S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

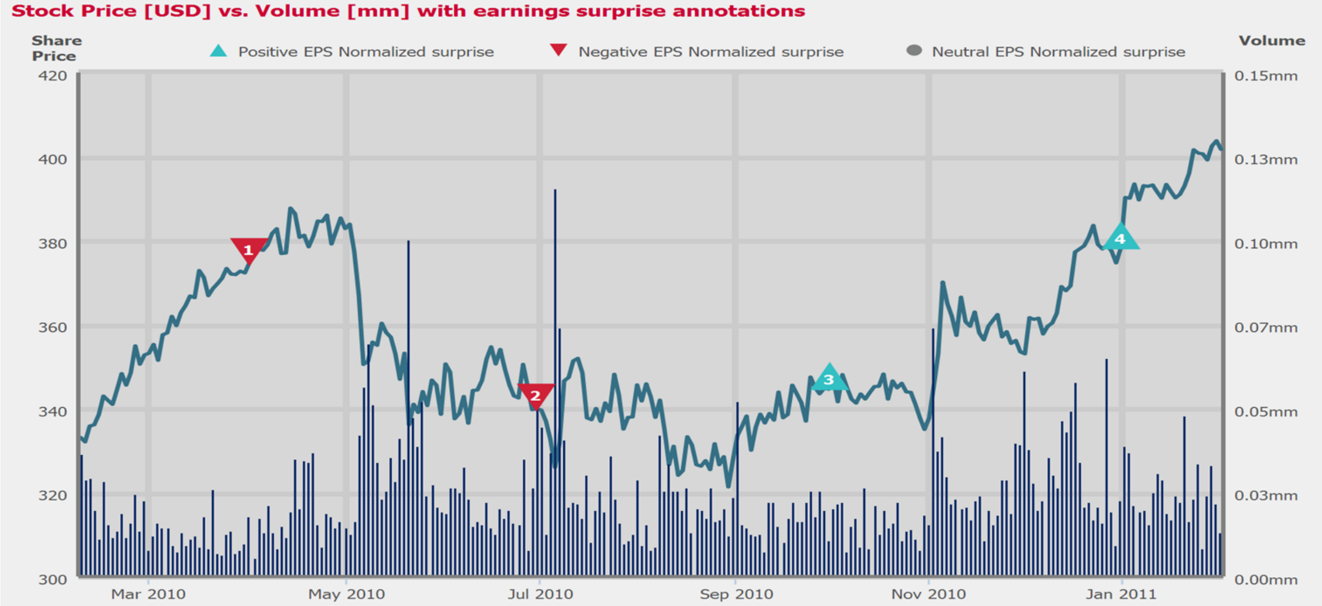
FQ1 2011 Earnings Call Transcripts

Friday, May 06, 2011 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.40	(0.14)	NM	3.73	13.40	17.71
Revenue (mm)	569.40	621.59	▲9.17	587.77	2386.52	2505.77

Currency: USD
Consensus as of May-06-2011 2:07 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	4.73	3.23	▼1 (31.71 %)
FQ2 2010	3.90	2.30	▼2 (41.03 %)
FQ3 2010	3.58	5.86	▲3 63.69 %
FQ4 2010	4.38	12.91	▲4 194.75 %

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Call Participants

EXECUTIVES

Anne Waleski

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Tom Gayner

ANALYSTS

Beth Malone
Wunderlich Securities

Doug Mewhirter
RBC Capital Markets

Mark Hughes
SunTrust

Vincent D'Agostino
Stifel Nicolaus

Presentation

Operator

Greetings and welcome to the Markel Corporation first quarter 2011 earnings call. (Operator Instructions) It is now my pleasure to introduce your host, Tom Gayner, President of Markel Corporation.

Tom Gayner

Good morning. It's my pleasure to welcome you to the Markel Corporation's first quarter conference call. Thank you all for joining us. On today's call we will follow our normal line-up with Anne Waleski leading up with the financial results, followed by Mike Crowley and Richie Whitt with operational comments, then I will discuss our investment in other operations. After our comments, we will all be available for your questions.

Before we begin, I'd like to remind you that during today's call, we may make forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is described under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report Form 10-Q.

