenimore Asset Management

I think in your comments, you mentioned acquisition that closed October 1, which I think I missed. Can you repeat that please?

Tom Gayner

It was a small bulk of mortality business that we acquired from American Live Stock.

John Fox
Fenimore Asset Management

It was pretty small in terms of written premium?

Tom Gayner

In the range of $7 million to $8 million.

John Fox
Fenimore Asset Management

For Anne, you mentioned the expenses that have been capitalized and then recognized this quarter. So, should we think about the run rate of expenses excluding that or what's the right way to think about expenses going forward?

Anne Waleski

I think that you should think about the run rate of expenses excluding that going forward. We will make determinations on the deferred work streams as time passes, but right now our intention is to achieve the objectives that we originally intended over a longer period of time.

John Fox

Fenimore Asset Management

For Tom Gayner, if a bond matures today, Tom, what are you doing with new money in the fixed income portfolio given your strategy of stay insured?

Tom Gayner

The first thing, we've done (inaudible) any cash and we won't automatically push it out without some sort of conscious thought as to whether we have an attractive investment idea or not. The biggest single change categorically over the last couple of years really has been the growth in the muni portfolio, so that would sort of be the most likely destination.

John Fox
Fenimore Asset Management

Okay, thank you.

Operator

Thank you. Our next question is coming from Meyer Shields with Stifel Nicolaus.

Meyer Shields
Stifel Nicolaus

Thanks. Let me start with one technical question. The $13 million of losses associated with the mortgage servicing companies, was that accident year 2010?

Richard Reeves Whitt
Co-CEO & Director

I'm struggling with the number you came up with.

Anne Waleski

I am having a hard time with that too.

Richard Reeves Whitt
Co-CEO & Director

The problem you are going to have a little, Meyer, is it's not all occurring. It's split between current and prior accident years. It would be a lot cleaner if it were in one or the other, but it's split between the two. In Anne's comments what we tried to do is give you how much was current accident year and Anne, can you just kind of go back to that?

Anne Waleski

Yes. Current accident year has four points relative to one point in the prior periods.

Richard Reeves Whitt
Co-CEO & Director

I was going to say it's somewhere in the document I think we gave you what the total amounts were for that programs and you kind of back into it the four points of its in the current accident year.

Meyer Shields
Stifel Nicolaus

That 1 point to prior years, that's the number from a year ago that's not the current estimation of accident year '09, is that correct?

Anne Waleski

That's correct.

Meyer Shields
Stifel Nicolaus

Second question. I think a lot of the reserve releases we saw in Excess and Surplus Lines segment reflected lower severity. Are you seeing anything on the frequency trends, I guess coming litigation anything changing there?

Tom Gayner

I don't have any our Chief Actuarial here with us, but I don't think we are seeing significant changes in frequency, but what we are seeing is clearly in our triangles the decrease in pricing is showing up. I mean there is no question that the business is going on the books in 2010 isn't quite as good as the business in '09 and that's just primarily the fact that the pricing isn't as good. Frequency is no terrible differences, we were concerned about what an impact of a recessionary economy would have on the frequency of losses. There may be some but it's not as bad as we were fearing certainly.

Meyer Shields
Stifel Nicolaus

Given the election results from last week, should we expect a new bill (inaudible) for the foreseeable future? New bill with regard to affiliate reinsurance from the taxes?

Richard Reeves Whitt
Co-CEO & Director

We really don't know.

Meyer Shields
Stifel Nicolaus

They did not have that specific question on the ballet in Henrico County, Virginia.

Richard Reeves Whitt
Co-CEO & Director

No. With the changing Congress who the heck knows what's going to happen.

Meyer Shields
Stifel Nicolaus

Fair enough. Thanks a lot, guys.

Richard Reeves Whitt
Co-CEO & Director

Thank you.

Operator

Our next question is coming from Amit Kumar of Macquarie.

Amit Kumar
Macquarie

Good morning and thanks. Two questions. First of all, just going back to Beth's question, in terms of these programs that you had on financial institutions and other E&O cover, are there any similar programs which are still under book? Or is all of this in run up? I guess what I'm trying to ask is, is there any future potential exposure from these issues?

Richard Reeves Whitt
Co-CEO & Director

Amit, these are really the only programs of any magnitude. I mean, as an example we wrote some real estate brokers, but we wrote very little of it. So that could be considered sort of in the neighborhood of these things, but these are really the big ones on the book, both of them were in run off.

In terms of the universal program, which is where the guarantee banks settlement emanated from that program is sort of towards the end I believe. The other program, the airs and emissions program, we only cancelled that earlier this year and so I'd have to say there is still potential there that we clearly are putting up the best reserves we can, but we're still gathering information. We're still getting in claims and we still have to evaluate it.

