S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

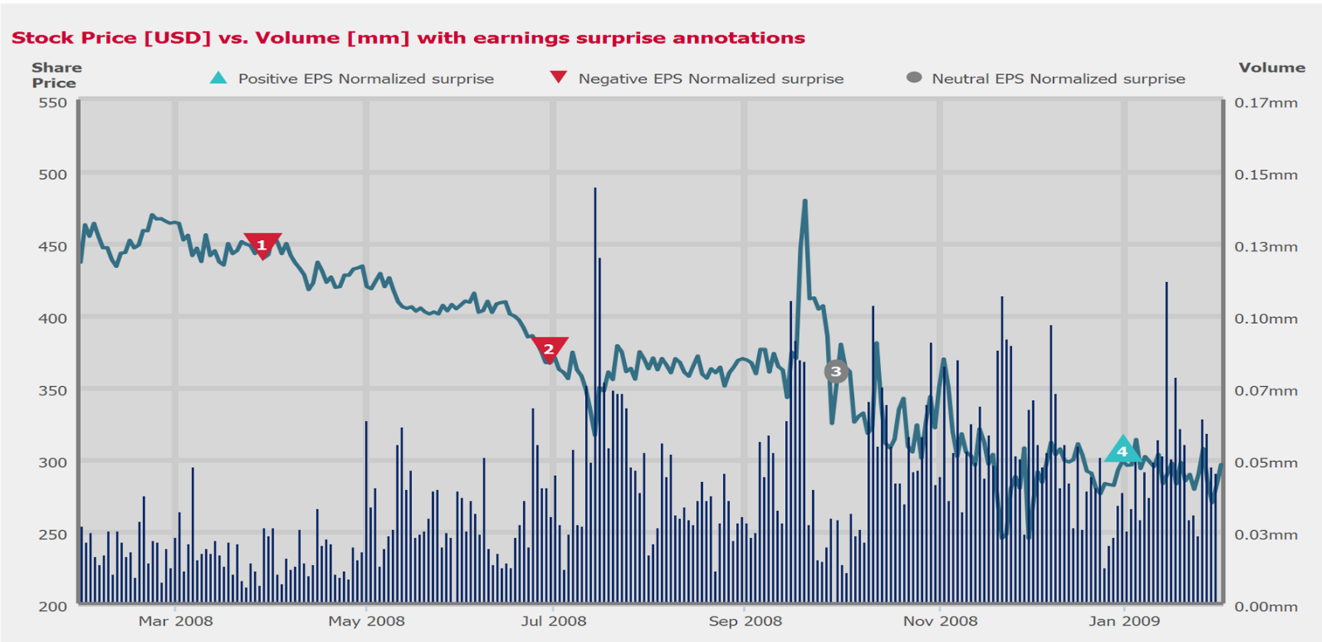
FQ4 2008 Earnings Call Transcripts

Tuesday, February 03, 2009 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-			-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	5.69	10.40	▲82.78	5.64	16.20	20.88	▲28.89	21.29
Revenue (mm)	565.41	564.97	▼(0.08 %)	556.48	2239.61	2305.92	▲2.96	2230.31

Currency: USD
Consensus as of Feb-04-2009 11:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	7.63	7.54	▼(1.18 %)
FQ2 2008	7.00	6.50	▼(7.14 %)
FQ3 2008	(0.47)	(3.32)	NM
FQ4 2008	5.69	10.40	▲82.78 %

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Call Participants

EXECUTIVES

Paul W. Springman

Richard Reeves Whitt

Steven A. Markel

Thomas S. Gayner

ANALYSTS

Amit Kumar

Craig Rothman

Jay Cohen

John Fox

Joshua Shanker

Mark Hughes

Meyer Shields

Unknown Analyst

Presentation

Operator

Greetings, and welcome to the Markel Corporation Fourth Quarter 2008 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]. As a reminder this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Steve Markel, Vice Chairman for Markel Corporation. Thank you Mr. Markel, you may begin.

Steven A. Markel

Thank you, operator. 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 caption Risk Factors and Safe Harbor and Cautionary Statement in our most recently filed annual report on Form 10-K and quarterly report on Form 10-Quarter, and in the Safe Harbor Statement beginning on page five of the press release, dated February 2nd.

Today, will follow our same format as in prior quarterly calls. After a few introductory comments, Richie Whitt will review our financials. Paul Springman, the insurance operations; Tom Gayner will follow with a discussion of the investment landscape. And I will moderate the questions and answers.

The quarter had very good underwriting results in the fourth quarter and we closed the year with 99% combined ratio as a result of the hurricanes recorded in the third quarter. Investment returns continued to be challenging as I'm sure all of you know, and book value for common share ended the year $322, a decline of about 16% from the prior year. Over the past five years, we've compounded book value at a 10% rate which as you all know is significantly under our long-term target.

We remain very committed to our long-term philosophy and policy and believe that a combination of solid investment results and solid underwriting results will build shareholder value. We believe in spite of the current environment that that model will work for Markel in the long-term and with continued... continued commitment to implementing that model.

With that, I'll ask Richie Whitt to review the quarter and year results and turn it over to the other speakers. Richie?

Richard Reeves Whitt

Thanks Steve and good morning everyone. I am going to follow the similar format of past quarters and I'll focus my comments primarily on a year-to-date results. I'll start by discussing our underwriting operations and then follow that with a brief discussion of our investment results and then bring the two together with a discussion of total results for the year.

Many of the trends discussed in our quarterly calls continued for the full year. The two biggest issues obviously affecting our 2008 results are the competitive insurance market and the volatile financial markets and their impacts on our investment portfolio. In addition, as you know we had losses from Hurricane Gustav and Ike in the third quarter of 2008.

So, first let's kick off with the underwriting results. Due to increased competition in all of our markets during 2008, gross premium volumes decreased 6% to about 2.2 billion. About one quarter of this decrease was due to exiting certain programs previously written as Markel Re unit... as former Markel Re unit.

Net written premiums decreased 4%and premium retentions were up to 89% from 87% in 2007. We continue to pack away and increase our retentions in our various lines of business and are pleased we've got that up to 89% this year.

Non-premiums decreased 4% to approximately $2 billion, compared to about $2.1 billion in 2007. Our combined ratio was 99% for 2008, compared to 88% in 2007. We have produced underwriting profits in five of the past six years. Our only miss was in 2007 with a 101 combined ratio as a result of Hurricane Katrina.

The increased net combined ratio for 2008 was a result of $95 million or 5 points of loss from Hurricane Gustav and Ike. I want to point out that this represents approximately a $20 million reduction in our storm estimates from the third quarter, a higher current accident year-loss ratio of 66% before considering the storms due to price decreases compared to 61%

current accident year-loss ratio in 2007. As Paul will discuss shortly, we have implemented rate increases in many of our product lines.

The 2008 current accident year-loss ratio was partially offset by prior year's favorable redundancies of 8 points, this compares to 9 points in 2007. This favorable redundancies came primarily in our excess and surplus lines segment, at our Markel Shand unit and our Markel Essex unit, and also from our London market segments. The 8 points represents about $34 million less favorable redundancies than we experienced in 2007.

Our expense ratio was relatively flat at 36% in 2008, it was impacted obviously by our lower earned premiums, and one Markel project cost. So, that pretty much wraps up the combined ratio for the year-end 99%, compared to 88% last year.

Turning to our investment results, investment income decreased to $284 million, from $306 million in 2007. The decrease was due to lower rates on our portfolio and our increased allocation to short-term investments and cash which obviously, rates are extremely low right now. 2008 also included a mark-to-market loss of $13.7 million on a credit default swap. At this point; there is only an additional $3.1 million of potential loss on this contract.