We may also discuss some non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures on our website at www.markelcorp.com in the Investor Information section under non-GAAP reconciliation or in our quarterly report on Form 10-Q.

With that, I'll turn it over to Anne.

Anne Waleski

Thank you, Tom, and good morning everyone. I will follow the same format today, as I have in past quarters. I will discuss our underwriting results, followed by a brief discussion of our investment results and bring the two together with a discussion of our total results.

Regarding with the underwriting results, first quarter 2011 gross written premiums were just under $600 million, up 21% compared to 2010. The increase in 2011 was due to higher gross premium volume in the Specialty Admitted in London Insurance market segment.

For the quarter ended March 31, 2011 the Specialty Admitted segment included $58 million of gross written premium from our first comp workers compensation operations, which we acquired in late 2010. The increase in gross written premium in the London Insurance market segment was due in part through our acquisition of Elliott Special Risk in late 2009, which is now been fully converted from an MGA to a risk bearing operation.

We also saw significant increases in premium volume within our marine and energy division due in part to offering large loan sizes and an increased pricing environment. Net written premiums were approximately $520 million, up 16% to the prior year. Retentions were down slightly in 2011 at 88% compared to 91% in 2010.

Approximately 2 points of this decrease relates to reinstatement premiums associated with losses incurred during the first quarter of 2011. Earned premiums increased 12%, primarily due to higher earned premiums in the Specialty Admitted in London market segments as a result of higher gross premium volumes compared to 2010.

Our combined ratio was 112% for 2011 compared to 101% in 2010. The increase was due to a higher current accident year loss ratio and a higher expense ration, partially offset by more favorable development of prior years loss reserve compared to 2010. The combined ratio for 2011 included $69 million or 15 points of underwriting loss for natural catastrophes that occurred in the first quarter, including the Australian floods, the earthquake in New Zealand and the Japanese earthquake and subsequent tsunami.

Favorable redundancies on prior year's loss reserves increased to $75 million or 16 points of favorable development compared to $38 million or 9 points of favorable development in 2010. The increase was primarily due to more favorable development of prior year losses in the Excess & Surplus Lines segment.

In the first quarter of 2010, we've reported $14 million of adverse developments on an errors and omissions program for mortgage servicing companies. In the first quarter of 2011, we resolved the significant portion of our outstanding liabilities associated with the same program and as a result reduced losses of about $16 million.

Our 2011 expense ratio increased approximately 6 points to 44%. The increase in the expense ratio is due in part to higher personnel cost. Additionally our first quarter 2010 expense ratio benefited 2 points from the favorable arbitration settlement and in anticipated insurance recoverable.

Now, moving to our investment results. Investment income was up approximately 2.5% in 2011 to $70 million, due in part to higher invested assets and dividend income compared to 2010. Net realized investment gains were $11 million compared to $16 million in 2010. Realized gains in 2011 included no write-downs for other than temporary declines in the estimated fair value of investments compared to $2 million of write-downs from 2010.

Unrealized gains increased $20 million before taxes in 2011 due to increases in equity securities. Tom will comment further on investments in his portion of the call.

Looking at our total results for 2011, we reported net income to shareholders of $8 million compared to $43 million in 2010. Book value per share increased to $329 per share at March 31, 2011 from $326 per share at yearend. The effective tax rate was 14% in 2011 compared to an effective tax rate of 31% in 2010. The decrease in 2010 was due in part to anticipating comparable levels of tax exempt income or estimating lower pre-tax income in 2011 as compared to 2010.

Now, I'll make a few comments about cash flow and the balance sheet. Regarding cash flow net cash used by operating activities was approximately $9 million to the three months ended March 31, 2011 compared to net cash provided by operating activities of approximately $4 million for the same period of 2010.

Historically, first quarter is our lowest cash and earning quarter, as we're paying employee benefit, agent incentives, pension contributions and other items of that type in the first quarter. We would expect the numbers to improve in the second quarter.

Regarding the balance sheet, investment and cash held at the holding company were approximately $800 million at March 31 as compared to a little less than $900 million as of September 31, 2010. The decrease is due in part to interest payment on debt.