Amit Kumar
Macquarie

What portion of policy limits have these been reserved up to?

Richard Reeves Whitt
Co-CEO & Director

Well, policy limits could be in the hundreds of millions, I mean that's not how these things work. We're getting into claims. The claims are coming in from the '07 and the '08 year. You would think you're starting to see the majority of the claims at this point. So, I think we're getting through seeing the claims then, then it's a matter of accessing the exposure on each of the claims and coming up to settlements with the policyholders. So I don't think you can look at it as what percent of policy win it. So that could be a gigantic number, but I don't believe that's a measure of the potential on this.

Amit Kumar
Macquarie

But net-net, what you're saying is that even if there is future adverse development based on the information you have today, it's not going to be a meaningful amount. Is that fair?

Richard Reeves Whitt
Co-CEO & Director

Meaningful, material, those are delicate words. This thing could still move out, there is no question, but we don't think it's an end of the world scenario. I think that's the best I can say today. There's still potential. The mortgage crisis sorts of issues are in the paper everyday and so it's at the forefront of people's minds. But we're handling the claims on it. We're doing our due diligence on it just like we do in any other products line. And we feel as good as we can with the knowledge we have today about our reserves.

Amit Kumar
Macquarie

On Aspen deal, in your 10-Q there is a sentence which mentions that based on current expectations, you don't expect any contingent consideration to be paid and prior to that it mentions that was based on the development of Aspen's loss reserves. I'm just wondering, was there a detailed analysis which was done recently or is did something change on Aspen's loss reserves?

Tom Gayner

Nothing really changed. It's just really the contingent feature was a way to sort of bridge price expectations between the sellers and us as the buyers. The biggest thing that drove the difference in terms of that price expectation was their optimism in terms of where the reserves would ultimately end up and our conservatism on where those reserves would ultimately end up. We just simply believe that our conservative posture on those reserves is the more likely answer. If that is where they ultimately end up there will not be additional purchase price paid.

Amit Kumar
Macquarie

Did you conservatism cancel out their optimism?

Tom Gayner

I'd just say, they pegged those reserves at a different place than we did. Our position would suggest the reserves from December of last year end which is the point this is calculated off of, will develop unfavorably. Their position is they will develop favorably. We hope they are right, but just given what we know, given what actuaries have looked at, we believe there is a potential that those reserves developed slightly unfavorably from that position a year ago.

Amit Kumar
Macquarie

Got it. Okay, this is very helpful. Thanks.

Operator

Thank you. Our next question is coming from Mark Dwelle of RBC Capital Markets.

Mark Dwelle
RBC Capital Markets

Yes, good morning. I guess follow-on on the topic of FirstComp. Let me ask couple other questions along these lines. Was the net to gross premium retention for that business be significantly different? You guys have normally retained sort of 90% plus. I appreciate there is probably some contracts that would need to roll over first, but how will that look in the near-term and then further out?

Richard Reeves Whitt
Co-CEO & Director

As Mike was saying earlier, we haven't really finished the plan for next year, but one thing I can tell you is, I think FirstComp was keeping $130 million, $140 million of the $300 million. So assuming that the book stays about the same size, $300 million, we would have a $140 million on Markel next year.

Obviously, we are looking at whether we can take more of that business and that's where the filing issues and all come in to play Mark, but obviously we will try to move that along and take more of that business. I would say and just based on what we have seen so far reinsurance spend 10% is a reasonable assumption, and maybe is a little bit high, and so 90% or so retention on the business going forward appears reasonable.

Mark Dwelle
RBC Capital Markets

Short turn though until you make those determinations, whatever amount it's written, it's going to be a fairly low retention rate?

Richard Reeves Whitt
Co-CEO & Director

Well, keep in mind the business that is MGA business never goes through our gross written and so that number is kind of off to the side at the moment. Once we start writing it on Markel paper either in FirstComp or one of our other insurance companies then it will become growth written. So really we're talking about turning some of that $160 million or $70 million of MGA business today into risk retained business as we go through the next year or so.

Mark Dwelle
RBC Capital Markets

Again, just using kind of the raw numbers, of the $130 million, you'd be retaining most of that premium on a net basis. The question that evolves or that will be discovered is what portion of the MGA business comes on and when it comes on, it will come on at a relatively high retention rate is a good paraphrase of your comments?

Richard Reeves Whitt

Co-CEO & Director

Yes. Probably a very similar retention rate.