Realized losses for 2008 were $408 million; this primarily was comprised of $339 million of write-downs for other than temporary declines and the fair value of various equity and fixed-maturity securities. The most significant write-downs for equities were $65 million for GE, $38 million for Citigroup, $23 million for Banc of America, and $22 million for International Game Technology.

We've also realized bond losses during 2008, the most significant being $41 million from Lehman and $32 million from (inaudible). Unrealized gains also decreased during the year, the decrease was $507 million pre-tax.

Obviously, Tom will go into much further detail in his comments a little later in our presentation today.

Looking at our total results for 2008, we reported a net loss of $59 million, this is compared to $406 million of net income in 2007. Book value per share as Steve said, decreased 16% from the December 31, 2007 to $222 per share at the end of 2008. Also as Steve pointed out, we have increased book value per share to 10% compound annual rate over the past five years.

I want to make a couple of comments related to cash flow and the balance sheet. Regarding cash flow, operating cash flows are estimated to be slightly less to 400 million in 2008, this compares to operating cash flows of approximately 500 million in 2007.

As December 31, 2008, we were holding 650 million of cash in investments at our holding company. Also on a consolidated basis we have been building liquidity throughout the year and we held approximately $1.1 billion of cash in short-term investments at the end of the year.

At this point, I'd like to turn it over to Paul to review our operations. Thank you.

Paul W. Springman

Thank you Richie and good morning everyone. You've just heard Steve's opening remarks and Richie's report on our numbers from the fourth quarter of the year and for the entire 2008 year. And in just a few minutes Tom will take us through our investment results.

Today, it's my pleasure to give you report on the operational side of the business and to update you on two or three important fronts.

First, our combined operating ratio for the year is 99%, which produces a nominal underwriting profit. We vow to improve this number significantly during 2009. Last quarter in my remarks, I highlighted the need for increased pricing virtually across the Board in all product lines. I am pleased to report that although it has got us some business during the fourth quarter, prices at Markel have leveled in all areas and have begun to move up in most.

Before I get into the specifics on that point, I'd like to talk about our individual segment results from 2008. Our Excess and Surplus Lines segment produced a combined operating ratio of 92% for the year representing 8 solid points of underwriting profit.

While not quite the banner year that we had in 2007, still a very admirable result, especially in these difficult market conditions that we continue to face. Premium volume in this segment was off approximately 10%. This was due to three factors, first our decision at the end of 2007 to close the smart division of Markel Re. This particular unit had failed to meet our expectations and there were no more prospects for improvements in the following year.

Second, there continues to be much more competition than we originally anticipated for new business opportunities that lasted virtually throughout the entire year. And lastly, we incurred heavy competition through most of the calendar year with our renewal businesses resulting in some lower prices. But all in all, a pretty good result in today's world.

Our Specialty Admitted segment produced an underwriting loss of approximately 6 points. This was due to a higher than expected losses from Hurricanes, Gustav and Ike, especially, in our Markel global marine and energy division. This division also had unusually high frequency and severity with onshore property losses as well as those offshore rent related clients. We made the decision this past quarter to discontinue the vast majority of this business.

One small remaining segment, our haul and cargo portfolio will be rolled into existing Markel regional offices as we move forward in 2009. Our London insurance market operations also produced a loss of approximately four underwriting points.

Here again, higher than expected losses from the hurricanes as well as an unacceptable loss result within our professional and financial risk division by a segment of Italian Medical Malpractice did not meet our expectations. Overall, premium volume in all segments combined was down approximately 6% from year-end 2007, due principally to the combination of the pricing factors I just articulated.

Now on to some good news. Over the last 60 days, we've noticed increased pricing in several market segments. In our U.S. professional liability offerings, previously known as Markel Shand, architecture and engineer's pricing has begun to improve. Although building starts are stagnant and new construction values are down, market losses are up and two of the market leaders in this segment are rethinking their respective strategies. We have been successful in selling moderate price increases here and believe that there will be continued price firming as we get further into 2009.

Lawyers professional arrears (ph) and omissions, has also seen market pricing improve. Any firms involved in mergers and acquisitions work or offering financial advise of any kind, have began to see increased claims frequency which has lead to higher pricing.

In the employment practices liability arena, rates needs to go up, and to go up quickly. As unemployment rates zoom skyward in virtually every state, EPL pricing needs to keep pace. Miscellaneous professional liability pricing has also begun to hit northward, especially on firms involved in any financially related businesses such as banks, accounting firms, appraisers, E&O etcetera.

On the property side of the ledger, most property catastrophe exposed risks received moderate to medium sized rate increases, ranging from 10% to 30% during the recent renewal season. Those accounts that had produced losses from the last storm season received a disproportionate of amount but over all pricing has certainly bottomed and has begun to head in a healthy direction.

We are involved in the property catastrophe reinsurance business through Markel International, and we were very pleased that our January 1st renewal pricing met or exceeded our expectations in virtually all cases.

Also on the positive side is increased pricing and a restriction of capacity, in many of the marine and energy product lines. In addition to Ike and Gustav, this market segment in the U.S. was hit with two loses, of a $100 millions each, in excess of a $100 million each in 2008. One was an oil refinery near Dallas and a second was a sugar refinery near Savannah, Georgia. These losses are still rippling through the worldwide marine and energy marketplace.

On the international front, there were numerous Australian coal mine losses after early 2008 flooding and everyone has read or heard what the pirate activity off the coast of Somalia in the vicinity of the Horn of Africa, has done to cargo pricing. All in all, the pricing product represents a mixed bag.

If you are a mainstream business located in Middle America not exposed to wind or the tumultuous times in the financial world, you may well be successful today in negotiating a flat price renewal. However, if you are a coastal property or have had any exposure to financial loss or involved in any of the classes of segments I just mentioned previously, those plans need to be prepared for a different marketplace than the ones that they faced not just 12 months ago but as recently as 6 months ago.

The other operational item that I'd like to touch on today is our progress as we move towards One Markel. We have discussed this strategy in each of our last two quarterly calls. During the latter part of the third quarter, we opened a Texas prototype office in Plano and have been testing our multi-product offering approach to clients through this network of regional offices.

During our most recent senior strategy sessions held here in Richmond this past week, we unanimously agreed that the prototype have been an early success and that we need to move as rapidly as we can and transition the remaining Excess and Surplus Lines businesses from our previous business model to this new regional concept.

Major milestones have been established for the middle of this upcoming month as well as for the latter part of March with a full go-live implementation date no later than the 1st of April. This new concept will forward Markel's customers closer geographical proximity to our underwriters and more access to the majority of our product offerings.

As most of our competitors begin to retrench, recoup, retool and regroup, from what we anticipate will be horrific underwriting results from 2008, we've made this bold step to plan for Markel's next generation. Ultimately, we believe that this will significantly enhance our profitable growth, streamline our backroom and result in operational efficiencies as we get further down the road.

While the marketplace continues to deal with increasing loses from 2008 storms and trying to write their houses from other underwriting loses, Markel is clearly focused on our future. This future, I can assure you will produce both growth and sustained profitability.

I look forward to your questions during our Q&A which follows after Tom's comments.

Thomas S. Gayner

Thank you Paul. As Richie reported to you a few moments ago, our investment results were disappointing in 2008.

First the facts, in equities, we were down 34%. In fixed income we were up 0.2%, in total we were down 6.9% in local currency. After adjusting for FX effects, which are essentially neutral, through our booked value since the decline in the reported value of our FX denominated investment assets, are offset by the decline in our FX denominated insurance reserve liabilities.

