S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

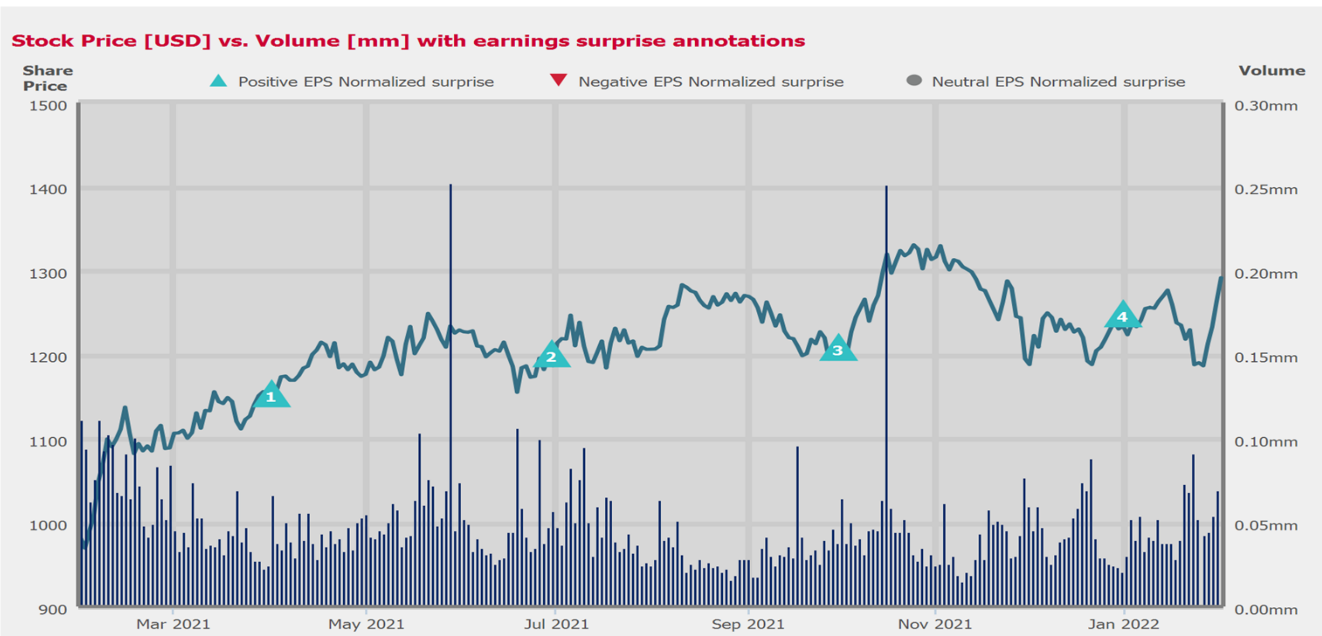
FQ4 2021 Earnings Call Transcripts

Thursday, February 03, 2022 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	16.10	17.01	▲5.59	17.39	58.50	60.38	▲3.21	74.99
Revenue (mm)	2798.80	3758.10	▲34.28	2743.65	11754.26	12846.42	▲9.29	11940.29

Currency: USD
Consensus as of Feb-03-2022 4:51 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	10.58	42.02	▲1 297.16 %
FQ2 2021	15.40	18.28	▲2 18.70 %
FQ3 2021	13.28	13.79	▲3 3.84 %
FQ4 2021	16.10	17.01	▲4 5.59 %

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Call Participants

EXECUTIVES

Jeremy Andrew Noble
Senior VP & CFO

Richard Reeves Whitt
Co-CEO & Director

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

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RBC Capital Markets, Research Division

Presentation

Operator

Good morning, and welcome to the Markel Corporation Fourth Quarter 2021 Conference Call. [Operator Instructions]

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

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

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

Thomas Sinnickson Gayner
Co-CEO & Director

Good morning, and thank you. This is indeed Tom Gayner. I'm here with our co-CEO, Richie Whitt; and our CFO, Jeremy Noble. It's my pleasure to welcome you to our call today.

This call is a long-standing tradition with one simple goal. We view our partnership with our long-term shareholders as a critical element in how we manage Markel on a day-to-day basis. We need you as partners to achieve our long-term goal of building one of the world's great companies. As such, each quarter, following the release of our quarterly financial information, we connect on the phone for just a bit to provide you with an update on our financial performance and say a few words about our plans and dreams for the next lap around the track. We deeply appreciate our long-term shareholder partners. We could not run Markel in the way we do without your support. Thank you for that.

As always, the goal today is to keep you fully informed as partners in the business. To do so, Jeremy will start off by recapping the 2021 financial performance. Richie will then address the conditions and performance of our insurance engine. I'll finish up with some commentary on our ventures and investment engines, and then we will take your questions.