Mark Dwelle
RBC Capital Markets

Okay. That's helpful. A question for Tom related to the assets that you're inheriting from FirstComp, is it the sort of stuff that you normally like to invest in or is that some portfolio that you'll need to kind of turnover and reposition?

Tom Gayner

Well, yes we've experienced with both types, so in the turnover deal we turn that portfolio over almost instantaneously. The great thing about Aspen is, there a wonderful cultural fit on the investment side as well as the insurance side, happen to be headquartered in Omaha, Nebraska, where one has a very good role model for how you should invest.

Mark Dwelle
RBC Capital Markets

I'll take that as a, 'not a much change necessary' comment. Finally, there were some remarks in the Q related to the charge off you took of capitalized work on One Markel and some program changes that you're contemplating there. Should we take from those comments that heading into 2011, we won't be seeing kind of 2 to 3 point reduction in expense ratio that might have otherwise been anticipated?

Richard Reeves Whitt
Co-CEO & Director

The changes we made in terms of the Atlas project, we really look forward at it and we did them to sort of mitigate risk. Obviously, one has to be mindful of the cost and obviously, pushing as hard as we were on so many fronts, has a big impact on our organization. So we looked at all that and said we'd be better off spending our time in some very focused areas over the next year or 18 months. So we're focusing on two to three areas very hard right now in terms of our initiatives, I'll call them IT initiatives, but they are business process IT initiatives.

Next year spend, while we haven't finished the budget, it's going to look somewhat similar to this year, but I just want to make sure you know, we have not finished up budget at this point, but just looking at the two to three items that we're really focused on right now, the spend on those could be very similar to what we've looked at this year before considering that write-off. The write-off really represented the fact some of the things that we're deferring we're going to making decisions on later, depending on how long you wait, you've the question whether you need to go ahead and expense those and so I think the better answer was go ahead and expense those items in the quarter.

Mark Dwelle
RBC Capital Markets

I'm sure it comes through the P&L one way or another sooner or later?

Richard Reeves Whitt
Co-CEO & Director

Yes. Sooner is usually better.

Mark Dwelle
RBC Capital Markets

Okay. That's all my questions. Thanks.

Operator

Thank you. Our next question is coming from Beth Malone with Wunderlich Securities.

Beth Malone
Wunderlich Securities

Hey, just a follow-up or two. On the equity performance, what was it in just the third quarter? I know you gave it to us for the nine months?

Richard Reeves Whitt
Co-CEO & Director

I don't remember but that was good.

Beth Malone
Wunderlich Securities

You don't calculate it quarterly?

Francis Michael Crowley
Vice Chairman

We are keeping with our culture. We'll do the math, but we just don't provide that.

Beth Malone
Wunderlich Securities

So, you don't provide that. And then just another question, on the reserve development, the payroll reserve development in 2010 on the London business, the international, that's where a majority of it was recorded. I'm wondering is this as a consequence of when the first part of this decade when you had first acquired that business and were restructuring it and then the loss and combined ratios were higher on average than they are today, was that where this reserve development is coming from?

Richard Reeves Whitt
Co-CEO & Director

Beth, Richie again. In a sense, yes, but in a sense that until we knew where those early years were really going to end up, we were being also very conservative and some of what you might refer to as the hard market years, five, six, seven, eight sort of years. That's really where most of this came from and it was because we were probably a little snake bit, if you will, from the years that preceded that and we were probably a little bit heavy handed in terms of how we looked at those years and so we really knew where things were going to be end up. So, now we're starting to see the other side of that that those years have turned out very well and we're taking those numbers down.

Beth Malone
Wunderlich Securities

And then one last question on the expense ratio. As you mentioned, it was a little elevated in each of the divisions and part of that was due to the top line is less. But is part of it still part of the restructuring? I know you mentioned the Atlas contributed, but how important is the Atlas to that number. Is it elevated by 100 basis points to 200 basis points or should we anticipate that if the top line doesn't change, should we anticipate that the expense ratio should come down in future quarters?

Richard Reeves Whitt
Co-CEO & Director

I guess in the quarter we had the write-off which was $7.7 million, so that's sort of a little above run rate, I guess, you would say the $7.7 million, but the other was sort of normal spending on the projects that we had in motion right now.

Beth Malone
Wunderlich Securities

So it should come down because you don't have the $7.7 million?

Richard Reeves Whitt
Co-CEO & Director

Yes. I think it's in the two point range and once we get through our budgets we will have a better sense of what that looks like next year. I don't think it's more than that next year, but I also am not particularly comfortable saying it's a whole lot less.

Beth Malone
Wunderlich Securities

Could it remain somewhat elevated compared to the historic just because you are adding so many underwriting teams and recruiting talent in this opportunistic timeframe?