The total investment portfolio declined 9.6% in 2008, these investment results drove the decline in our book value from $265 to $222 per share in 2008. Those are clearly very disappointing results and the worst investment results we've ever experienced at Markel. While I know that all of you share the same unhappiness as we do in those results, I'd like to spend just a few moments covering three topics. First, I will attempt to put our results into some context of what is happening in worldwide investment markets. Second, I will describe some of the actions we took in managing the portfolio throughout this extraordinary period and third, I will make some comments on our circumstances and expectations for the future. And I also look forward to your specific questions on our investments.

First, the context. This is the first decline in book value per the share at Markel since 1999. And the upward of jagged path of growth in our book value per share, we also experienced annual declines in 1990 and 1994. While we are never pleased to report this kind of result and we are never satisfied or complacent when the news is good, ups and downs our inevitable in business and life and it is important to keep an even keel in all environments.

As all of us know, 2008 was the worst year for equity returns since 1937 and the era of the great depression. The S&P 500 index was down 36.5% for the year. Out-performance and I'll use the word performance loosely was down 34% with 250 basis points better than the index, by a decline (ph) of 250 basis points of out-performance for the rest of my life and I would happily do so right now. In reality, I am not that precautious and Daniel Webster is no longer practicing law. So that option isn't available.

It's important though and as Richie (ph) noted that we navigated through 2008 in a reasonable way given the circumstances we faced. While, I am limiting my context discussion to the S&P 500 for the sake of gravity, it directionally describes just about every investment market in the world last year.

As Woody Allen once observed, more than in anytime in history mankind faces a crossroad, one path leads to despair and other hopelessness, the other to total extinction, let us pray we have the wisdom to choose correctly. Woody had it just about right last year. U.S. markets, European markets, Asian markets, emerging markets, small caps, large caps, commodities, oil, gas, private equity, alternatives and just about anything you can think of other than cash or government bonds, all correlated in one direction, down.

More importantly, as widely we reported the S&P 500 produced a negative return of 0.9% a year for the last 10 years. This is the first negative return decade since the 1930s. While there remains ongoing speculation of about whether our economy faces a return to depression like conditions, the stock market isn't waiting to find out. The stock market assumes that it has already happened, that's an important fact to keep in mind since the low expectations and low valuations of equity prices might make for a pleasant surprise over the next decade.

By contracts (ph) had a negative return of 0.9% per year for the equity market, and over the last 10 years. We earned a positive return of 3.6% per year over this decade. This is an out-performance of 450 basis points over a long period of time.

Again, I would be more than happy to earn that sort of excess return for the rest of my career if it was offered to me. I would also note that, the book value per share of Markel which comes from the combined efforts of our underwriting and investment activity, grew from $77 per share to $225 over this ten year timeframe of overall negative returns.

In our fixed income activity, we earned a positive return of 0.2% for the year. Over the decade, we earned 5% per year, while we are glad to have positive results to report, we were disappointed to experience an unusual number of credit loses in 2008.

To remind you, we consistently maintained a fixed income portfolio with at least 90% of the securities rated A or better. In 2008 we owned some senior debt securities that were A rated and met this task at Happy Hour on Friday afternoon, and were correct (ph) when we came into work on Sunday.

We have implemented some fundamental changes in our approach to fixed income management, take advantage of what we learned in 2008. We look forward to better results from those activities in future years.

The last statement I will make about context, comes from the recent reports we've seen from the Toyota Motor Company. We've all heard so much about black swan, economic, tsunami, headwinds, perfect storms and so on and so on, that those phrases have become per she and lost their power to make an impact.

Consider though that Toyota recently announced, it would record its first loss in history in 2008. Toyota was founded in Japan in 1937 that means they managed to make money every year since then including 1945, when not one but two atomic bombs were dropped on the only country where they did business at the time. And the fact, that Toyota was able to make money in 1945, but not 2008 speak volumes about the current financial market condition.

Second, the actions we took over the last two years. Over the last two years, we steadily reduced our exposure to equity securities, whenever we sold something, we reinvested fewer dollars and we did not invest our cash flow into equities in a way we'd normally and historically would have done. During this times frame, we also began to shift our fixed income exposure away from corporate securities towards government and municipal bonds. We've also built our cash balance through this time.

Split the numbers on that statement, in December of 06; we invested 77% of our capital in equities. By December of '08 we had 49% of our capital invested in equities. The percentage of our fixed income portfolio in corporate bonds declined from over 40% to approximately 33% today and cash grew from roughly 700 million to 1.1 billion during this timeframe. All of these decisions were directionally correct and in combination with the reduction of our debt by over $100 million and strong insurance reserving, it gave us the strongest balance sheet we've ever enjoyed at Markel.

While we were somewhat nervous about valuations and financial conditions beginning in 2007, we were not nervous enough, with perfect hindsight, we would have retreated from equities and corporate bonds faster than what we did. Also during this time, we relentlessly upgraded the quality of our investments, while ratings and our own credit analysis work did not protect this completely, it did help us to make better decisions than what we see at so many other institutions these days.

Our investment portfolio is transparent. We may not like or agree with the market price but at 4 PM everyday, we know what it is. It is not investing complicated structures alternatives or other categories which are literally destroying some other institutions. Our investments can be described as delightfully unsophisticated and that's a good thing.

During 2008, we remain faithful to our investment discipline, and describe by the catechism of investing in high quality fixed income securities and equities selected using our selected using our judgment as they represent ownership of profitable businesses owned by honest and talented managements with reinvestment opportunities in capital discipline at fair prices. That has been a long-term recipe for success and we continue to expect that certificate (ph).

I am not a Pittsburgh Steelers fan but they deserve congratulations for their League leading sixth Super Bowl victory this past weekend. Many of the stories about with Steelers salute their continuity of ownership, their culture and long-term mentality with which that club has won. We share the idea of the importance of a long-term view, a consistent corporate culture and continuity of Markel. Like Pittsburg, we don't win every year, like Pittsburg though we've won a lot and over a long period of time.

Third, our outlook. Fortunately our balance sheet is a fortress. It is the most liquid, least levered and conservatively invested as it has been in the history of Markel.

It is impossible to oversee how important this is, given the financial and economic circumstances we operate in today. As such, our balance sheet strength allows us to seize opportunities that are and will continue to develop in the insurance and investment markets.

As Paul and Steve and Richie mentioned earlier, our insurance operations earned underwriting profits in 2008 and we fully expect to continue to do so in the future. We are hopeful that we will be able to write more premium volume in a more favorable market environment as time goes by and the remaking of the insurance market landscape continues.

On the investment side; this week for the first time in the last 18 months, we actually began to modestly buy some equities. While in no way do I wish to make a market forecast or call about it, I am encouraged by the valuations I see in the equity market. In many cases, Blue Chip financially solid firms, pay a higher dividend than what reasonable fixed-incomes alternatives provide. In a measured and steady way, we are and will continue to purchase stocks in these types of firms.

Should the insurance market begin to show more signs of hardening and higher prices, we will accelerate our allocation of cash flow into equities at current prices.

We're also continuing to shift our fixed-income allocation towards communities. We offer higher yields in treasuries and I remain confident that despite the well advertised troubles in many states and cities our general obligations for remain in money (ph). While doing so, we will forego higher cost yields and keep our duration on the short side to make sure that we protect ourselves against higher interest rates and inflation that seems likely given the unprecedented fiscal and monitory stimulus actions of governments all around the world.