At this point, I will turn it over to Mike to further discuss the operations.

Francis Michael Crowley
Vice Chairman

Thanks, Anne, and good morning. The first quarter results for the North American operations were good, especially Admitted segment growth in premiums were up significantly, as Anne mentioned, compared to the same period last year. This was due in part to our growth in our Equine and Livestock, Agriculture and Accidental and the FirstComp premiums in the first quarter. Excluding FirstComp, especially premium was up 8%, which was slightly better than expectations.

The combined ratio was in line with budget in prior year. The expense ratio was higher than prior year due to one-time offset in prior year for E&L recovery. FirstComp revenues for the first quarter exceeded expectations due to strong non-California performance across the region. Encouragingly, we are seeing stronger than anticipated audit and endorsement numbers due to better than expected payrolls.

Markel products training for FirstComp sales staff was also initiated in the quarter at regional sales meetings, and all outside and inside sales staff of FirstComp has now received this cross-sell training. In addition, 400 Markel agencies have been selected as targets for opportunities with FirstComp. This cross-sell effort has begun produce results and we are down to our first accounts in the quarter. Expectations for the cross-sell revenue between FirstComp and Markel Specialty are being developed and will be monitored going forward.

Other highlights for the Specialty Admitted segment for the quarter include a new program kicked off by our Agriculture division that produced 75 new accounts in the quarter. Our Boys and Girls Club program gained traction with the addition of key new accounts. And we added a talent to our program division with the addition of Vicki Webb who has joined Markel with 20-plus-years experience with AIG.

Our E&S segment wholesale divisions had a solid first quarter. While however, E&S growth rates and premiums in the quarter were down 5%. This decline was due primarily to a reduction of significant book of (fourth placed) business. Excluding the reduction in this one program, core wholesale premiums were flat to a year ago. Our total core regional premium was up 7%. This growth occurred in four of our prior described regions and across a number of our product lines.

We define core regional premium as the premium unwritten directly in the region, whereas (inaudible). Dealings with our national agents and advisory council were held in the quarter and the feedback from this group continues to remain very positive regarding our One Markel strategy.

We continue to focus our operational efforts on reducing the comp from received submissions, delivering (inaudible). And as a result, we're moving some centralized resources back in the control of wholesale division and the regions.

Submissions for the E&S segment were up 17% over prior year and the total number of (bads) were up 8.7%. As a result of the increased submissions, we continue to refine our (inaudible) by terminating co-performers and posting our efforts on those progress who are delivering the best results.

Our goals include (inaudible) service to our top agents, eliminating co-submission interim on the targeted 20% to 30% of submissions, pre-screening out those that we have real chance of driving. And also by improving overall clearance, data entries and core turnaround times.

Finally, during the quarter we were very pleased to announce the appointment of Susan Swanson, to Executive Vice President and Head of the Midwest Region. Susan has been with Markel for 29 years and is a proven and experienced leader. And we are confident she'll do a perfect job in Midwest for us.

On the other audit side, we have both our product plans to launch in the quarter, admitted architect and engineers, professional liability, miscellaneous errors and omissions and excess transportation. We offer currently 15 to 20 other smaller product offering's that are in various stages of development. We announce that we would no longer continue developing a crisis management product and have repositioned our product lines as well.

Joining our product line leadership team was John Termini, as Managing Director, Environmental. John joined us from Aspen Specialty Insurance Company with 20 years experience. He began his career in 1990 as a hydrogeologist and environmental scientist, and I'm going to give you a heads up. Don't ask me what that is on the Q&A because I don't know.

In summary, the (inaudible) environment for the most part has not improved and competition continues to remain very aggressive. Now we are seeing growth in a number of our areas, and we continue to be optimistic that all of the various initiatives at Markel in the North American operations would produce positive results over time.

I'll now turn the call over to Richie Whitt.

Richard Reeves Whitt
Co-CEO & Director

Obviously, the headline news in our international operations for the first quarter was the catastrophes in Australia, New Zealand and Japan. Our international operations had losses from all three of these events, and we recorded approximately $6 million to $7 million of losses related to them in the first quarter. Just for good housekeeping, our consolidated number for the three events is $69 million.