Fortunately, this call is as fun as it gets. All 3 engines of Markel provided full thrust during 2021, and we're optimistic about our prospects in the coming year. The beauty of our 3-engine architecture at Markel is that it creates resilience and durability to sustain and build the company over time. Any one engine can power us forward, but the forward pace picks up a bunch when all 3 engines fire at the same time.

2021 was such a year. We designed the 3-engine approach in order to be able to make progress through thick and thin. That said, it's more fun to look at the numbers when they are thick.

With that, I'll turn it over to Jeremy to give you some dimensions of the thickness.

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. Simply put, 2021 was a wonderful year for Markel as all 3 engines: insurance, investments and Markel Ventures, set records and contributed meaningfully towards our efforts to build shareholder value. Total revenues were $12.8 billion, and we serve more customers than we ever have before.

Starting off with our underwriting operations, gross written premiums were $8.5 billion for the year compared to $7.2 billion in 2020, an increase of 19%. And earned premiums increased 16% to $6.5 billion in 2021. Our increased premium volume reflects both strong growth in new business as well as ongoing favorable pricing trends across most of our product lines, most prominently within our professional liability and general liability product lines in both our Insurance and Reinsurance segments. Retention of gross written premiums was 84% in 2021, which is up 1 point from last year.

Our consolidated combined ratio for 2021 was in 90, which included $195 million or 3 points of losses on natural catastrophes, including Hurricane Ida, the floods in Europe and Winter Storm Uri. This compares to a combined ratio of 98 for 2020, which included $358 million or 6 points of losses from COVID-19 and $172 million or 3 points of losses from natural catastrophes.

Excluding the loss impacts of catastrophes and COVID-19 in both years, our consolidated combined ratio for 2021 was an 87 compared to an 88 for 2020. This improvement reflects a nearly 4-point improvement in our attritional loss ratio given the benefit of a favorable pricing environment and the impact of underwriting actions taken to enhance our profitability. The impact of these improvements in the combined ratio was largely offset by less favorable prior year development on loss reserves, which totaled $480 million in 2021 compared to $606 million in 2020. Our expense ratio continues to improve given the benefit of higher net earned premiums and increased efficiency.

Turning to our investment results. Net investment gains included net income were just under $2 billion in 2021 compared to $618 million in 2020. In both periods, net investment gains were primarily attributable to an increase in the fair value of our equity portfolio, driven by favorable market value movements.

As I've mentioned in prior calls, given our long-term focus, variability in the timing of investment gains and losses is to be expected.

With regards to net investment income, we reported $375 million for 2021 compared to $372 million last year. Investment income continues to be impacted by the low interest rate environment we currently face. We continue to be diligent with regards to maintaining a high-quality fixed income portfolio as demonstrated by our average portfolio rating of AAA.

Net unrealized investment gains decreased $355 million net of taxes during 2021, reflecting a decline in the fair value of our fixed maturity portfolio, resulting from an increase in interest rates since the end of last year.

Now I'll cover the results for our Markel Ventures segment. Revenues from Markel Ventures increased 30% to $3.6 billion for 2021 compared to $2.8 billion last year. The increase reflects a more significant contribution of revenues from Lansing Building Products, which was acquired in April 2020 and the contribution of revenues from Buckner Heavylift Cranes, which was acquired in August 2021.

Additionally, operating revenues increased across our transportation-related businesses and equipment manufacturing businesses due in part to lower sales volumes at most of these businesses in 2020 as a result of the economic and social disruption caused by the pandemic as well as our consumer building products businesses given increases in demand, reflecting increases in consumer spending in 2021. Our growth in revenues had a more muted impact on the bottom line as certain of our businesses also saw cost of goods sold increase, which is a reflection of the current economic environment where supply constraints are contributing to increasing wholesale prices across many industries.

With that said, EBITDA from Markel Ventures grew 10% to $403 million for 2021 from $367 million last year. The year-over-year increase was driven by the increased contribution from Lansing.

Looking at our consolidated results for the year, our effective tax rate was 22%. We reported net income to common shareholders of $2.4 billion compared to $798 million last year, and comprehensive income to shareholders was $2.1 billion compared to $1.2 billion in 2020.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities reached a new high at $2.3 billion for 2021 compared to $1.7 billion for 2020. Operating cash flows for '21 reflected strong cash flows from our insurance operations given higher premium volume in our Insurance segment. Invested assets at the holding company were $5.3 billion at the end of the year, up from $4.1 billion at the end of last year.

Total shareholders' equity stood at $14.7 billion at December 31, 2021, up 15% from $12.8 billion at the end of last year. During 2021, we repurchased 163,000 common shares of our stock under our outstanding share repurchase program for approximately $200 million.