To close; in 2008, we navigated reasonably well in the most difficult financial market in generations. While we are not happy with the negative economic return of 6.9%, we protected 93.1% of the capital of this company and assured our ability to sell and operate in 2009 and beyond. Many other companies and institutions failed to accomplish the single rate important flow. You can make your own mental list of firms that were all intent and purposes are now bankrupt.

We by contract, enter 2009 with the trash count, liquid and fortressed balance sheet. We will see it through whatever remains of the current financial pattern and allow us to build on a long term record of compounding capital of Markel on behalf of our shareholders, associates and policyholders.

Thank you for all your support and suggestions. I look forward to answering your questions during the Q&A period.

And with that let me turn it back to Steve.

Steven A. Markel

Thank you, Tom. We're very pleased to see 2008 go and we welcome 2009. I'd like to summarize a few key points before we open the floor for your questions.

On the underwriting side, prices at Markel are going up and we will continue to maintain underwriting discipline. Our underwriting margins will improve and continue to help build shareholder value. On the investment side, we do not pretend to know how low equity markets might go or when they might recover but we do continue to believe strongly that the long-term is extremely positive for quality businesses run by talented and honest managers.

On the financial side, our financial strength is as strong as it's ever been and our balance sheet is rock solid. And we are well prepared to take advantage of opportunities that we see in the specialty insurance marketplace.

And finally, our One Markel re-organization plan is progressing extremely well. And related to this, I would like to share with you that several of our senior managers are now taking on new roles and responsibilities in the organization. Last year, as you know, we promoted Paul Springman to President and Chief Operating Officer. During 2009, Paul will focus primarily on the transition of One Markel's wholesale unit to the One Markel regional model.

Our five regional Presidents will report directly to Paul, while he will be...continue to be involved in major decisions affecting their operation, it's our intent to allow him to be able to devote the majority of his time and attention to the success of One Markel.

Gary Albanese, has also recently been promoted to Chief Underwriting Officer and will oversee all of Markel's underwriting through the newly formed product line groups. Gary is fresh off a five year assignment as President of Markel International. He has been with Markel for 24 years and is one of our most talented underwriters and administrators.

We are delighted that Gary has taken this crucial role and believe that he will ensure our underwriting standards are maintained and enhanced for the new model. With Gary's return to the United States, we are also pleased to report that William Stovin has been named President of Markel International. William will partner with Geremy (ph), Brazil to further develop our international platform which is doing extremely well.

Britt Glisson has recently been named our Chief Administrative Officer and will have responsibility for the shared services units that have been created to support our regional underwriting officers. Britt has been with Markel since 1990, and since 96, he's been the President of Markel Insurance Company.

During Britt's Markel career, he has played an integral role in a number of initiatives that has helped Markel grow its business and streamline efficiencies. He's also had leadership experience in both the wholesale and the retail side of our company.

Finally, we are very pleased to welcome a new face to the Markel team; Mike Crowley, who is joining Markel as President of our Specialty Program Division. In this role, Mike will oversee our Specialty business, including Markel Insurance Company and Markel American Insurance Company. Mike has more than 30 years of extensive retail experience and is looking forward to joining Markel on the Company's side of the business. With his experience, Mike can bring an innovative perspective to Markel. He's worked for HRH since 2004 and has a variety of leadership positions, including President and Chief Operating Officer.

As you can see, we have an extremely experienced and talented team, ready to pursue the many opportunities we face in 2009 and beyond. We thank you all for your support and we welcome any comments and suggestions you might have. And at this point in time, operator, I'd like to open the floor to questions so that we can provide the answers.

Question and Answer

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions]. Our first question is coming from Mark Hughes with Suntrust Bank. Please state your question.

Mark Hughes

Thank you very much. How much might slower economy offsets better pricing you're describing?

Steven A. Markel

It's hard Mark, to be precise and in terms of premium dollars, we're sort of less concerned with where the premium dollars go for businesses, revenues drop 50%, but the rates that we charge them increases 25%.We might still see a reduction in the gross premium. But we have a much higher rate relative to the exposure; because generally insurance exposures will flat the volume of business they're doing. So there could be some contraction in the total premiums people pay as their businesses contract. But what we're really interest in is the rate per unit of exposure that we're assuming and we fully expect to see those increase and as a result, obviously we expect to see our underwriting margins improve.

Mark Hughes

Great, one other question, anyway to quantify the benefits of the One Markel initiative or maybe I'll ask it other way, how much out-performance did you get from the prototype Texas office?

Steven A. Markel

The jury is still out and it's trying to measure actual performance in terms of the Texas prototype. And in 2009 and 2008, the net effect of additional cost, I mean we're investing in the One Markel platform and will throughout 2009, Richie in a second maybe can share with you some of the numbers. But the real out-performance will be selling more products to more agents and getting better relations which should improving our relationships in distribution with those agents. The cost base on the operational side will be assuming several years in the future and mostly measured in the ability to do more business with the same resources.

But Richie, you might share some specifics on the economics.

Richard Reeves Whitt

Yes, during 2008, I think we ultimately ended up at about 18 million of cost related to the One Markel project. For 2009, we're forecasting approximately 50 million of cost for the project and that won't be exactly evenly spread throughout the year. It's in the realm of being evenly spread throughout the year. I... Paul might want to just speak for a second about the Dallas prototype which is some of the encouraging times we've seen.

Paul W. Springman

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Mark, happy to take the question. I would say probably from the operational perspective the number one issue that we've had is holding our producer expectations down. We have been overwhelmed with new business opportunities since we opened our doors in the middle part of September, and we opened the office with roughly 20 associates, 16 of which had prior Markel experience. We're now up somewhere north of 30 and ultimately I think we'll probably be in the 40 to 45 range in the next quarter or two. But we're seeing opportunities in product areas from existing clients that previously did not have access to those products. And we haven't even really begun to scratch the surface in terms of prospecting for new clients and new broker relationships. But just by being closer to the brokers in the Plano, Texas office, we've been given opportunities in areas that previously we never saw before. So we're very, very pleased with the initial response and will be rolling out of this model during the first quarter to all of the regions here inside the company.

Mark Hughes

Thank you.

Operator

Our next question is coming from Joshua Shanker of Citigroup. Please state your question.

Joshua Shanker

Yeah I'd like to take your pulse on the acting year of loss effects, given the backload in terms, how long do you think before the industry stabilizes in terms of increasing loss effects?

Steven A. Markel

I am not really sure I understand your question. As it relates Markel, we consistently try to pick the current years fairly conservatively. And as the data becomes more clear, obviously, we are trying to estimate them and achieve a margin of safety and therefore, seeing the loss reserves run down overtime. The industry as a whole is something I'd probably better not try to comment on, but my sense is that whatever margins were created four, five years ago are largely depleted in the overall industry numbers, but it would vary very dramatically from company-to-company based upon the management losses.

Joshua Shanker

If you rate generally surrounding the marketplace were to be stable during 2009, not yet rising, would your losses be essentially stable through the next ... through the year we're in right now?

Steven A. Markel

At Markel?

Joshua Shanker

At Markel.

Steven A. Markel

We would expect our price... essentially to be based upon what we achieve in pricing and what we see in the marketplace in terms of the clients' development. Our forecast would be that with improving pricing we'll have improving margins.

Joshua Shanker

And at stable pricing stable margins?

Steven A. Markel

And we don't expect to have stable prices of Markel.

Joshua Shanker

Okay.

Steven A. Markel

But yes, that would be correct.

Joshua Shanker

Okay, and then and the second question...