While this is a significant number, it's not outside our expectations for these types of 4 magnitude events and the amount of business that we write in these countries. At this point, we believe we have a reasonable handle on our exposures to the Australian floods and the second New Zealand quake, and we're comfortable with our reserves for these events.

The Japanese quake and Tsunami situation is still evolving, and the extent of the losses is still being determined. We have already seen several insurers coming out and increase their initial estimates. While we have established what we believe is a conservative reserve for Japan of approximately $35 million in our international operations - that would be $37 million consolidated, this number is subject to greater volatility. We are going to be watching developments very closely over the next several weeks on the Japan situation.

The insurance market is reacting to these events, and property prices are moving up. At this point, and I think I'd characterize the market as fluid, as buyers, workers and insurers are trying to find what the new market level is, and by new market level I mean, higher.

At Markel, we expect prices to go up and we're seeking increases on all of our property business.

Turning to other items, gross premium volume was up 22% in our international operations in the first quarter. As Anne said, this was primarily due to our Elliott Special Risks acquisition in Canada - it's now fully online, and due to continued growth in our marine and energy book.

We had a nice first quarter in terms of growth in our international. So we're off to a good start on that scorecard.

On the expansion front in the first quarter, we gained approval for our representative office in Beijing, China. In addition, we held the grand opening of our new office in Hong Kong. These offices will help us continue to develop our presence and strategy in Asia.

In addition, all of our branch offices continue to show slow but steady growth in the first quarter despite what is a very competitive market worldwide. We're very pleased with the fees we are selling in these markets. While relatively small today, these platforms are an important component of our international strategy and franchise.

No different than in the U.S., as Mike said, it's still fair to say, still very competitive in the market and mostly in our international operation. Clearly, the recent catastrophe losses and deteriorating operating performance of the past few years require that prices go up. But at this point prices are really only moving in the lines of business that are affected by the previously mentioned significant losses.

To sum it up, the first quarter was not the result we'd like to report to you. However, we do recognize the catastrophe losses are a part of our business, and our response to these types of events is why companies buy our products. At Markel, we're proud of the part that we play in helping people recover from these events.

Thank you. I'll now turn it over to Tom.

Tom Gayner

I'm pleased to report to you that we're off to a profitable start in 2011 in our investment in industrial operations. And I look forward to your questions.

The strategic goals of the investment department are number one, to protect and preserve the balance sheet through high quality fixed income investments; two, to allocate as much as possible to higher total return equity investments; and three, to increase the overall earning power and financial flexibility of the Markel Corporation through the ownership of a variety of profitable businesses.

I'm happy to report that we touched all the bases during the first quarter and that we continue to be on track to meet these objectives.

As for the numbers, during the first quarter the total return for the investment portfolio was a positive 1.8%. Equities were up 3%, fixed income was up 1% and foreign exchange effects added 0.4%. Additionally, other revenues at Markel, which are largely those of the Markel Ventures Company, were $77 million for the quarter versus $40 million in the prior year, an increase of 92%.

Markel's share of the associated EBITDA was $9.9 million versus $4.4 million, or more than double the level of 2010. A reconciliation of EBITDA with net income is available on the website.

The net of all of this is that even with the catastrophic events of the first quarter, we are reporting positive comprehensive income and a new record-high book value per share of $329.09.

And keeping with our first strategic objective, are preserving and protecting the balance sheet with the fixed income portfolio. We continue to maintain a portfolio that is high quality and shorter ranges. We don't think you get paid full for taking credit risk, and we're sure of that you get paid for taking in pricing and currency risk. Consequently, our portfolio reflects those beliefs.

It's remains a matter of flat job amazement to me, the long time interest rates are as well as they are, given current policies and circumstances. Now we are being cautious about these risks. We do not understand and will not accept the current market offer for taking it. We think it is more important to protect the portfolio against higher future interest rates.

As to our second objective, of allocating as much as possible for higher total return equity investments, during the quarter we continue to methodically increase the percentage of our portfolio invested in equities. This has been our consistent pattern for the last few years, at March 31, the total public equity portfolio including $1.787 billion or 54% of our total shareholders' equity.

