S&P Global
Market Intelligence

# Markel Corporation NYSE:MKL

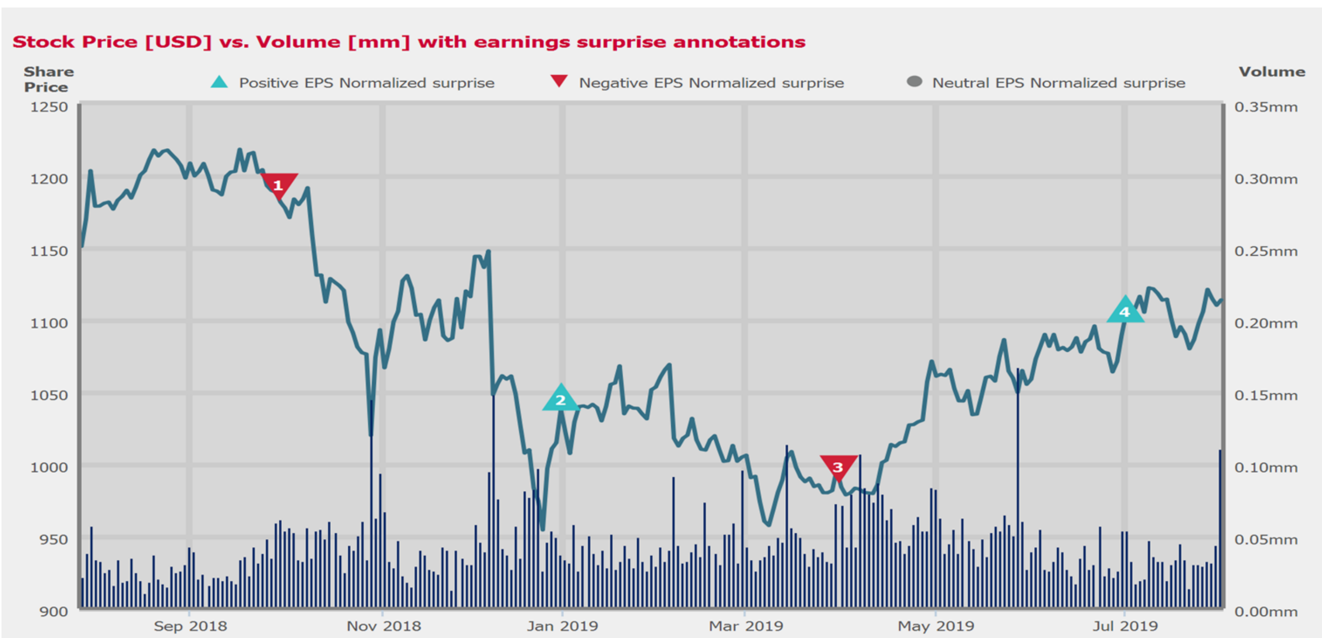
# FQ2 2019 Earnings Call Transcripts

## Wednesday, July 31, 2019 1:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2019- | | | -FQ3 2019- | -FY 2019- | -FY 2020- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 9.89 | 10.54 | ▲6.57 | 8.19 | 36.66 | 38.95 |
| **Revenue (mm)** | 2011.60 | 2439.12 | ▲21.25 | 1998.70 | 8970.30 | 8387.84 |

Currency: USD
Consensus as of Jul-31-2019 10:59 AM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2018** | 7.05 | 5.20 | ▼(26.24 %) |
| **FQ4 2018** | 2.00 | 3.67 | ▲83.50 % |
| **FQ1 2019** | 9.52 | 7.99 | ▼(16.07 %) |
| **FQ2 2019** | 9.89 | 10.54 | ▲6.57 % |

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# Call Participants

## EXECUTIVES

**Jeremy Andrew Noble**
*Senior VP & CFO*

**Richard Reeves Whitt**
*Co-CEO & Director*

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

## ANALYSTS

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

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

# Presentation

**Operator**

Good morning and welcome to the Markel Corporation Second Quarter 2019 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 risks -- results to differ materially from those projected in the forward-looking statements is included under the captions, Risk Factors and safe harbor and Cautionary Statement and in our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

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

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

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Thank you, and good morning. This is Tom Gayner, I'm joined this morning by my Co-CEO, Richie Whitt and our CFO, Jeremy Noble. And it is our pleasure to welcome you to the Markel Corporation First Half 2019 Financial Update Call. The purpose of this call is to connect with you, our owners, and to provide you with an update on our financial performance for the first half of 2019.