Steven A. Markel

If the pricing would stable, we would expect losses to increase with inflation, we expect loses to increase in a recession as... I mean claims generally go up in a recessionary environment.

When times are rosy, people are less likely to file claims. They tend to be settled less expensively, there is so much of your fraud and awesome... awesome (ph) claims in good environment. So the claims environment in a recession will be worst industry wise. There is no doubt about that.

Joshua Shanker

Well then the...

Paul W. Springman

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I am talking about the overall environment.

Joshua Shanker

Right. In the press release, you pointed out that the increased losses are related to pricing having year-over-year compounded down significantly. Not so much about the anticipation of the recession bringing increased losses. Do you think that those increased losses are reflecting both, expected rise in losses due to recessionary factors plus declining year-over-year pricing?

Paul W. Springman

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For the losses in December 2008 would not include events that our forecasted through current and future.

Joshua Shanker

Well, we have, would it been the losses from 4Q '08 event (ph) are growing through your P&L if they are going to do some reporting like obviously they're going to include the impact of recessionary economy of course?

Paul W. Springman

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Losses for the current 2009 will affect that yes.

Joshua Shanker

And also for 4Q '08 forecast. But we are certainly in... I don't know if you expect 4Q '08 to be accelerate in terms of all the recessions certainly has and has been happening for not this year, but last year as well?

Paul W. Springman

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Well we believe our fix in 2008 include margins of safety that are quite adequate.

Joshua Shanker

Okay. I feel very good. And the second question involves comments made at the last Annual Meeting about there's a lot of bargains out there in the equity market. But we'd rather invest in simple or easier to understand ideas, aka non-financial versus hard to understand ideas, and which one we can also take a pulse on, the easier to understand versus hard to understand fees and where we stand in terms of maybe how we... what is a attractive stock at this point?

Paul W. Springman

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Well, I'll let Tom pick up on that but I think it's fair to say that we've learned a lot about what's easier to understand and what's harder to understand and then maybe there were some things that we thought were easy to understand two years ago that are more difficult to understand today. So Tom, you want to pick up on that point?

Thomas S. Gayner

I would agree with your comment and we're continuing to lean on the spectrum of easier and more straight-forward rather than complex.

Joshua Shanker

And do you expect along those lines that we'll see continued rotation in the equity portfolio?

Paul W. Springman

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In the same way that we go to work every day and look at everything and think about everything and sort everything, compare it to everything else, but that's a natural process that shouldn't be any different in 2009 than it was last year and the year before.

Joshua Shanker

Well, thank you very much and good luck.

Steven A. Markel

Thanks.

Thomas S. Gayner

Thank you.

Operator

Our next question is coming from Sam Houston with Linking Square Capital (ph). Please state your question.

Unknown Analyst

Good morning. Can you comment on how much excess capital you think hedge as a holding company as well as the insurance company and do you think the rating agencies agree with the assessment and then have do you plan to use your excess capital if you are thinking about buybacks, acquisitions or organic growth? Thanks.

Steven A. Markel

Richie I'll let you deal with the dollar amounts but it's a holding company and insurance companies are now after you're through I'll pick up on how we're going to spend it.

Richard Reeves Whitt

Okay. Well, we have about six... as we've have said, we have 650 million of cash in investments as the holding company. We have about $1 billion of statutory capital in the U.S. and we have roughly... and can you help me out in the U.K. of 500 million capital, in the U.K. Obviously with the equity markets, well and the bond markets having a tough year, just say we have large amounts of excess capital in the insurance company. I don't know if we can say that. We certainly have enough capital in the insurance companies and we'll also be taking some dividends out of the insurance companies this year. But, I don't think I can say today we have 30% excess or something like that.

There is more than enough capital to execute our 2009 business plan in the insurance companies and we will take some dividend. As the holding company level, we'd like to have net sales and treasurer (ph) and we would like to have something like 200 million at all times.

So, I look at that and say, here is about 450 million at the holding company that we can do other things with and Steve, I'll, leave that rest of it up to you.

Steven A. Markel

Okay. Thank you, Richard. But I think the summary is that, we have more than enough capital in the insurance companies and the regulating companies to meet our operating plan and in our expectation, we're which is still fairly bullish about, our expectations that we'll achieve pricing increases and fee obtain these (ph) for additional premium growth and develop new product lines in the insurance business. So, we have enough capital to take advantage of those opportunities as they come along.

We also have, as Tom pointed out earlier, a high amount of liquidity which is a little bit different from capital per say, but because we have a high degree of liquidity, we are... and I think Tom referenced this as well, starting to move from some of the shorter term investments into for more permanent portfolio positions and so, we'll do that gradually because we don't know exactly when we might be at the bottom or whether we are already there.

And so, we'll gradually start reinvesting some of that excess of liquidity at the insurance companies. The excess capital at the holding companies, is raw powder for future opportunities. We believe we'll see them. We are quite willing to make a decision when we see them. But so far it hasn't happened and for some that hasn't happened this year or it doesn't seem on the immediate horizon, but we fully expect to find some opportunities and get the money invested in our principal insurance business.

Or if sufficient time to go by that did not happen or our view, that it might not happen occur and we certainly would be more than willing to use excess capital to repurchase shares. But today, I think we are still very, very bullish about the specialty probably cash (ph) insurance industry and fully believe we are going to have an opportunity to invest it in our business.

Unknown Analyst

Okay. Just two other quick questions, can you comment on the One Markel initiative in terms of whether the self annuity (ph) will result in a reduction in the expense ratio or will ultimately expand you plan to reinvest the savings into new initiatives of growth?

Steven A. Markel

We do expect it overtime will allow us to operate more efficiently and therefore part of that will translate into a lower expense ratio. Probably not in 2009, but certainly as we go into 2010 and in the future, we believe our systems and our operations and our efficiency and all the things will be more efficient and effective. And so, we would expect a better combined ratio. I'm not sure how, how that interrelates with the second half of your question. I think, in terms of growth and acquisitions, we'll try to do that irrespective of the One Markel.

Unknown Analyst

Okay. And the last thing is, what percentage of your equity portfolio's in financials and what types of financial investments are you thinking about making this as, or made already?

Steven A. Markel

Tom, I'll let you pick that one up.

Thomas S. Gayner

Yes. The total number that would be, in the category of finance, will be roughly 30%, half of that is what you are half away, which some people call the financial, some people call the collaborate. You can make your own conclusion about that. And about 1% or less is in the banking area which is the area that must be why they are most concerned about.

Unknown Analyst

Thank you.

Operator

And next question is coming from John Fox with Fenimore Asset Management. Please state your question.

John Fox

Hey, good morning everyone, I have a number of questions. First for Richie, do you have the breakdown, fixed incomes versus equities, versus short-term et cetera?

Richard Reeves Whitt

: We do.

John Fox

Well I know that you do.

Richard Reeves Whitt

: Yeah, of course John, you know that. Hold on, we are just looking around for paper, we have got plenty of it, just need the right piece. Fixed income at the end of the year, 4.6 billion, equity securities 1.1 billion, short-term 500 million, investments in affiliates 93 million, cash and cash equivalents 600 million.

John Fox

Okay, thank you. And I guess last one for Richie, I know investment income seasonally goes down in the fourth quarter. Also, I think I picked up there was a little bit of the credit default swap running through there, but could you just talk about the amount and what a good run rate for 2009 might be in investment income, because it did look a little bit low to me?