As the (inaudible) of the equity markets in the first quarter of 2009, equities comprised only 45% of shareholders equity. Since that time, we have been methodical and continued with the investing in high quality public equity. And in the first quarter of 2011, we continued that pattern.

While the returns on fixed income and equity investments have been remarkably similar in recent years, I expected normal historical relationship to resume. And I think it will be well served by maintaining an increase in our commitments equity and higher current gross margin. We think that certain high quality common stocks remain at a cost evaluation and we are adding them to the portfolio. And we plan to continue to do so.

We have been conservative in marching this percentage up gradually due to the soft conditions in the insurance market. And we will remain modest in increasing this percentage until such time as we see tangible evidence of a hard new market and higher insurance pricing. If anything, we could be criticized for airing on (inaudible), as we've increased our commitments, but that is the sort of area we remain, safety first.

As to our third objective of building the earning power and financial flexibility of the Markel Corporation, are owing a variety of profitable businesses. We continue to be very pleased with the ongoing growth of Markel Ventures. The businesses that producing results in line with our expectations and they are adding value to Markel.

During the first quarter, the Ellicott Dredge Company acquired the Rohr Company, which expands Holocaust's product lines from current (inaudible) design, which are particularly well suited for (inaudible) model. We expect ongoing organic and acquisition opportunities within the growing framework of Markel ventures.

Our portfolio and acquisitions remain conservative. We believe in a (inaudible), which enable us to withstand the sort of catastrophic weather and natural events we experience during the first quarter, and that we've showed a sort of financial catastrophe that occurred in 2008.

While having a balance sheet we build over the decade, we've been able to respond the opportunities in the insurance investments and industrial world to put the value of your company. We continue to see

opportunities in all fields and I am pleased to report to you that we have the financial and human capital to make the most of them.
With that, I'd like to open the floor for questions.

Question and Answer

Operator

(Operator Instructions) Our first question comes from Vincent D'Agostino with Stifel Nicolaus.

Vincent D'Agostino
Stifel Nicolaus

Just in the 10-Q and I guess on the call this morning as well, you had mentioned there was higher personnel cost that had contributed to your expense ratio. And I was just curious if you could provide any additional color around those costs? And then I just have one follow up.

Anne Waleski

The additional costs were largely around in incentive compensation true-ups in the first quarter. And we had budgeted for this current year about 42% expense ratio. So just slightly higher than what we have budgeted.

Vincent D'Agostino
Stifel Nicolaus

And then a question for Tom. Looking at Markel ventures it seems to be having a common region denominator. How the portfolio is structured with the company's locations? Could you maybe talk about how you've received (inaudible) the acquisition target network outside of the Virginia area? And just in your acquisition criteria, it will be interesting at least to meet to know how the opportunities at least initially pop up on your radar?

Tom Gayner

Well as you correctly noted, a lot of thing we bought across have been in Richmond. So there were local connections where we happened to know the people, which is obviously a key in our comfort and growth dealing with the people in the sort of businesses that we have confidence in.

Ellicott is headquartered in Baltimore and TSI is in (inaudible) Texas. So we will continue to expand the geographies that as we look at. One of the wonderful things that's really beginning to occur and in fact there was a deal that we are starting to work on and see now is that the people in these industries and the companies that we have already purchased may know people that I don't. And they have contacts in their industry and people that they do businesses that they have personal relationships with that are interested in the permanent capital features of Markel Management.

So we'll be introduced to some really high quality people, and sometimes do happens, this is outside of Richmond, Virginia, and there is more outside than inside.

So we don't have limits on the (inaudible).

Operator

Our next question comes from Mark Hughes with SunTrust.

Mark Hughes
SunTrust

The contribution of Elliott in the quarter, you've described how you had shifted from MGA, the risk-bearing. Is there a incremental revenue number associated with them?

Tom Gayner

Yes, Elliott, that's worth about $100 million in gross written premium and year. So it's probably about $100 million and we obviously bought some reinsurance on that. So in terms of new written premium, maybe a bit less. But annual run rate's about $100 million.

Mark Hughes
SunTrust

And then the incremental contribution in the quarter since its close in 2009 was that transition? Did you get a extra pickup associated with that transition in this quarter?