Francis Michael Crowley
Vice Chairman

We are adding talent and we are recruiting teams, but at the same time on the other hand, we are really exercising a very high level of scrutiny on headcount both open and replacement positions, and so I wouldn't necessarily conclude that because we've added this talent that we are greatly increasingly our headcount.

Beth Malone
Wunderlich Securities

Okay. All right. Thank you.

Operator

Thank you. Our next question is coming from John Procession [ph] of Moore Asset Management.

John Procession
Moore Asset Management

Yes, most of my follow-ups were answered, but for Tom Gayner, could you just talk about the environment for acquisitions, not public equities but private companies? What's your activity level, what is the mode of the sellers and just give us a general update there?

Tom Gayner

Yes. The general update would be that we're continuing to work pretty intensely in that arena. So the flow is pretty good, our phone rings, we see a lot of things and I would be optimistic that we will continue to add some companies to the Markel Ventures fold.

John Procession
Moore Asset Management

Okay, thank you.

Operator

Thank you. Our next question is from Jack Shirk of SunTrust.

Jack Shirk
SunTrust

Thank you very much. Just a quick follow-up, you mentioned that in Markel Insurance Company's submissions during the quarter were up 21%, do you have what the numbers was for 2Q?

Richard Reeves Whitt
Co-CEO & Director

No. It was submissions not commissions. I don't have it in front of me, right now, but that's been up all year.

Jack Shirk
SunTrust

Do you have a gut feel or feeling that 21% was better than what you saw in 2Q?

Richard Reeves Whitt
Co-CEO & Director

It might have been slightly better, yes.

Jack Shirk
SunTrust

Okay, thank you.

Operator

Thank you. Our next question is from Gail Golightly with Wells Fargo.

Gail Golightly
Wells Fargo

Thank you. When we look at this 32.9 loss was any of that previously reserved?

Richard Reeves Whitt
Co-CEO & Director

What is the 32.9, Gail?

Gail Golightly
Wells Fargo

The two losses in the E&O, the Guaranty Bank in the mortgage services.

Richard Reeves Whitt
Co-CEO & Director

I mean that was the increase in those programs in the quarter. Obviously, we were holding reserves previous to that. The settlement required us to increase reserves that we'd had some numbers on that previously and the errors and emissions program as we learned more and as the claims come in and we assess them, we get better information. We're better able to refine our estimates. So, yes, they were reserve on the books and these were increases to those.

Gail Golightly
Wells Fargo

So none of the release in the E&O segment was related to these programs, that was the incremental loss?

Richard Reeves Whitt
Co-CEO & Director

Right. Releases were in our other programs and they were in the areas that we've talked about, for the last several years, primarily the professional liability book of businesses has been very good and we've got a lot of nice releases out of it.

Gail Golightly
Wells Fargo

What's liquidity like at the holding company?

Anne Waleski

Liquidity at the holding company, cash and investment at the holding company at the end of the third quarter was about $900 million, down from about $1 billion at the end of the year, mostly related to share repurchases and interest payments.

Gail Golightly
Wells Fargo

Okay, thank you.

Operator

Our next question is from Matt Rohrmann of KBW.

Matt Rohrmann
KBW

Mike, I think you mentioned you were reviewing your agency force over the course of the year. Year-to-date, how many agents have you added and how many have you cut?

Francis Michael Crowley
Vice Chairman

I don't have that number in front of me right now, but what we're doing is we're really looking at our agency plan and where we have agents that have been nonperforming. Where we have appointments but we had little or no upside growth and very little business on the book, we're going back to them and either calling them and replacing them with stronger performing opportunities or put them on probation, that subject to volume increases, they could be terminated, but I don't have the numbers in front of me.

Matt Rohrmann
KBW

So is it net down for the years, would you guess?

Francis Michael Crowley
Vice Chairman

I wouldn't necessarily say that. No.

Matt Rohrmann
KBW

All right. Thank you, guys.

Operator

Thank you. Our next question is from Peter Zeus [ph] of Surveyor Capital.

Peter Zeus
Surveyor Capital

Yes, hey, guys. Just wanted to touch on the revenue that's not in the soft market right now, which is the other revenue line item. I noticed that grew $12 million sequentially and I guess, if you could just give some color as to what drove that? I think you did an acquisition in the second quarter, but are those businesses growing organically as well?

Francis Michael Crowley
Vice Chairman

Yes, just coming into the stream of our revenues. I don't recall meaningful acquisition during the second quarter. We added a little sovereign, which is part of AMF.

Peter Zeus
Surveyor Capital

I think that was a manufacturer of food processing equipment?