Richard Reeves Whitt

I guess you are telling me what rates are going to do, John when we reinvested the 1.1 billion, it will tell you what investment income would look like. It's kind of tough right now. John, I'd also add, that as I've mentioned because we're going to make the conscious decision to keep our duration short than what would naturally be the case, I'm willing to accept the opportunity cost of lower run rate investment income for the next quarter or two, because I wanted to have the opportunity to invest and be on the offence when the market changes within any inflection points, in inflation or statistics like that.

John Fox

Okay that's fine. Though ... I do want have to confirm, those maybe 3 million of credit default sway run through there in the quarter. Is that...?

Richard Reeves Whitt

Wait a SEC, $2 million in the quarter, John.

John Fox

$2 million. Okay. And Tom, somebody mentioned, I guess you took a OTTI on GE, I am curious did you saw that or you just felt the prices down so much that it wanted a write-down?

Thomas S. Gayner

No, we did that because of the price decline, we have not sold it, at this point, I'll just describe that and a couple of other things that has reached their long term equity option position that in five years, some five, 10 years from now, GE is probably either a distant and painful memory or a $100 stock. So at this point, we'll keep the lead in place, given the percentage that it represents in the portfolio.

Unknown Analyst

Okay, that's fine and then two for Paul. Paul you mentioned, if I got your words correct, higher than expected hurricane losses and certainly if you look through '04, '05 I kind of expected hurricane losses every year, but did you mean to say that you loss more than you thought you would given the size of the storms or could you just clarify that, please?

Paul W. Springman

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I think certainly much higher in 2008 than what we had in either 2006, 2007. I don't have the number right handy, but I think it's just a combination of the two, is right at a $100 million.

John Fox

Right.

Paul W. Springman

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About 100, $95 million and '06 and '07, we virtually scaled in through loss free. So they were higher relative to prior years.

John Fox

Okay.

Paul W. Springman

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So, I was trying to explain the difference in the results from 2008 from the prior two.

John Fox

Okay, so it wasn't higher than you expected given the type of storm we had, it was just versus last year?

Paul W. Springman

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Yeah. John I think 95 million, if the number stays around that range, I think given how big Ike was, I think we feel that that's about right. I wouldn't say we got it perfect and we're still doing work in terms of our management of catastrophe exposure, but that doesn't seem outside or what we experienced this year.

John Fox

Okay, and then the last one, Paul mentioned in '99 combined and you vowed to significantly improve it this year. And I am just curious, how'd you get there? Obviously, there is rate increases, it sounds like it's flip through and may have prior reserve releases, but maybe if you could just talk about the formula so to speak?

Paul W. Springman

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Sure. We don't focus a lot on prior reserve releases, that sort of a frosting on the cake, if you will.

John Fox

Okay.

Paul W. Springman

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But we clearly are focused on the front-end pricing of our business and we think the pricing environment has improved significantly in the last 30 to 60 days and we hope to leave the charge in the marketplace to take advantage of that wherever we can. We also think we have some issues that we've dealt with in the past that will not be recurring again in 2009. I commented briefly on some of our issues with smart division at Markel Re.

We believe we have those loss reserves that are not only adequate, but with a margin of safety to deal with any issues there. We've dealt with our issues with the Italian Medical Malpractice, problems that we incurred in the middle of 2008 and we've dealt with an unprofitable segment of our business at Markel Global Marine and Energy.

We think all three of those issues are firmly behind us and when you overlay that with the improvement in the pricing environment, we think the stage is set for a pretty good year as we begin to look forward.

John Fox

Okay. Thank you.

Operator

Our next question is coming from Meyer Shields of Stifel Nicolaus. Please state your question.

Meyer Shields

Thanks, good morning everyone. First, another question for Paul if I can. Over the past couple of quarters, the Excess and Surplus Lines have had the largest drop in gross written premiums. Is any of that a manifestation of moving to One Markel and should we expect that to turn around for coming 2009?

Paul W. Springman

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I think the pricing environment that we faced throughout the year Meyer, was what resulted in a vast majority of the premium decreases. We were off in that segment about 10%, 2008 versus 2007. The competition was extremely, extremely difficult, especially for larger accounts, anything that's six figures or more. There were lots and lots of competitors that were eager and hungry through most of last year. And it takes just a whole bunch of new business at $4,000 or $5,000 are popped to make up when you lose one at $400,000 or $500,000.

The One Markel strategy clearly is a long term growth strategy. The loss and premium volume doesn't have anything to do in '08 and in fact we think if early signs are as we believe they are in Plano, we'll see a nice uptick. We know the activity will be there, it's just whether or not the marketplace will sustain a lot of pricing bubbles.

Meyer Shields

Okay, that's helpful. Can you talk a little bit about the pop in specialty admitted gross written premium in the quarter, is there anything underlying that?

Thomas S. Gayner

We've got some of program business, Meyer, that renews in the ... in the fourth quarter. So, there's going to be a little more seasonality to their numbers going forward as long as we write those programs. But they tend to ... they renew in the fourth quarter and so it's about right in the fourth quarter with those programs.

Meyer Shields

Okay. So that's something that we are likely to continue steadily over in 2009?

Thomas S. Gayner

Well, as long as we write those programs, they'll be renewing in the fourth quarter every year. Yes, you'll see that flat now for next year when they're renewed, when you compare it year-to-year.

Meyer Shields

Okay, that's helpful. And lastly, I guess, maybe a key question. The net to gross ratio in the London market was 97% in the quarter. Is anything going on there?

Thomas S. Gayner

That is reception and reinstatement premium. Since we reduced our Hurricane reserves, we also reduced our reinstatement premiums to our reinsures as we seeded less loss to them. And that pumps up the retention ratio in the quarter.

Meyer Shields

Okay. Can you say how much it was?

Thomas S. Gayner

$4 million.

Meyer Shields

Four?

Thomas S. Gayner

Yes, four.

Meyer Shields

Okay great. Thanks so much.

Operator

Our next question is coming from Jay Cohen with Banc of America. Please state your question.

Jay Cohen

This is Banc of America, Merrill Lynch, to be fair. Holding on to some old brand names there. Hey, can you talk about your exposure on the liability side to financial institutions, I know you are like you are (ph) too much but are you seeing kind of stake up in claims there?

Richard Reeves Whitt

The largest single area would be commercial DNO (ph) in the U.S. to financial institutions and we have none in that arena whatsoever. We write some commercial DNO business through our Markel International Operations in London, the vast majority of which is located either in the U.K. or on the European continent. But in terms of exposure to financial institutions per se, on the underwriting side here in U.S. it's negligible.

Steven A. Markel

To be fair Jay, we have seen a little bit of activity (inaudible) by financial institutions outside the U.S. and obviously some of that institutions are dabbled in the U.S. market. So, there has been a little bit of sort of second order affect where we are seeing a little activity.

Its still be seen whether those claims are covered under the policy, but we're seeing some activity there. It's not significant.

Jay Cohen

Great, and then Steve you had mentioned that in a weak economy you tend to see claims go up but where would you be able to find data on that but I don't... is that what you're saying? Obviously you've seen weaker economic conditions in the past. In 2008, clearly the economy got worse as the year progressed. Did you in fact see as the year progress an increase frequency in claims, because I am not hearing it from others frankly?

Steven A. Markel

No. I mean I don't think we have specific evidence on that portfolio in 2008 either. But I don't have any trouble believing that when times are tough, insurance claims are higher.

Jay Cohen

Okay, so we'll obviously stay tuned and I guess you'd rather still are being conservative as you think about loss frequency anyway?

Steven A. Markel

Absolutely. And it'll probably worsen in personal lines areas than some of the commercial. But even commercial, the number of... one of the key underwriting elements in any insurance contract is underwriting the moral hazard and the moral hazard is much worse in times of financial distress.