Lastly, I thought I'd provide an update on our investment in Hagerty, the leading specialty insurance provider focused on the global automotive enthusiast market. In December, Hagerty was successful in its efforts to become a publicly listed company. We own 23% of Hagerty through both Class A common shares, which are listed for trading on the NYSE, as well as Class B common shares associated with our original investment in 2019 that can be converted on a one-for-one basis into Class A common shares. For accounting purposes, we are deemed to have the ability to exercise significant influence over Hagerty, and therefore, account for our investment in Hagerty under the equity method rather than at fair value.

As of December 31, 2021, the carrying value of our investment in Hagerty was $257 million, which was included in other assets on the consolidated balance sheet. As of December 31, 2021, the estimated value of our investment based on the closing stock price of Hagerty's Class A common shares was $1.1 billion.

I hope that gives a sense of how strong a year Markel had in 2021 by the numbers. We're even more excited about our prospects for 2022.

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

Richard Reeves Whitt
Co-CEO & Director

Thanks, Jeremy, and good morning, everyone. First, I'd really like to start by thanking everyone, all our teams in the insurance engines. Been just an incredible performance, quite honestly, not just over the last year, but the last 2 years. Dealing with the COVID situation, the war for talent that is going on currently, hard market conditions, which are fun but also require a lot of work. A lot has been thrown at our folks, and they have responded wonderfully. So I just want to thank them.

Today, I'm really excited to discuss with you our insurance engine's 2021 achievements. First and most importantly, as Jeremy said, we delivered on our goal to produce a 90% combined ratio in our underwriting operations. To provide a little perspective, this represents Markel's fourth lowest combined ratio in the past 30 years and a record smashing $628 million of underwriting profits.

We accomplished this result despite the second largest insured nat cat year on record, which included events such as Uri, Ida and the European floods. Natural catastrophe losses impacted our consolidated combined ratio by 3 points in 2021. This was a significant decrease from the average annual impact we've experienced over the previous 4 years. In 2021, our strategy is to manage the impact of nat cat volatility worked.

Regarding business production, we had a fantastic year, hitting record highs in gross written premium volumes within both our underwriting operations and our State National Program Services businesses. We continue to see many new business opportunities and strong renewal retentions coupled with meaningful rate increases. Our teams have worked extremely hard to capture the benefit from the current market, and their efforts led us to $8.5 billion of gross written premium in our underwriting operations. That's a 19% increase year-over-year and $2.7 billion of gross written premium at State National, a 31% increase year-over-year.

So now I'll discuss our year-to-date results within the insurance engine, which includes our underwriting operations, State National Program Services operations and insurance-linked securities operations.

So kicking off with the Insurance segment. Gross written premiums in the segment were up 20% this year with just over $7.2 billion in premium writings, while earned premiums were up 17% for the year. We saw growth across many of our insurance products, in particular, within our professional liability and general liability product lines where we've been able to identify new business opportunities in both our domestic and international operations. We continue to benefit from favorable rate environments within most of our insurance product lines.

The '21 combined ratio in the Insurance segment was 87% compared to 96% last year. The current year combined ratio included $95 million or 2 points of net losses related to '21 cat events, while the 2020 combined ratio included $124 million or 3 points of net losses related to 2020 cat events and $296 million or 6 points of losses related to COVID-19. Excluding the impact from these event losses, the combined ratio decreased by 2 points due to a 4-point decrease in our attritional loss ratio across several product lines due to the impact from premium rates and our ability to write more premium in our preferred product classes. This was partially offset by a decrease in favorable development from prior accident years.

The 2021 year represented the first year of our 10-5-1 objective to deliver $10 billion in annual gross written premiums in 5 years with $1 billion of annual underwriting profits or a 90% combined ratio or better. While we're only 1 year into 10-5-1, we're mathematically slightly ahead of our goals at this point. And that is a good thing because we know we have a very favorable market conditions currently. And, let's be honest, we don't know what the market will look like in future years, and it may not be as strong. We're not planning to rest on these achievements, and our Insurance leadership teams are focused on strategies to continue to deliver in 2022 and forward.

So turning to the Reinsurance segment. Let me begin with an update and reminder on our transition strategies related to the various reinsurance property lines. First, as previously discussed, starting in the first quarter of '21, we successfully transitioned our reinsurance property line from our Reinsurance segment underwriting operations to be managed by our Nephila ILS operations.

Second, we announced in the fourth quarter our plan to exit from Lodgepine in our retro property reinsurance book. While the team at Lodgepine worked incredibly hard to raise capital and had built a quality portfolio, given the very challenging fundraising environments, we've reached the difficult decision to exit.

Finally, in the fourth quarter, we purchased additional reinsurance protection to transition the remaining runoff of our property cat reinsurance book to third parties. With these changes, we will have minimal property cat exposure in our Reinsurance segment going forward.

Management's current focus within reinsurance is to grow and optimize our profitability within the core casualty, professional liability and specialty reinsurance lines, seeking to attain at least a 90% combined ratio on those product lines longer term.