We'll also offer some commentary about current events and circumstances around Markel, and we look forward to any and all questions you'd like to ask us about your business. We're pleased to report to you that we're off to a good start through the first 6 months of 2019. And overall financial results are quite good, and Jeremy will provide you with the numbers and some details in just a minute.

As always, Markel is a complicated place. One beauty of that complication though is that we've created a structure and architecture which fosters the ability to make good capital allocation choices and absorb some learnings, intuition we sometimes pay along the way so that we can keep getting better.

As we've discussed for many years, our rank order in allocating capital is, first, is to invest in and support our existing businesses when we have reinvestment opportunities to help them achieve profitable growth; second, we look for acquisitions that add to our existing businesses or create new fields for us to plow; third, we build our portfolio of publically traded equity securities; and fourth, when appropriate, we repurchase Markel stock.

We did all 4 of these through the first half of 2019. In addition to this, financial lens and language of allocating capital at the same time we run and manage our business through the human lens and language laid out in the guiding principles of the Markel style. Through the integrated thought that takes into account the financial metrics and the human and humane values, we think we're running Markel in such a way that we will be able to gain the privilege of doing it again tomorrow.

Through the midpoint of 2019, each of our 3 engines of insurance, investments and Markel Ventures created positive value and energy for Markel. We've got some cylinders in those engines that are firing wonderfully. Rest assured that we diligently keep our eyes on all of the gauges and will never become complacent where things are going well.

We can always do better. We've also got some cylinders with, shall we say, more room for improvement, and we're working on those as well. I think it is important that all times to remain even keeled and work with diligence both in the areas where the things look great and also where they don't. That's what we do every day. As Bono says in the song, "I still haven't found what I'm looking for." U2 is still working and looking, and so are we.

With that as an introduction, I'd like to turn things over to Jeremy to review the numbers from the first half. After Jeremy's comments, Richie will cover our insurance and related operations and then, I'll return with a few words about investments at Markel Ventures. Following that, we'll open up the floor for questions. Jeremy?

**Jeremy Andrew Noble**
*Senior VP & CFO*

Thank you, Tom. Good morning, everyone. All 3 of our operating engines made meaningful contributions to our results in the first 6 months of 2019.

We continue to see outstanding performance on our investment portfolio during the first half of the year, mirroring the strong performance for the broader equity market. Operating results attributable to Markel Ventures operations increased substantially. We also experienced meaningful premium growth in our underwriting operation.

For the first 6 months of 2019, total operating revenues grew 38% to approximately $4.9 billion. The increase was driven by just over $1 billion of net investment gains on our equity portfolio in 2019, resulting from favorable market movement.

Additionally, revenues from Markel Ventures segment increased 10% year-over-year. Looking at our underwriting results, gross written premiums were $3.3 billion for the first half of 2019 compared to $3 billion in 2018, an increase of 9%, which was attributable to higher gross premium volume in both our insurance and Reinsurance segments. Retention of gross written premiums increased 1 point from 83% in 2018 to 84% in 2019. This increase was driven by an increase in the net retention within the insurance segment, resulting from higher retention on our general liability and professional liability product line, partially offset by lower retention on our personal lines business.

Earned premiums increased 5% to $2.4 billion for the first half of 2019 due to higher written premium volume in our insurance segment, partially offset by lower earnings in our Reinsurance segment. Our consolidated combined ratio for the first 6 months of 2019 was 95% compared to 91% last year. The increase in the consolidated combined ratio was primarily driven by less favorable development on prior year's loss reserves within our insurance segment.