Almost universally, you want to know the financials status of your insured and if that financial status gets worse, the claim to experience is likely to gets worse. Businesses that start not paying as much attention to safety or something like that is another example of the way that it unfolds. So, I can't point to and haven't tried to run details statistics on it, but we are being cautious and we believe it's going to happen and we're building it into our rating models.

Jay Cohen

Great, and then last question; I think Paul may have mentioned, someone mentioned that the costs for the One Markel in '09 be roughly 50 million, if Richie did, it was at 18 million in '08 and that's what I guess point and a half or actually a little bit less than that on the expense ratio. Is there an off-set that will allow the expense ratio to maybe be flat in '09?

Richard Reeves Whitt

Jay we are obviously, like all businesses, looking very, very hard in our expenses. But there is no way we'll be able to overcome all of that. So you are right. It is probably an additional point and a half, over the 18 we have this year. 2009 is sort of a big build year in terms of system... parts of it and so forth and we'll be moving our associates around to different locations. I mean this is the big spin of the year, but we'll overcome some of it but not all of it.

Jay Cohen

Got it, got it, great. Thanks for the answers.

Thomas S. Gayner

Thank you, Jay.

Operator

Our next question is coming from Wes Malone with Wonderate (ph) Securities. Please state your question.

Unknown Analyst

Hey, thank you. Could you just clarify a little bit, I wasn't sure I understood the tax impact on the investment losses that it was a much higher tax rate in... 35%?

Richard Reeves Whitt

Yeah Wes, I'll do my best. We had a pre-tax net loss for the year and the statutory rate is 35%, correct. There are items in our pre-tax book loss such as municipal investment income that are not tax, not subject to tax.

So the pre-tax taxable loss is larger than our book loss and when you apply the federal rate to that, you... it actually pictures 35% rate up. And so, we have a 64% rate, the majority of the difference is the benefit of not being passed on that municipal income. So in other words, our taxable loss, pretax loss is bigger.

Steven A. Markel

And $0.80. (ph).

Richard Reeves Whitt

I tried.

Unknown Analyst

Okay. Well, that's helpful, yes. Thank you. And then about the Markel One strategy, so far it sounds like it was better than expected. And I'm just curious, what were the decisions or what were the factors that drove you to make a decision to start that process now as opposed, if it's so great, why didn't you do it two years ago?

Thomas S. Gayner

The planning process that started, every bit a two years ago, and probably longer than that, that we've been sort of looking at the organization and thinking about how to best structure things. And the planning process was well under way. The timing in part was driven by a sense of the time was right with our own organizational structure and staff.

The time was right with our agency force. And then likewise, the time was right in the marketplace. We felt that launching this sort of initiative in the worst part of a soft market with the best time to do it, and so spending a large part of 2009, gearing up for this thing and going into 2010. When the market was fairly soft, anyway we thought was the time we think to do.

But it's just a question of building consensus and moving forward and these things unfortunately do take a long time because there is a meaningful amount of systems work associated with them and a whole lot of moving people around which is been going around throughout the year.

Unknown Analyst

Well, is it often... was this driven by in the size Markel is today compared to, say five years ago?

Thomas S. Gayner

Certainly, size and complexity had to lot to do with this. There were literally hundreds of factors. One of the important factors, you may recall that from, I think its now three years ago, we did a survey of all of our associates and asked our associates what they like best and what they would like to see improved at Markel. And while we feel like we got extremely high ratings among the associates in many, many categories, the one thing that people seemed to be most concerned about was the lack of ability to see a progression through the organization.

And in the silos that we were organized in before, it was very complicated for an employee to move from one area to another area, or from one company to another company. And one of the key elements of the One Markel structure is that it creates a much more transparent opportunity for employees to move back and forth from marketing and sales to product line management or from one product to another product, or to focus on selling multiple products and creating opportunities for associates to move from one region to another region.

And, we think that one of the key advantages of this is going to be to create a whole lot of new opportunities for employee growth and development.

Unknown Analyst

Okay. And then does this have an impact on the kinds of merger and acquisition opportunities that you look at?

Thomas S. Gayner

Undoubtedly, it might. But at this point in time, I really don't know how that might impact things. Clearly, with the specialty product focus, marketing it through our five regions I think, in any respects we may be in a better position to look at some acquisitions. But to be real honest to that I haven't kind of given that a huge amount of thought at this point in time.

I think it might depend a lot on what type of acquisition it was. There are probably some that will be a lot easier and would fit in more easily with our new Markel structure and then maybe others, but it would become more complicated.

Unknown Analyst

And in terms of M&A, do you see them... are sellers having more reasonable approach to the pricing they're thinking about? Or what do you see in the activity?

Thomas S. Gayner

Rather than too many transactions to look at so, I'm not sure that's happened yet. But clearly, prices have come down. My sense is that, sellers probably have still... they probably are reluctant unless they have to sell or I must say, have to raise additional capital. And there are certainly some of those around and I expect after the fourth quarter is announced, there will be a whole lot more of those around. But sellers who are in good financial position and don't have to sell probably are denying that they would wait for better times. But I think we'll see a whole lot more distressed circumstances in the marketplace and I guess you could you could describe the transactions that have occurred in the last several months as being distressed in one form or another.

Unknown Analyst

Are you all looking at any of the AIG businesses?

Thomas S. Gayner

We're really haven't at this point of time.

Unknown Analyst

Okay, alright. Well, thank you.

Operator

Our next question is coming from Scott Honiac (ph) with RBC Capital. Please state your question.

Unknown Analyst

Yes, good morning. Question on the decision of shutdown of the Global Marine and Energy unit. I'm just wondering is that strictly based on higher loss activity or is... or do you want to reduce catastrophe exposure or don't want to buy the reinsurance coverage or is it just a combination of all those or something else or just wondering if you could talk about that?

Steven A. Markel

I'll make a quick comment Paul and I'll let you pick up on it. But I think the major factor isn't that product line, it was important because of the size of the limits that the insurers required, that we built a fairly significant critical mass and we found that it was tough for us in the pricing environment to achieve that critical mass because, and we are not going to write the businesses at inadequate prices. Paul, do you want to pick up on that?

Paul W. Springman

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No, I think... I made... in my additional comments. I said that that our losses were somewhat larger than expected, both onshore and offshore from that unit relative through its size and writings, but Steve's exactly right. As the marketplace began to change in 2006 and 2007, it became pretty apparent to us that we had to have significantly higher limits than what we were offering in most of the three or four products there, and even with reinsurance pricing being what it was, we just didn't feel comfortable putting up those sorts of gross limits on those products.

It was a part of those things, when we look at what the opportunities were for improvement for this year, we didn't see a whole lot and combined that with at least on some of the products, we were seeing some of the business either through our international operations where we have established marine and energy division or through some of our haul and cargo operations already through our existing regions. So that's what let us to say the decision.

Unknown Analyst

Okay, makes sense. Just one last question, so this is the first time, I guess, in several calls you haven't mentioned, the market carriers, I know they are still out there, but could you comment on what you are seeing there? Any change in behavior there? Do you think it's still too early for the in-market carriers to go back to running in the business?

Steven A. Markel

Well, I think that there is no doubt in one of the earlier questions about the decline in premium volume and the E&S sector for Markel is that the admitted carriers are continuing to be fairly aggressive in the non-admitted markets and writing specialty business. And sort of redefining the landscape and that's the constant ebb and flow of where the line between the admitted and non-admitted between standard and excess and surplus lines. And clearly the pendulum has been the E&S business into the standard markets for the last several years. I have not seen that pendulum start to swing in the other direction yet. But undoubtedly as if the admitted markets see their losses creep up, not only will they increase prices which is just half of the equation, but the other half is they need to tighten underwriting terms and decide that are bars and taverns (ph) are no longer rough terms (ph).