So moving into the segment results. Gross written premium within the Reinsurance segment were up 10% for the year, while earned premiums were up 12%. Premium growth was driven by higher premiums in our general liability and professional liability lines, resulting from both new business and growth in underlying accounts that we support. This growth was partially offset by lower premiums in our property lines due to the transition strategies I just mentioned.

The combined ratio for the year within the Reinsurance segment was 105 versus 104 a year ago. The current year combined ratio included $100 million or 10 points of losses from 2021 in cat events while the prior year combined ratio included $62 million or 7 points of losses from COVID-19 and $48 million or 5 points of net losses from 20 cat events. Catastrophe losses in '21 were primarily within our property reinsurance and property retro reinsurance product lines. And as I've mentioned, both have been placed into runoff.

Excluding the impact for these events, the Reinsurance segment combined ratio increased by 2 points from last year due to higher prior year loss ratios, and that was primarily related to property product lines and additional exposures recognized related to prior year premium adjustments in our professional liability lines. This increase was partially offset by a lower attritional loss ratio within our professional liability and general liability lines and a lower expense ratio due to lower compensation costs and the impact of higher earned premiums.

Next, I'll touch on program services and our ILS operations, both of which are reported as part of other operations. As a reminder, almost all of the gross written premiums within our program services and other funding operations is ceded to third parties.

As I mentioned earlier, we had a record year within our program services operations with premium production of over $2.7 billion for the year at State National. Premium growth was due to both the expansion of existing programs and the addition of new programs. Fee revenues were up 21% from a year ago, and State National continues to produce extremely strong operating margins. Despite increasing competition in this segment, we continue to see a strong pipeline of opportunities in the current market.

Next, I'll discuss ILS operations. With our announcement of the exit from Lodgepine operations, all results from Lodgepine have been transitioned to other. Therefore, the results from our ILS operations consist solely of the results of our Nephila operations.

For the year, revenue from the Nephila operations are up slightly due to continued growth in the MGA revenues produced at Velocity and Volante, partially offset by lower investment management fees due to lower assets under management. Assets under management at Nephila were $8.8 billion as of December 31, 2021.

As I've mentioned in the past, the last 5 years of cat activity have been particularly difficult for the ILS market and, of course, for Nephila. Despite these headwinds, we have full confidence in Nephila to produce solid results over the long term. Nephila continues to identify new areas of opportunity to deploy capital and to launch new investment opportunities. And we continue to look for opportunities to achieve synergies among our various insurance platforms, underwriting program services and ILS so that we can provide customized insurance solutions to match the right risk to the right capital.

I'd quickly like to mention that in December, we announced the planned sale of our Velocity operations, and the closing of that transaction was completed on February 1. This transaction expands opportunities for the Velocity team, and Velocity will continue to be a significant production partner for Nephila and Nephila will remain a minority shareholder.

So I'll finish up with some market commentary. Conditions continue to be favorable, and we expect to achieve rate increases in the great majority of our lines as we go through 2022. There is no doubt that after 3 years and, in some cases, 4 years of rate increases, it's going to be difficult to continue to average double-digit growth in rates across our portfolio like we did in 2021.

Given all the issues that we previously discussed, such as goods and services inflation, social inflation and low interest rates, we are going to continue to push for rate increases to make sure we can stay ahead of claims trend. However, the specialty insurance market is not one monolithic market. Our underwriting teams will be assessing rate adequacy and market conditions in each of our over 100 specialty lines, and we'll adjust our underwriting and pricing strategies accordingly.

I think we're entering a more nuanced phase of the market cycle. In some lines where conditions might be more competitive, we could potentially scale back our appetite. While in other lines where we continue to see big opportunities, we are going to be full speed ahead.

Thank you for your time today. And now I'd like to turn things over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie. As Jeremy noted, we enjoyed a record year at Markel Ventures. We had record revenues of $3.6 billion compared to $2.8 billion and record EBITDA of $403 million compared to $367 million. We added Buckner Cranes to the family in August and Metromont at year-end, and we should benefit from those 2 great businesses joining the family in the years ahead.

In the short run, the numbers are very good, but they do not come without strain and challenge. From our vantage point, everything you hear about supply chain problems is real. People and material are hard and tough to come by, and some of the margin pressures we experienced during the year reflect that reality. I cannot thank our managers and the people of Markel Ventures enough for how they are responding to the conditions they face.

A year ago, you heard the word unprecedented over and over. Now I would say that we're looking at precedented conditions. 2021 results largely compare with 2020 results that took place under the conditions of the pandemic. I would say that unprecedented is now morphing into unrelenting. The unrelenting daily grind of trying to figure out how to keep our team on the field and recruit new players, procure supplies, maintain margins and manage the countless moving parts in such a dynamic system is unrelenting. Our people continue to perform in a first-class way against these unrelenting headwinds, and I am proud of them, and I am grateful for their work.