Now coming to the results of our Markel Ventures segment. Revenues for Markel Ventures increased to $1.1 billion compared to $971 million a year ago. The increased revenues were primarily attributable to higher revenues across our products businesses, which includes our fourth quarter 2018 acquisition of Brahmin Leather Work. EBITDA from Markel Ventures was $160 million for the first half of 2019 compared to $82 million last year. In 2019, our strong EBITDA reflects improved operating results with one of our consumer and building products businesses as well as the contributions from Brahmin. In 2018, EBITDA was adversely impacted by an accrual associated with the manufacture of product for one of our businesses.

Turning to our investment results. Net investment income increased to $213 million from the first half of 2018 to $226 million this year. The increase was driven by higher dividend and income due to increased equity holdings and dividend rate, a higher short-term investment income due to higher short-term interest rates compared to the same period in 2018. Net investment gains included in net income were $1 billion for the first half of 2019 compared to the net investment losses of $18 million in 2018. As I mentioned earlier, substantially all of our net investment gains in 2019 were attributable to the increase in the fair value of our equity portfolio during the period.

Net unrealized investment gains increased $281 million net of taxes during the first half of 2019, reflecting an increase in the fair value of our fixed maturity portfolio resulting from declines in interest rates over the same period. Given our long-term focus, variability in the timing of investment gains and losses is to be expected.

Looking at our consolidated results for the year, our effective tax rate was 22% in 2019 compared to 47% a year ago. As I've mentioned previously, the impacts of management's decision to elect to treat 2 of our U.K. subsidiaries as U.S. taxpayers beginning in 2018 added $102 million or 25% to 2018 effective tax rate. Our estimated annual effective tax rate, which excludes this impact as well as certain other items that are infrequent or unusual in nature was 21% in 2019 and 20% in 2018.

We reported net income to shareholders of $1.1 billion for the first half of 2019 compared to $214 million a year ago. And comprehensive income to shareholders for the period was $1.4 billion compared to a comprehensive loss to shareholders of $11 million a year ago. Comprehensive income for the first 6 months of 2019 was driven by net income, the components of which I just discussed, along with an increase in the fair value of our fixed maturity securities since the end of 2018.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $249 million for the first 6 months of 2019 compared to $308 million for the same period of 2018. Operating cash flows for 2019 reflected higher claim settlement activity and lower cash flows from our Markel Ventures operations compared to 2018, partly due to the timing of working capital fluctuation.

Invested assets of a holding company were $3.1 billion at June 30, 2019, compared to $2.6 billion at December 31. The increase in the holding company invested assets is due to our second quarter issuance of $600 million, a 30-year maturity unsecured senior note, partially offset by $212.5 million cash used to acquire a minority interest in the Hagerty group, a leading provider of specialty insurance to automobile enthusiasts. Total shareholders' equity stood at $10.4 billion at the end of June, an increase of 14% from year-end. We repurchased 58,000 shares in the first 6 months of the year, pursuant to our outstanding share repurchase program.

With that, I'll turn it over to Richie, who'll talk more about our underwriting, program services and ILS results.

**Richard Reeves Whitt**
*Co-CEO & Director*

Thanks, Jeremy, and good morning, everyone. As Jeremy said, today I'll focus my comments on our underwriting operations. I'll also provide brief updates on State National program services business and our insurance-linked securities operation. Headlines for the first 6 months include solid underwriting results combined with strong premium growth, resulting from a combination of organic growth and an improving pricing momentum. We're also pleased with the progress we've seen from our recent and to-be-acquired State National and Nephila operation.

So starting with the Insurance segment. Gross written premiums for the quarter are up $134 million or 11% compared to the second quarter of '18. For the first 6 months, premiums are up $234 million or 10%. Premium growth for both the quarter and the 6 months was driven by continued strong organic growth across several product lines. Most notably, our general liability, professional liability, personal lines and marine and energy products. Earned premiums for the segment are up 8% for the quarter and 6 months with similar drivers as the gross written premium increases.

The combined ratio for the insurance segment was 95% for the second quarter of 2019 compared to 92% last year. This 3-point increase in the combined ratio was driven by less favorable development on prior accident year of loss reserves, partially offset by a lower expense ratio. The decrease in favorable development on prior accident years losses was primarily driven by less favorable development in our workers' compensation line and more adverse development in our property line.