Anne Waleski

So that is a $21 million increase over fourth quarter of last year.

Mark Hughes
SunTrust

How are you looking at the workers' comp segment now? Seems like there has been some volatility there among public players. You are doing quite well outside of California. What's your sense now on pricing competition in that market?

Francis Michael Crowley
Vice Chairman

It's still rigorous. The competition is real, but we have a lot of confidence in the model at FirstComp. And keep in mind that FirstComp writes workers' compensation on very, very small risks and very small premiums, and we have no intentions of changing their method of doing business and getting into the more broader workers' comp market.

The workers' comp market's tough. What's happening is that they have a strong understanding of the metrics in their business, and as we said in my comments, we're shipping away from California and feel good about the growth in non-California states.

Mark Hughes
SunTrust

Two cents on the pricing there; if we look year-over-year sequentially, anything you can share?

Francis Michael Crowley
Vice Chairman

In terms of pricing, there may be some slight changes, and now a lot of changes in the market. But as far as FirstComp, FirstComp is waiving their prices.

Mark Hughes
SunTrust

Richie, I think you described a fluid market looking to see where rate will settle. Any range you indicate a share? What's your judgment about what happened with pricing there?

Richard Reeves Whitt
Co-CEO & Director

I wish I knew, Mark. If you point the individual risk, you can get 25% to 300%, it just depends. So I don't think you can look at individual risk and say where the overall market's going. But I think it is fluid. Customers are still trying to say, hey, prices should be flat; maybe even prices should be down. Workers are working hard for them in some cases, but on risk they conform to, hey, there is going to be a lot of activity, the result would deteriorate and we need increases. And the reality is, we getting it on a lot of accounts now.

So I think there is no question it's going higher, I think everybody's probably got to process what they are seeing this first quarter, which is pretty ugly. And I think that will hopefully add yield for them to go higher, because quite honestly they need to.

Operator

Your next question comes from Beth Malone with Wunderlich Securities.

Beth Malone
Wunderlich Securities

I got a couple of questions. How big was the California market to FirstComp when you acquired it?

Tom Gayner

They were significant. I don't have the breakdown right in front of me, but suffice it to say that we, in our business plan for this year, have projected a significant shrinkage in our writings in California. But it was significant for FirstComp.

Beth Malone
Wunderlich Securities

And then, you talked about new products in the admitted market. Are those organically grown from your existing underwriting force or did you acquire talent from some place to develop these products?

Tom Gayner

Beth, I'm sorry, say that again.

Beth Malone
Wunderlich Securities

On the new products that you are offering in admitted, is that internal expertise that you're using to develop these products or have you acquired groups of underwriters from elsewhere?

Tom Gayner

Well, we've acquired groups of underwriters over the last 12 to 18 months, but the products that I mentioned that we launched in the quarter, the admitted architects and engineers' professional liability we hired Glen Mangold last year to have that practice of replacing (inaudible) of architects and engineers who have retired. And while that's in admitted product, it will be sold across both the Markel Specialty and the E&S segment. The miscellaneous E&O is an E&S placement and the excess transportation is an E&S placement.

We have attracted new talent over last year or so to add to our D&O and management liability practice, (Sao Bolero). We attracted John Termini, as I said, to head Enviornmental. We had (Owen) there for a while. We think he brings a lot of expertise there. Glen Mangold, again, replaced (11:00.40) as Head of Architects and Engineers.

So of this is replacing the talent that's retiring, and some of that is coming from our existing talent.

Beth Malone
Wunderlich Securities

And then on the expense level overall, you mentioned that you targeted around 42%. And I know you made some pretty significant investments in technology over the last few years. Should we anticipate that your expense ratio should start to move lower, or does it require a better pricing environment for you to grow the top-line in order to get that expense ratio to start moving lower?

Richard Reeves Whitt
Co-CEO & Director

I think we are scheduling to sort of finish up the big project we have been taking on at the end of this year. Unless we get a real shift in the market year, I don't expect our expense ratio to change too much from what we are looking at today and that's probably that 40 to 42 range. We have got some pretty stiff investments that we are still making through the end of the year.