I also recognize it takes energy to sustain our businesses, and I don't think I'm breaking any news to you to tell you that our people are tired. Me too. Despite all of that, you can be confident that our businesses are led and staffed by a team infused with our culture. They continue to bend over backwards to take care of our customers and each other. The pandemic era stands as a tough but telling test that demonstrates the quality of the people on our team. I can report to you we've got a great team.

In our investing operations, we enjoyed a spectacular year in our equity investments with a return of 29.6%. Our fixed income operations protected our balance sheet and while the return of the fixed income portfolio was a negative 0.7%, the entirety of that decline was caused by mark-to-market fluctuation impacts of higher interest rates. The total return for the portfolio was 7.3%.

While there's always a time lag, if interest rates rise, our investment income will increase every time a bond matures and we purchase a new one at a higher coupon rate. We also keep the duration of the portfolio pretty matched to our insurance liabilities in both time and currency so the net effect of interest rate or foreign exchange changes remains de minimis for Markel. I am happy with how we continue to protect and maintain the balance sheet with our fixed income holdings.

While this is a quarterly call, and we're describing the short-term investment results of 2021, I think it's worthwhile to remember that Markel is a long-term-oriented company. We've been investing with our disciplined 4-part strategy for over 30 years now. And over that 30-year time frame, we've outperformed the S&P 500 Index by over 100 basis points. That's a pretty tough hurdle, and I hope the long-term results provide you with confidence that our strategy for our investment engine is durable and effective.

Since I suggested that unprecedented is being supplanted by unrelenting, let me suggest some of the things about which we are being unrelenting. We continue to steadily invest in publicly traded equities in an unrelenting fashion. We're unrelenting in seeking growth initiatives in our insurance and Ventures businesses, and we're willing and able to fund attractive opportunities. We're unrelenting in our search to find new partners and teams that are eager to join Markel as witnessed by Buckner and Metromont. We're unrelenting in our actions of continuing to deploy capital at good rates of return.

Finding good businesses and wonderful people who treasure our long-term culture is a special skill. We've been doing it now for decades, but I don't think the market really values this attribute of Markel. Since actions speak louder than words, we're unrelenting in our practice of repurchasing Markel shares, and we think they represent an attractive value.

Coupling these unrelenting behaviors and commitments on the financial side, along with operational excellence from our insurance and ventures operations, causes me to be unrelenting in my optimism that we're doing the right things in order to build one of the world's great companies.
We hope you share our sense of optimism. We thank you for your support and your commitment. We're now delighted to answer your questions. Andrew, if you'd be so kind to open the floor.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jeff Schmitt of William Blair.

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

The -- how do retentions look in some of the key business lines in the insurance segment where you've pushed some of the highest rate? I think you mentioned they're kind of flat overall, maybe 84%. But just wondering what it looked like in some of those lines that you push the highest rate, maybe professional liability or what have you.

Richard Reeves Whitt
Co-CEO & Director

Jeff, retentions are good. When -- 84%, I think you might be thinking about our net retention after purchases of reinsurance because I think that's about what that number is. But I mentioned we have over 100 lines of business. And renewal retention in those lines of business, that would be a spectrum. I mean it would be probably anywhere from in the 50% range to the low 90s in some of our books of business in terms of the renewal retention.

I think renewal retentions are holding up pretty well right now, although it is certainly the case in some of the lines of business where rates were maybe in the fourth year of rate increases and there have been some big rate increases. There's some fatigue creeping in, in terms of the insurance. And as you go through the market cycle, it would not be surprising to see renewable retention start to drop a bit in some of those areas. And that would be things like probably in D&O and some of your financial institution lines, things of that sort.

As of right now, I think we're keeping the accounts we want to keep. We feel good about them. And I think that -- I would expect that later in the market cycle.

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

Okay. And right, yes, I was referring to policyholder retention, and it -- so it does sound like you're seeing some competition return to the market, some deceleration in some of those lines that have pushed the highest rate.

Richard Reeves Whitt
Co-CEO & Director

Yes, absolutely. I think everybody would say that. I think it's still a great market. I think we're still able to push rate increases. But again, after 3 and in some cases 4 years of rate increases, you're just not going to be able to maintain double-digit rate increases.

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

Right, right. Okay. And then a question on the Reinsurance segment and just thinking about the property cat retrocessional books are largely run off now. How much catastrophe exposure is really left there? And I guess maybe the way to think about it is if cat losses were 10% of earned premium in 2021, what would that be if those lines would have been run off throughout the year. I mean would that be 0 or 2 or -- yes.

Richard Reeves Whitt
Co-CEO & Director

The -- I forget what the number was, did I say about $100 million in cat losses in reinsurance for the year. I believe that number would have been -- assuming we had no -- none of the property that we are running off on risk at the beginning of the year, that had been $10 million or $15 million.