Lower expense ratio in the quarter was primarily driven by the impact of higher earned premium. The combined ratio for the first 6 months of the insurance segment was 95% versus 90% for the same period a year ago, with the increase driven by less favorable development on prior accident year losses, primarily in our professional liability, Marine and Energy and worker compensation product line. Higher earned premiums for the first 6 months had a favorable impact on our expense ratio and an unfavorable impact on the prior year's loss ratio.

Turning next to Reinsurance. Gross written premiums for the quarter were up $14 million or 7% compared to the second quarter of '18. On a year-to-date basis, premiums are up $36 million or 5%. Premium growth in the quarter was driven by an increase in our general liability line due to the timing impact of renewals in multi-year contracts. This was partially offset by a decrease in professional liability due to nonrenewals. Premium growth for the year has also driven by the timing impacts within our general liability line, along with growth in our workers' compensation line due to higher premiums upon renewal. As mentioned previously, significant volatility in gross written premium volume can be expected in our Reinsurance segment due to individually significant deals and the timing of renewals on multi-year contracts.

Earned premiums for the segment decreased by 10% in the quarter and 8% for the first 6 months due to the runoff of earned premium from a large specialty quota share treaty that was nonrenewed, and higher ceded earned premium resulting from changes in our outward property Reinsurance structures. This was partially offset by growth in earned premiums of professional liability due to increases in gross written premiums in previous quarters. The combined ratio for the Reinsurance segment was 96% for the second quarter of 2019 compared to 90% in last year. This 6-point increase in the combined ratio was driven by higher current accident year loss ratio and expense ratio. The increase in the current accident year loss ratio was primarily driven by our product -- our property product lines, where we had increased purchases of excess of loss and catastrophe Reinsurance coverage, resulting in a higher net attritional loss ratio in 2019. The increase in the expense ratio was driven by the impact from lower earned premiums along with higher compensation cost in the current year.

The combined ratio for the first 6 months for the Reinsurance segment was 97% compared to 94% a year ago, again, driven by a higher current accident year loss ratio and expense ratio. The increase in the current loss ratio for the first 6 months was driven by changes in the property reinsurance, that I just discussed, partially offset by the impact of favorable premium adjustments across multiple product line. The increase in expense ratio for the first 6 months was driven by the impact of lower earned premiums, along with higher compensation expense.

Next I'll make a few comments about the State National program services business. Gross written premium volume for our State National program services operations was $655 million for the quarter and $1.2 billion for the 6 months, up 18% and 16%, respectively from the same period as last year. This was driven by organic growth across several existing programs. As a reminder, almost all of the gross written premium at State National is ceded to third-party reinsurers. Total ceded revenue -- ceded fee revenues were up 11% and 13% on a quarter and 6-month basis from last year due to the continued growth in program premium volumes over multiple quarters. We are very pleased with State National's strong 6-months performance. In addition, and as we expected, State National is proving strategically important to Nephila and our overall ILS strategy. As a reminder, amounts for our Program Services operations are reported in services and other revenue expenses within our operating results.

Next, I'll discuss insurance-linked securities operation. With the completion of the Nephila acquisition in November of last year, we have significantly increased Markel's ILS operation. With our Nephila and Markel CATCo operations, we have approximately $13.7 billion of net assets under management as of June 30, 2019. Total revenues from our ILS operations were $50 million in the quarter and $104 million for the first 6 months of 2019 versus $17 million and $35 million for the same period as last year. The increase in revenue in both periods is due to the contribution in revenue from Nephila, partially offset by lower revenues from Markel CATCo due to lower assets under management and a reduction in management fees charged on side-pocket shares, which are shares that are restricted from redemption.