Francis Michael Crowley
Vice Chairman

That will be the sovereign coming, which is small division part of AMF. The larger of that just represents the ramp up of those companies and their ownership by Markel through that time.

Peter Zeus
Surveyor Capital

Is $49 million kind of a reasonable run rate going forward and just generally speaking how much are these businesses growing on an organic basis?

Francis Michael Crowley
Vice Chairman

I would say that this $49 million is a reasonable run rate for what they're doing in the companies that we own right now, either businesses that don't have massive organic growth rates, modest growth rates, but not that they require any capital to sort of grow the way they are. So, they are cash generating businesses which give us options to either reinvest in those businesses or use that cash elsewhere.

Peter Zeus
Surveyor Capital

The margins for these businesses in the quarter expanded about 5% to 15%. Was there anything unique in the quarter that caused that?

Francis Michael Crowley
Vice Chairman

Not really, just some modest seasonality as it's one of the small subsidiary, (inaudible) too much to that.

Peter Zeus
Surveyor Capital

But is that kind of a new run rate as well (inaudible) revenue?

Francis Michael Crowley
Vice Chairman

No.

Peter Zeus
Surveyor Capital

It's not.

Francis Michael Crowley
Vice Chairman

Correct.

Peter Zeus
Surveyor Capital

Finally just non-consolidated investments. I guess I don't have any numbers in front of me, but if you could just give some color as to how much those investments are adding to book value on a year-to-date basis because they don't run through the income statement correct?

Francis Michael Crowley
Vice Chairman

I think that would be captured in the change in unrealized.

Peter Zeus
Surveyor Capital

Those both AOTI [ph]. How much have they added on a year-to-date basis?

Francis Michael Crowley
Vice Chairman

I'm not sure that I am exactly answering the questions. Perhaps if you call me after the call I'll make sure that I am answering exactly the questions that you are asking.

Peter Zeus
Surveyor Capital

Okay. Sounds good, thank you.

Operator

Thank you. Our next question is from David West with Davenport & Company.

David West
Davenport & Company

Good morning. I guess the question for Tom kind of a follow-up there on Markel Ventures. ParkLand Ventures has been something you pretty steadily expanded; I think it's probably the largest of the venture operations currently. Could you talk a little bit about its recent results and the prospects for expansion there?

Tom Gayner

Yes. We don't really talk about any of the businesses individually. It would not be the largest by revenues. It's one of the largest by balance sheet because you have more capital committed to that business. ParkLand has doubled the number of parks in its operations this year and they do have a lot of opportunities, so I would expect that continued pretty healthy growth at ParkLand for the indefinite future.

David West
Davenport & Company

Thanks.

Operator

(Operator instructions) Our next question is coming from Raymond Iardella of Oppenheimer.

Raymond Iardella
Oppenheimer

Thanks. Good morning. Just wondering if you guys could give maybe a quick update on the Italian and now the Australian construction both, is there any movement in the reserves in the quarter?

Anne Waleski

There was no movement in the reserves in the quarter.

Richard Reeves Whitt
Co-CEO & Director

There are no movements in that. Both of those programs are discontinued. It's a lot like the two mortgage-related programs. You can't say there are done and gone because you're still seeing claims come in and you still have to assess what their potential is, but both are in run-off today and we continue to look at them and we always try to put the best number we can on them.

Raymond Iardella
Oppenheimer

And then I guess on Aspen, I was wondering did you guys mention the amount of goodwill you guys kind of anticipate I guess looking with that transaction?

Richard Reeves Whitt
Co-CEO & Director

We have not, yes that's true, we still have to do valuations and all that and then it has to be allocated to the various category, so that's not done yet. In fourth quarter, that will obviously.

Raymond Iardella
Oppenheimer

Any rough idea or did you guys do I guess an updated study on or I guess both doing do an updated book value calculation for Aspen?

Richard Reeves Whitt
Co-CEO & Director

I'd prefer to wait until we get our final numbers.

Raymond Iardella
Oppenheimer

And then I guess, lastly, on the share repurchases in the quarter, did that have more to do I guess just with the options granted in the Aspen transaction or is there something different I guess about your thoughts on repurchases during the quarter?

Richard Reeves Whitt
Co-CEO & Director

That's not connected to the Aspen options at all our independent view of the value of Markel stock liquidity and cash around here.

Raymond Iardella
Oppenheimer

Okay. All right. Thanks.

Operator

Thank you. There are no further questions at this time. I'd like to hand the floor back over to management for any closing comments.

Tom Gayner

Thank you very much for joining us. We look forward to seeing you and speaking with you again soon. Thanks so much.

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