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

Okay. Okay. So pretty substantial change. And then just one last question on exposures. Can you maybe talk about what exposures are in the insurance segment? And if you could kind of break that into maybe the economic exposure being driven by inflation versus, presumably, you have a bit of a headwind from terms and conditions. I'm just trying to get a sense on the -- on those 2 components.

Richard Reeves Whitt
Co-CEO & Director

Well, if you're talking about exposure is growing, obviously. We grew close to almost 20% in 2021. So we have grown exposure on our balance sheet. There's no doubt. At the same time, though, we've achieved double-digit rate increases, roughly 10% rate increase across the book, and we've been tightening terms and conditions. So -- and I don't have exact numbers. You'd really have to dig in line by line. But because of just growth exposures are up, but exposures are not up as much as premium is up because of what we've been doing in terms of rate and terms and conditions.

Operator

The next question comes from Mark Hughes of Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. In the Reinsurance segment, you talked about a 90% combined being a long-term target. Is the mix of business you've got now, is that something that's perhaps achievable in the nearer term?

Richard Reeves Whitt
Co-CEO & Director

We're going to be walking towards that. Obviously, this year, it's very difficult to discern the underlying performance of the ongoing book because of all the cat losses. But what I can tell you is the underlying go-forward book came in at about a 96% combined this year. And we would expect that to be better in '22, but probably not all the way to the 90 that is our target. So we'll continue to make progress towards that 90 in 2022, but more likely to get there, hopefully, in 2023.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then just generally on favorable development, it was -- it's still quite good, but down relative to 2020. Just any general comments about what you're seeing in the reserves that influence that?

Jeremy Andrew Noble
Senior VP & CFO

Mark, it's Jeremy. A couple of comments there. So you're right. In dollar terms, the favorable prior year loss reserve development was lower year-over-year. A big piece of that, as you may have picked up on, was within the Reinsurance segment. And I think that's a little bit different as far as considering sort of trend over time.

That was -- a lot of that was really kind of what was happening a year ago, favorable prior year adjustments on a number of sort of natural catastrophe that's within the property space, and this year, a little bit of adverse development relative to kind of COVID and property creating sort of that differentiation. That was the biggest driver.

In the insurance book, we were also a little bit lower year-over-year. That primarily comes from lower favorable development on our professional liability lines this year compared to a year ago. Some of that was a few specific larger losses that we recognized on older years. And then I would just suggest that we're going to continue to be quite cautious on the recent accident years as we continue to sort of let time pass and monitor claims frequency and severity trends.

So nothing different as far as loss reserving philosophy, nothing different with regards to the fact that we believe that loss reserves will prove more likely to be redundant and deficient over time. And I don't think there's anything more that I would kind of point to that.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. And then one final question on Hagerty. If you sold a few points of your position and drop below 20%, would that be good for a book value?

Jeremy Andrew Noble
Senior VP & CFO

It is a more complicated analysis than that. You're right that in the accounting rule, one of those kind of key presumptions is the 20% ownership. But we also have other sort of commercial relationships and arrangements with Hagerty. We have certain rights that come with the voting interest that we have retained from the original investment we had. So it would not be as simple as if we came in at 19.9%, that adjustment would change.

Thomas Sinnickson Gayner
Co-CEO & Director

I'll jump in, if I may, and also try to address. We do the very best we can to try to talk about what the economic value of Markel is and the pieces and components of that. And believe me, I started out life as an accountant, and I'm no longer an accountant, but those are different things.

Operator

The next question comes from John Fox of Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

Terrific year. Rich, I have a couple of questions for you. With the runoff and changes in reinsurance, I keep expecting it to shrink, and it keeps growing. So could you talk about for 2022, do you think gross written will grow after the changes you made last year? What should we expect there for reinsurance?

Richard Reeves Whitt
Co-CEO & Director

Yes. I'll be honest, we were a little surprised that -- where we ended up the year as well, John. And again, I've talked about in the past, and maybe I need to keep talking about each quarter. I mean your elephant hunting in reinsurance, these are -- when you decide to write an account, that can be $30 million, $40 million, $50 million and more millions of dollars of premium. And so it only takes a couple of elephants to really change what the premium volume is going to look like.

So as we got closer to the end of the year, we saw, just like I said, 2 or 3 or 4 really interesting opportunities in terms of casualty and professional and specialty programs that we decided to write that resulted in the premium that you saw.

It's a little difficult to say, but our growth is not our objective in '22. Profitability is our objective in '22. And so we're going to continue to be very focused on that. And so while I don't expect growth, we're not going to pass on great opportunities if we see them.

So I'm going to sit here and tell you more than likely, we would expect it to be flattish, but we're not going to pass on great opportunities because we said that we might be flat.

John D. Fox
Fenimore Asset Management, Inc.

No, of course. And then if you could just comment on State National maybe for this year. It's really grown nicely last year, which is a very hard compare to repeat that. And you mentioned some increased competition. So is that an area you expect to grow this year? Or...