Operating revenues for both the periods were impacted by cost associated with the internal reviews of matters at Markel CATCo operations and related litigation costs. The effects of which were more than offset by lower retention and incentive compensation costs in 2019 compared to '18. A number of items are creating a very complicated picture for ILS results in 2019. Related to Nephila, purchase accounting adjustments, brokerage revenue and expenses from our Velocity MGA and delayed fee recognition on side-pockets makes it difficult to see the underlying performance. As these items burn off through the rest of 2019, the picture will clear up. Sifting through the noise caused by these items, Nephila is broadly on target to meet our expectation from the beginning of the year. The primary differences in the actual underlying results compared to our initial expectations is attributed to having lower net assets under management, resulting from the 2018 loss events and Nephila taking a disciplined approach to long-term value creation for investors getting into 2019.

Related to Markel CATCo, the runoff of the business and the associated costs of the internal review and litigation have resulted in losses for the quarter and the first 6 months of the year. As a reminder, amounts from our ILS operations are also reported within services and other revenue expenses within our operating result.

Regarding Markel CATCo, last week, CATCo announced it will cease accepting new investments and will not write any new business going forward. Markel CATCo will commence the orderly runoff of its existing portfolio, which is expected to take up to 3 years. These decisions were made in light of the fact that substantially all of the capital in the funds was tendered for redemption and the inquiries from government authorities and the loss reserves recorded in late '17 and early '18 at Markel CATCo remain ongoing. Markel, however, strongly believes that the insurance-linked security market is here to stay, will continue to grow and it's an area where we are establishing a market-leading position with our recent acquisitions of Nephila and State National.

Building on these successes, last week, we announced our plans to establish a new retrocessional insurance-linked securities platform in Bermuda. The new platform is expected to allow us to expand our current range of ILS capability, drawing on the deep talent and resources from across the Markel organization. This platform will be overseen by Markel global Reinsurance veterans, Jed Rhoads and Andrew “Barney” Barnard. Initial product offerings are expected to include a property catastrophe retrocessional investment ahead of the 2020 renewal period. The fund is expected to offer cedants a suite of property retrocessional products with the ability to have coverage, provided either on a collateralized basis or on a rated paper basis written by Markel Bermuda limited, or a combination of both.

Finally, some market commentary. Market conditions continue to improve at an incremental fashion. We continue to see month-over-month price improvements in most lines of business. Florida renewals broadly met our expectations and, I believe, market expectations for price increases. However, given higher frequency and severity assumptions following the last 2 years of bad activity, more rate will likely be netted in 2020. We continue to see low to middle single-digit price increases in professional and casualty lines but we'd still describe most of these areas as competitive. It seems very clear that the market is in transition, with carriers reassessing their expectations for CAT frequency and severity, and professional and casualty results clearly needing rate increases after several years of decrease.

There's been much discussion in the market of increasing claims trend and whether rate increases are keeping pace. I think the reality is that the answer will differ by line of business and it's going to take time to know a definitive answer. Our sense is that professional and casualty lines need rate increases to account for increasing claims trend. It would be foolish to assume that all price increases will fall directly to the bottom line.

Similar to last quarter, the only major line where pricing is declining at the moment is workers' compensation, as a result of its -- good results over the last several years and highly regulated nature. We believe that workers' compensation is still profitable but clearly, the margin that we have seen in the business over the past several years is shrinking. We are cautiously optimistic that the incremental rating environment improvement will continue during the rest of the year.

So to sum the first half of the year up, we feel very good about the progress made in our underwriting, ILS and program services operations. Market conditions continue to improve, and we are growing profitably across our businesses. We are intently focused on finding ways to leverage Markel's unique set of capabilities for our customers. Thanks for your time today.

And I'd like to turn it to Tom.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Thank you, Richie. Well, as you can see from the numbers, we enjoyed wonderful results in both Markel Ventures and in our investment operations during the first half of 2019. At Markel Ventures, we set new records in revenues and EBITDA. Revenues exceeded $1 billion during the first half and EBITDA of $161 million gives a vivid picture of the size and scope as well as profitability of our Markel Ventures operations.