Those will drop off significantly next year, and that will obviously help us. You saw that our net written is up pretty significantly in the first quarter and obviously that will start to earn through and I think those opinions will start to help us if we get more towards 2012.

Beth Malone
Wunderlich Securities

And then on the pricing and access and surplus lines - I know that can be one of the toughest markets in a soft market. We're hearing some noise from a lot of your competitors or re-insurers. So that may be starting to improve. What do you say?

Tom Gayner

The declines have certainly slowed in lot of cases. I mean Richie mentioned the property market, which is a different environment in a sale because of the catastrophes we had. But I think I would be remiss to say that we're seeing significant in pricing right now. It's still very competitive.

Beth Malone
Wunderlich Securities

What about the tornadoes in the second quarter? Do you think you have exposure to the April 27, 28 events?

Tom Gayner

Absolutely Beth; I don't think it's necessarily significant, but clearly we'll have exposure. And we're seeing clients come in. The nature of tornadoes are, you can't really predict where they go, and have erratic paths. And it really depends on where the properties are that you insured and what gets hit. But I'm seeing numbers in terms of anywhere from $2 billion to 5 billion for those string of storms, and we will pickup something on that clearly.

Beth Malone
Wunderlich Securities

Okay. And then one last question, in Japan, the loss that you incurred, I assume those are on a primary basis, and what was the nature, was it marine exposure that you had or is that actual, just property?

Tom Gayner

Our exposure primarily comes from two types of risk there. It would be reinsurance of domestic Japanese companies. So we are re-insuring their property programs and provide the cash we cover there, so we provide that type of coverage. And then the other would be what we kind of call open market property, but it's basically large, multinational property accounts.

And so just as an example, not necessarily that we have these accounts, but a GM or a Wal-Mart, companies that operate internationally buying international programs obviously had damage to locations in Japan. So those are the two areas where our exposure would come from.

Operator

(Operators Instructions) Our next question comes from Doug Mewhirter with RBC Capital Markets.

Doug Mewhirter
RBC Capital Markets

I just had a couple of questions. The first is, in the E&S sector, apart from the resolution of a large E&O client, where is the approximate source of the other favorable development in the E&S segment like accident years or (inaudible).

Anne Waleski

Most of it is coming out of professional and products liability in the '07 to '09 accident years.

Doug Mewhirter
RBC Capital Markets

And also, I guess changing direction a bit, in your other lines, your other revenues and other costs, is there still a significant positive or negative contribution from any fee based business, like any residual MGA excess that you have, or is most of that transferred to the risk-bearing consideration?

Anne Waleski

Most of the fee business coming out of Elliott Special Risks has transition. So most of that is no longer in Other. But we do still have some revenue in (inaudible) generated by the Aspen MGA operation.

Doug Mewhirter
RBC Capital Markets

My last question, could you just repeat where your effective operating tax rate was for the quarter? If the tax policy changed, how you'd see that over the year?

Anne Waleski

The effective tax rate was 40%, which compared to 31% in 2010. And in my comments, the decline is in part due to anticipating lower pre-tax income, but the same are now at comparable levels of tax-exempt income. Additionally, you're right, we do have a change which we talked about at year-end relative to a lower effective tax rate on our foreign operations as a result of a change in our plans regarding the amount of earnings considered permanently reinvested in our foreign subs.

Tom Gayner

Basically what that means is, if you don't plan on repatriating those earnings to the U.S., you don't have to layer on top of U.S. tax rate. So that (inaudible) there.

And the other thing I'd just say is, obviously with the substantial tax waive-off in the first quarter, we are now estimating lower pre-tax for the year, and that just makes the permanent difference on the tax exempts that much larger. That tends to drive your effective rate down.

Anne Waleski

And I would say our expectation for this year would be a mid-teens rate.

Operator

Ladies and gentlemen, there are no further questions at this time. I will turn the conference back to the management for closing remarks.

Tom Gayner

Thank you much for joining us. I'll remind you that our shareholder's meeting in on Monday, May 9 at 4:30 pm here in Richmond. So if that's going to find you in town, stop by. Thanks so much, we'll talk to you soon. Bye-bye.

Operator
Thank you. This concludes today's conference. All parties may disconnect. Have a great day.