Richard Reeves Whitt
Co-CEO & Director

We certainly hope to grow, but we certainly would not expect or budget for 31% growth. The State National, of course, benefited from the same things our underwriting operations are benefiting from, which is more rate coming through and more premium moving into the specialty markets. So that helped a lot.

But we've got to be realistic as well. Fiber, more years ago, there would have been 2 or 3 competitors. And at last count, I think there were 20-plus competitors in the fronting or hybrid fronting market today. So we're going to have our work cut out for us to grow, and that is our goal, but certainly don't expect 31%.

John D. Fox
Fenimore Asset Management, Inc.

Right. Sure. And then my last question for you. There was a $41 million amortization of intangibles that's in underwriting operations but not linked to insurance or reinsurance. So I was confused on what that is.

Jeremy Andrew Noble
Senior VP & CFO

John, it's Jeremy. I'd have to kind of compare that number with you but -- where you picked that up. But we would have meaningful amortization associated with the original acquisition of both State National and Nephila. And we would have a meaningful amount of amortization that would be attributed within the Ventures segment associated with the acquisitions of Ventures and then a modest amount of amortization associated with acquisitions we would have made some period of time ago.

So I have to kind of cross reference the exact number you're picking up from where. But -- and those numbers, when we have operating revenues and operating expenses, if you're looking kind of within the other space, that would exclude the effect of amortization.

John D. Fox
Fenimore Asset Management, Inc.

Right. Okay. And then, Tom Gayner, there's been a small increase in interest rates in the front end of the curve. And just curious, any changes on the fixed income side? Or do you -- the net interest income has been running down, of course, as interest rates have stayed low. Do you see that continuing or changing with the movements in interest rates that occurred this year?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. I don't know how long it would be before sort of bonds we purchased with a higher coupon rate completely run off, and you do replace those with the newer coupons at a higher rate. But the philosophy and the way we're doing things really remain unchanged. And the point is match the fixed income up against the insurance liabilities, and if insurance rate's at a 90 and we earn any money at all on fixed income, that's a spread that most people in any financial business would be delighted with. So we got that, and we make money on Ventures and we make money on our equity investments.

John D. Fox
Fenimore Asset Management, Inc.

Yes. I mean that's $700 million in underwriting. With $700 million of underwriting profit in insurance, that's terrific. So I was just curious if that line is going to turn anytime soon, and it sounds like it's going to take more time.

Thomas Sinnickson Gayner
Co-CEO & Director

Probably. And I guess the point I'm trying to convey is whether it was next Tuesday or Tuesday 3 years from now, we're not going to operate fixed income any differently.

John D. Fox
Fenimore Asset Management, Inc.

Right. I didn't expect that you would.

Thomas Sinnickson Gayner
Co-CEO & Director

We've known one another for a long time. I should have let you answer the question.

Jeremy Andrew Noble
Senior VP & CFO

John, it's Jeremy. Just to clarify that -- I just see that amortization figure you picked up. That is associated with acquisitions and intangibles associated with acquisitions we made in the insurance or reinsurance space, so take, for example, Alterra back in 2013 that are attributed to the segments and the segment's underwriting profits don't include amortization. That's just a reconciliation point. Nothing new or different in that space.

Operator

[Operator Instructions] And the next question will come from Rowland Mayor of RBC Capital Markets.

Rowland Juran Mayor
RBC Capital Markets, Research Division

With the growth and changes in sort of insurance exposures during the year, did you make any changes to your own reinsurance buying?

Richard Reeves Whitt
Co-CEO & Director

Rowland, honestly, our reinsurance buying was pretty consistent, kind of the form of our programs very similar. I guess the biggest difference would be we're buying considerably less property reinsurance now because we reduced property exposure so much. But other than that, it's been pretty steady as she goes.

Rowland Juran Mayor
RBC Capital Markets, Research Division

Got it. And then I think you talked a bit about the impact of the deflation on the Ventures business from an expense side. On the revenue side, are they -- are you seeing good pricing increases across those businesses? And sort of what do you expect there as supply chain issues, hopefully, get a little better?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. In the normal monthly flow of information, the quarterly cycle of Board meetings, I can assure you that pretty much topic #1 is making sure that you're raising prices because that's the reality of what it takes to run the business. There's time lines always in managing that process. But we need to reflect the cost of what it costs to do business in our products and services. And every single manager of any one of those businesses is doing exactly that.

Operator

The next question comes from Bruce Kennedy of D.F. Dent.

Bruce Lee Kennedy
D.F. Dent and Company, Inc.

Congratulations on the strong results, you all. I have a couple of questions. First of all, Richie, I just wanted to clarify and just make sure I understood the comment that you made earlier. I think you said you won't hit the 90 target in 2022, except you expect to in 2023. And was that for reinsurance or for the consolidated insurance operations?