Unknown Analyst

It's interesting to see what happens after the fourth quarter results are reported?

Steven A. Markel

And it think that's going to be an important element. I just think the size that we offer to some of the larger admitted carriers, it just takes a little bit longer for the message to filter down and the numbers to be discussed and disclosed.

Unknown Analyst

Thanks.

Operator

Our next question is coming from Jim Akal (ph) with Millennium Partners. Please state your question.

Craig Rothman

Hi, guys. This is [Craig Rothman]. Can you just, going back to the loss trends, and your thoughts on the economic impact. Are you talking about more on property lines or casualty lines too?

Steven A. Markel

Well it clearly it shows a first and probably easier to identify on property lines, but I am sure the same thing applies on casualty line, so people are something just more likely to make claims and be unhappy in bad economic environment and so the expectation is that they'll... they'll look for deep pockets and insurance companies are deep pockets.

Craig Rothman

So what kind of (inaudible) assumptions are you pricing in?

Steven A. Markel

It's a very subjective kind of thing and it varies with our product lines. Paul mentioned important practices liability. Someone's unhappy in this job and there are 15 jobs available for them. And they leave and get another job, it's very unlikely that they go make a claim that their employers didn't treat them fairly. Whether it's an age discrimination or sex discrimination or whatever the underlying complaint might be. If on the other hand someone leaves their job and there is no other job, there is... the possibility of them making a claim is increases. And this sort of common sense kind of stuff that you just have to factored in this, there is not enough data to tell you that its 3.6% when the unemployment rate goes from 5 to 8. But there is some number and you just to have a make a judgment and it's ... you need to do it both from underwriting standards as well as from pricing.

Craig Rothman

Yeah. And I think what you are saying makes a lot of sense but it doesn't seem like other companies are anticipating, just I'm wondering, other, your competition, are they pricing this?

Steven A. Markel

Probably not and the question really is more relevantly should be asked to them, why not?

Craig Rothman

Yes. So do you think that the pricing, the improved pricing that you are talking about is enough to more than offset the potential loss trend increase?

Steven A. Markel

From our perspective, that's our intent in setting our prices. And whether we're going to be successful or not, you can read our forward-looking statement and Safe Harbor stuff, we don't know. But we sure as heck are going to do charge for the right amount because underwriting profits are the absolute key to making the model work. There is no point in being in the property specialty and insurance business and losing money, that's not what we are here for.

Craig Rothman

Okay. And then what are some of the conversations like, where it maybe you're starting to charge like a 5 to 10% higher price on clients that seen the profits of their business drop like 50%, and they really starting, I mean are you having success in passing through their price increase or is that going to be a problem with the weak economic environment?

Steven A. Markel

Well it could be challenge, there is no doubt about that. So far though, it sounds preposterous and Paul gave fairly significant number of examples of that and we will do our very best and we will... our insurers understand, I mean nobody bites price increases, it's simple. But an insurance policy is no more than promise pay in the future and if we're not making money, our promise isn't very useful, and I think most intelligent insurers want a long-term relationship with a financial solvent carrier, at least the insurance that we see do.

And it's not only a recession causing higher claims, it's also the impact of having price reductions for the last several years that have been occurring. It's a low interest rate environment where there is very little opportunity to invest the float in higher rates today, the interest rate yields that we can expect to get on our bond portfolios are fairly modest, I mean it's a combination of all of those things.

And we have putting capital at risk and we are entitled to earn a descent return on that capital. And we... as long as our insurers understand that we're being honest and straight with them and clearly they go look for the best yield but they want a long-term relationship, we'll win that discussion.

Craig Rothman

Okay. And I'm sorry if I miss this before, but did you talk about your reinsurance cost to pricing there?

Steven A. Markel

We continued about less reinsurance, because our overall goal is to retain as much of the business as possible and so the impact of increase in reinsurance clause is fairly modest on our model. Clearly it has an effect but not a huge effect, and we don't... our reinsurance renewals are sort of scattered around the year, so this doesn't typically have a major impact at one point in time. Paul you're probably closer to some of the reinsurance pricing issues as there... we haven't had any, what sort of increases have you seen in the most recent renewals?

Paul W. Springman

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Most of our international reinsurance treaties renewed on the first of the year and for the most part they were flat to moderately up. By moderately I mean maybe 5% to 7%. Most of our domestic treaties, and as Steve said with the few exceptions such as; property catastrophe, we are holding most of our capacity business net these days. So we haven't had anything significant at this point renew in 2009.

Craig Rothman

Okay. Thanks a lot guys.

Operator

Our next question is coming from Amit Kumar with Fox-Pitt Kelton. Please state your question.

Amit Kumar

Thanks. I'd just sort of staying on that discussion on pricing; in terms of the discipline apart from issues at AGN (ph) some of the larger carriers, do you still see that discipline in your peer group or do you see, when you are going out and talking about the price increases, there are some carriers who are in fact, trying to undercut you.

Steven A. Markel

Unfortunately, Amit, I think there are more people swimming in a different direction than we are at this point in time. But I am very comfortable that we are doing the right thing and it's the rest of the market will catch up with us in due time.

Amit Kumar

I guess my fear is, are there several carriers out there who might just end up derailing the change that we have been talking about?

Steven A. Markel

I mean, they can derail it in the short run. But at the end of the day, we get to choose whether we ride a few to (ph) business and not riding it is better than riding it at a loss. If our volume, we do not expect it to happen, that's if our volume were to drop from $2.2 billion which we wrote this year, to so some other number much less.

That's not a problem. I would rather write $2 billion worth of profitable business than hang on to $2.2 billion and have an underwriting offs.

I makes absolutely no sense to write business that you don't make a decent margin off. And the rest of the world sooner or later will understand the same thing.

Amit Kumar

That's helpful. I guess, if you sort of flip the situation and the market continue to harden and all is been equal, competition is disciplined, is there some sort of a feeling in your mind as to how far can you go in terms of premium to equity ratios?

Steven A. Markel

Up or down. Or up.

Amit Kumar

Up.

Steven A. Markel

Our weekly drills, I don't think we have... we were writing $3 billion instead of 2.2. I don't think we would have any trouble figuring on how to finance that. May be Richard you are blanching as I comment but...

Richard Reeves Whitt

We look forward to that. We look forward to that problem.

Steven A. Markel

Just type this (ph) and just think about it. If you are writing business at a 99% combined ratio and you need $1 billion worth of capital and you can write the same business at a 20% higher rate, how much more capital should you put in the business. I accept the fact that for rating agencies and for regulatory things, those ratios matter. But in the real world, if you can write the same business at 20% or more, you don't need anymore capital.

Amit Kumar

All right. That's very helpful, thanks so much.

Steven A. Markel

And so, in that sort of the mindset, we'll find a way to make sure the numbers, we have the right capital and we allocate in the right places.

Amit Kumar

Okay. Thanks.

Operator

There are no further questions at this time. I would like to turn this call back over to management for closing comments.

Steven A. Markel

Thank you very much operator, and I'd like to thank all of our participants today for joining us and I would like to thank, thank you for your support and encouragement over the years and should you have any further questions for comments, we would absolutely love to hear from you.

Operator

This does conclude today's teleconference. You may disconnect your lines at this time. And we thank you for your participation.