We continue to enjoy strong results from our industrial businesses where we expect cyclicality. Those businesses all continued to perform well, both due to their own efforts and management expertise as well as a continuing favorable economic environment. Our companies that tend not to be as economically sensitive also continued to grow and perform well, and we're gaining ground in some spots where we had ground to gain. All in all, I just want to thank you, the shareholders, my colleagues and our Board of Directors for your patience and confidence that we were making good capital allocation decisions as we worked to build Markel Ventures. It is delightful for me to be able to report to you overall solid organic growth and double-digit percentage EBITDA profitability that we've discussed. The environment to add new companies to Markel Ventures remains tough as valuations continue to be high across the marketplace. Fortunately, we continue to enjoy organic growth opportunities within many of the businesses that we already own. Also our track record of financial performance along with our values-based, long-term approach continues to cause people to seek us out about the possibility of joining the Markel family. We'll keep working diligently on what we have and will remain open-minded and flexible as we consider growth opportunity.

In our investment operations, we had excellent results during the first half of the year. In our equity portfolio, we earned 19.4% during the first half, which exceeds the return of the S&P 500. This result continues our record of outperformance that now dates back for 30 years. In general, I would usually expect us to underperform in straight up bull markets like we've been experiencing so far in 2019, given our defensive and value-oriented approach. That said, I don't propose to quibble, I'll take it. We will continue to invest with the exact same discipline and approach that we followed for decade. Fortunately, we continue to find what we believe are reasonable equity investments to make at this time.

In our fixed income operations, we earned a more-than-coupon return of 5%. That result came from lower overall levels of interest rate and ongoing diligence from our fixed income team to maintain pristine credit quality. We're letting the duration of our bond portfolio naturally come in a bit since we can't garner any enthusiasm for committing to the low rates of return currently on offer in the long-term bond market. We'd rather sell debt than buy it at this time, and we're acting in accord with this belief. We continue to methodically and steadily invest in equity. Between ongoing investments and appreciation, our publicly traded equity portfolio and our equity holdings now stand at 66% of total shareholders' equity, up from 62% at year-end.

We believe that our balanced, steady, disciplined and unrelenting approach is building our portfolio of partially owned businesses, i.e., the publically traded stocks, alongside building the value of the Markel Ventures majority-owned companies, combined to work as designed to build long-term value for all of us at Markel. And by all of us, I mean our customers, our associates and our shareholders. We continue to strive to build one of the world's great companies and that means running the company with win-win-win opportunities for all involved.
Thank you for your confidence in us and support as we do so. With that, thanks, again for joining us today. And Andria, please now open the floor for questions.

# Question and Answer

**Operator**

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

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

I know you addressed claims trends a little bit there, but just curious if you could provide more detail. I guess, some competitors are seeing that tough legal environment, which was acute in like the commercial auto, spreading into general liability and other casualty lines. Could you maybe speak to that, what you're seeing there?

**Richard Reeves Whitt**
*Co-CEO & Director*

Sure. We don't write a lot of commercial auto but obviously, we're very aware of the issues that have been experienced there and, obviously, trend. Particularly severity has been problematic in commercial auto. I think we're seeing -- and it's not anywhere near what has been seen in commercial auto, but we're seeing some uptick in severity in places like Professional and Casualty. It's manageable. But the message we're sending our underwriters and I think it's the right message is, these rates that we're looking for, they're not just nice to have, we need to have them. There is -- I mean we've enjoyed an incredibly benign 10 or so years quite honestly in terms of claims trend. You would expect some reversion to the mean over time. And so we need to get some rate in Professional and Casualty and other areas to make sure we're keeping up with trend.

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

Okay. And just a question on CATCo, with that in runoff, are you seeing many funds transfer to Nephila?

**Richard Reeves Whitt**
*Co-CEO & Director*

Nephila?

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

Nephila, yes.

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. Nephila really isn't raising funds right now. They went into 2019 after 2 really tough years for their investors. Intend on doing the best they could, to build the best portfolio for the existing investors and being 100% focused on that. So Nephila really has not been in a fund-raising mode in 2019.

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

Okay. And just one last one on Markel Ventures. Could you maybe speak to the -- just what you're seeing in M&A environment right now as we kind of approach the end of the cycle, just from a valuation perspective? Or is there much of a pipeline there?