Richard Reeves Whitt
Co-CEO & Director

That was -- just speaking about reinsurance, Bruce, but I will say, hey, if we catch some breaks, we might could hit the 90 in reinsurance in '22. But if I talk in terms of the plan we've put together, we will make progress on it from the 96 that, that underlying business did this year towards that 90 but not quite get there. And thus, I would hope we would definitely be there in '23.

Jeremy Andrew Noble
Senior VP & CFO

I think it's also fair to say that the business we're putting on the books now, we believe, is priced at we'll hit the 90%, but there's a lag consideration there, right? We're going to kind of watch the development as we typically would, and that will come through in later years. So again, there's that kind of lag effect.

Richard Reeves Whitt
Co-CEO & Director

Yes. That's a really good point that Jeremy makes, Bruce. We believe the business we've priced the last 3 years is pricing up better than a 90 combined. But due to our reserving philosophy, we're going to be -- try to be more likely redundant than deficient. And so we're going to wait and hopefully see that development over time.

Bruce Lee Kennedy
D.F. Dent and Company, Inc.

Right. Okay. And then on a consolidated basis, is 90% or better still kind of how you're thinking about things?

Richard Reeves Whitt
Co-CEO & Director

Absolutely. Yes. I guess I would say in '22, it's a little bit more of the same from '21. We'd like to continue to grow at a double-digit rate given what -- how we view market conditions right now, and we'd like it to be a 90 or better combined ratio at the end of the year.

Bruce Lee Kennedy
D.F. Dent and Company, Inc.

Got it. Great. Moving over to -- on the Hagerty topic. Tom or Richie, I wonder if you all might in layman's terms be able just to briefly run through how the Hagerty relationship started and then -- and how it's evolved over time. And in mentioning the cost basis or the book value of $200-and-some million and then the effective value of $1.1 billion, would it be fair to say that the company is essentially 5x that value over that time frame? Or does the accounting -- is the accounting misleading and that conclusion would not be correct?

Richard Reeves Whitt
Co-CEO & Director

Well, Bruce, we've been working with Hagerty, I think it's going on 9 years now. And as many of our partnerships relationships start, it started with personal relationships between ourselves and McKeel Hagerty and some of his team there. We started out relatively modestly. I think we started working with them on some of their commercial business that comes along with their auto-related business. So a few million dollars to begin with, and then we became their fronting partner and major -- largest taker of the risk over the next several years.

The opportunity came to deepen our partnership back in -- I guess we started the discussions in 2018. The opportunity came to deepen our partnership and become part owners, minority owners with the Hagerty family. And that transaction was completed in, I guess, '19.

And then moving forward, they saw the need to continue to grow their business. I mean they've grown at double-digit rates that entire time that we've been working with them, mid to high teens. And they saw the need for capital to continue to grow the business and saw the opportunity through going public to access that capital and also obviously provide some liquidity for the family members.

So it's been a wonderful partnership, a wonderful journey with the Hagerty family. And once you go from the private world to the public world and you can get a mark each day, that accounts for the difference.

Thomas Sinnickson Gayner
Co-CEO & Director

Bruce, I want to jump in with a couple of points on that. One, Richie deserves the credit for captaining the process of the relationship. And I think that story that he just told you is a marvelous example of the kind of acorns that are continuously planted around this organization over and over and over again in an unrelenting fashion. And you never know where these things lead. But if you keep doing the right things, it's amazing the Oak trees that grow out of them sometimes. So that's a qualitative statement that I think is important to make, and Richie captained that process.

And number two, just in highlighting sort of the way accounting leads to different numbers on the page at different points in time. So the initial that was on our books was the initial checks that were written plus our proportionate share of the earnings in the organization, which is just equity method accounting 101. And then now there is a mark-to-market mechanism, i.e., the publicly traded stock, which you can make some reference to and because of accounting rules, which has already been discussed earlier. We know what they are and you know what they are and you can attach numbers, but they don't get included in our financial statements. So all we know how to do is just to tell you all of the inputs and all the facts and all the data and let you draw your own conclusion.

Bruce Lee Kennedy
D.F. Dent and Company, Inc.

Congratulations. And my last question, what's the biggest governor to your stock buyback program right now?

Thomas Sinnickson Gayner
Co-CEO & Director

We just want to be able to be consistent and always answer the bell for the next round of the fight. So obviously, there's daily volume requirements and things like that, that you need to be inside of, but we wish to behave in a systemic and disciplined and regular matter. And I know sometimes, and believe me there's discussions going around here, about the pace of which we're doing some of the things we're doing. But as I remember, Buffett saying in one annual meeting a number of years ago, when you're getting ahead, don't argue about whether you're galloping or not. So we're going to focus on getting ahead and behaving in the systemic way in the same way you've come to expect from us over years and years.

Operator

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

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you very much. Great to be with you. We look forward to connecting again after the first quarter. Be well. Bye-bye.

Operator
The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.