**Richard Reeves Whitt**
*Co-CEO & Director*

Well, as I alluded to the comments, prices are high. So our likelihood of buying something that just comes through the traditional channels, and at an auction market is pretty [ daggone low ] because the valuation gaps are just a bit too far for us to get to.

That said, the good news is we've got a business that has an annualized run rate of $2 billion in 17 or so different companies. And they're out in the marketplace every day, dealing with customers, dealing with vendors, dealing with competitors. And they see and, frankly, generate conversations and things that we will get to see that are not just part of traditional deal flow. So -- but the last couple of things that we've bought have come through nontraditional channels. And I'm -- not to make any predictions, but we still get to talk to some pretty interesting people with interesting businesses on a pretty regular basis, and we'll do the best we can.

**Operator**

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

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

Just a few questions. I didn't see any mention of catastrophe losses within the 10-Q filing. I was wondering if you had any meaningful amounts, just in the aggregate or by business segment. Or maybe there just weren't that many this quarter.

**Richard Reeves Whitt**
*Co-CEO & Director*

Mark, there's always catastrophes. There was tornadoes and flooding and various things in the first half of the year. It was probably, and I think [indiscernible] just to put it out, it was probably sort of an average first half of the year in terms of catastrophes. We -- just to make things a little more simple, we don't start adding up catastrophes until they are assigned to CATCo and until they exceed our dollar thresholds. But we sort of have the normal run rate of catastrophes, not enough to call out in the financial.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

I always -- Mark, this is Tom. I always look forward to hearing how your name gets pronounced. And in this particular quarter, it would be like thinking about what the injury report for the Pittsburgh Steelers would be. I mean there shouldn't be any, but there's training camps and there's people riding motorcycles when at home there's some stuff like that, that goes on, but fortunately, not so much this particular quarter.

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

Well, that's good and we'll hope the same for the training camp. Related -- somewhat related note, you mentioned also in the filings that there was a little bit of reserve addition within the insurance segment related to prior year catastrophe losses. Could you say what that amount was?

**Jeremy Andrew Noble**
*Senior VP & CFO*

Mark, it's Jeremy. It was very modest. And across the company, there was basically almost no movement on the 2018 event but there was some offset between kind of Reinsurance and insurance. And really we're to the point now that we are into our reinsurance protections on the outwards, but some of that's how we allocate some of the recoveries between the insurance and Reinsurance segment. But even in the insurance, it was very modest.

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

Okay. That makes sense. Another question and this is just to clarify, there was a note that you had acquired in a minority stake in the Hagerty Group LLC. That's just a minority stake amongst the ownership that you already have in Hagerty, right? Or is that some different entity?

**Richard Reeves Whitt**
*Co-CEO & Director*

We've been working with Hagerty for a number of years now but I think there was a misconception that we had ownership in Hagerty. So we've enjoyed a fabulous relationship. And as a result of that, the opportunity came up recently for us to partner with them more closely by taking a minority shareholding. So this is our initial shareholding, and we're very excited to be more closely associated and partnering with the Hagerty group.

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

Okay. That's actually very helpful. And then, I guess, the last question, and maybe it's too soon to comment at length. But you mentioned the plans to establish a new Bermuda platform, to some extent, replace what CATCo had been doing. Do you imagine a sizing similar to what CATCo had been? Or with the intent to be at the start relatively smaller and build it up from there?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. Mark, probably the first thing is, it's not a replacement for Markel CATCo. It's a different strategy, a different leadership team, obviously, run by Jed Rhoads, Barney Barnard and a number of their underwriting talent from the Markel regroup, and it's a different portfolio than what CATCo was writing. In terms of size, it's going to be crawl, walk, run. We -- success this year would be getting it off the ground and getting it started. And so we'll likely do so many things at Markel Corporation, it'll be a crawl, walk, run approach to it.

**Mark Alan Dwelle**
*RBC Capital Markets, LLC, Research Division*

I guess with that clarification then, if it's not particularly a replacement, just sort of a similar type of vehicle, would it be still in the plans to eventually resurrect or relaunch or whatever you might describe the existing CATCo platform with the current businesses being wound down?

**Richard Reeves Whitt**
*Co-CEO & Director*

I don't think so. Obviously, we learned a lot through -- we have learned a lot through the difficulties that CATCo had, and the impact it had on their investors. When we went out and talked to investors and we've talked to virtually all of the investors in CATCo, they have very little appetite to continue to invest in the CATCo product. So we're following the wishes of those investors and that product will go away.

**Operator**

Our next question comes from Phil Stefano of Deutsche Bank.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

I guess just following on the last line of questions a little bit. I was hoping you could give us a sense of the number of employees in CATCo and kind of what their future looks like? Understood that the new ILS structure fund is going to have a different leadership team, a strategy, a different portfolio. How -- can any of these employees move over to the new funds?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. There's about 20 folks at Markel CATCo. For the coming few years, job 1 will absolutely be the orderly runoff of CATCo in returning capital to the investors as soon as humanly possible, so that will be job 1. But obviously, these people have experience in all the back office functions and so forth that it takes to run a fund and the hope would be over time as CATCo winds down, they could assist in the new effort.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

Okay. And going back to job 1. Any sense you can give us, how we get from $3 billion to $0 in assets under management over the next 3 years? Any sense around timing that you can help us understand that cadence?

**Richard Reeves Whitt**
*Co-CEO & Director*

I probably don't have any numbers I could give you today. I mean it really is in the hands of the cedant. And what's going to make it more difficult is the 2017 events, 2018 events have acted differently than any events that we have seen previous to those 2 years. People are continuing to report development on the 17 events and even more development on the Jebi events, the Michael events. So they're going to be cautious. They're going to be cautious in terms of releasing their collateral. Obviously, there's contractual language around have releases work. But I would just expect, given the way 2017 and '18 had developed, they will be a cautious approach from cedants. But we're obviously going to be working very hard with them to try to return to that capital to the investors.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

Got it. Okay. Switching gears and looking at Reinsurance. The accident year ex CAT loss ratio ticked up in the quarter and explanation was that there was a change in the outwards Reinsurance structure. Was there anything onetime in nature in the second quarter with the change in Reinsurance? Or is the mid-60s probably the right way to think about that attritional loss ratio up from the low 60s we saw recently?

**Richard Reeves Whitt**
*Co-CEO & Director*

So this sort of goes back to some comments I made last quarter about we are -- we're making some changes to our Reinsurance program. Our goal is always been to keep as much of the premium that we write as possible. Working with our Reinsurance partners but we want to eat our own cooking. We have switched the type of coverage that the Reinsurance group had from a quota-share structure to an excess loss structure and I think CAT protection. So it's going to take a couple of quarters, I think, for that to smooth out just around the accounting around it and earning of that ceded premium. So it's a little distorted at the moment. And you add to the fact that CAT business is very seasonal. It's going to probably take to the end of the year for that to settle down into more of a steady state.

**Jeremy Andrew Noble**
*Senior VP & CFO*

And it's Jeremy here. I would just add that we've been very focused on kind of managing volatility. So in some ways, we might experience, given the change, in Reinsurance program a slightly higher attritional loss ratio but we should feel better when there's -- there were more significant or severe losses. The other thing that can impact it a little bit it is mix in the portfolio. So to the extent that we write more casualty or specialty lines Reinsurance versus property just as a mix that can have an impact on our attritional loss ratio as well.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

One more hopefully quick question. The -- was there anything Ogden in the quarter?

**Jeremy Andrew Noble**

*Senior VP & CFO*

There was nothing on Ogden. So you may have heard the report that the rate changed subsequent to the end of the period in a move from minus 0.75 to minus 0.25, which was a little bit less than I think what most of the industry was expecting. And therefore, for us, a, it would be a third quarter event; and, b, it will not be significant given that the modest would have changed. And as a reminder, we just continue kind of writing U.K. motored treaty in 2014, so we've been off that for quite some time.

**Operator**

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

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Thank you very much for joining us. And we look forward to connecting with you next quarter. Be well.

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