S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

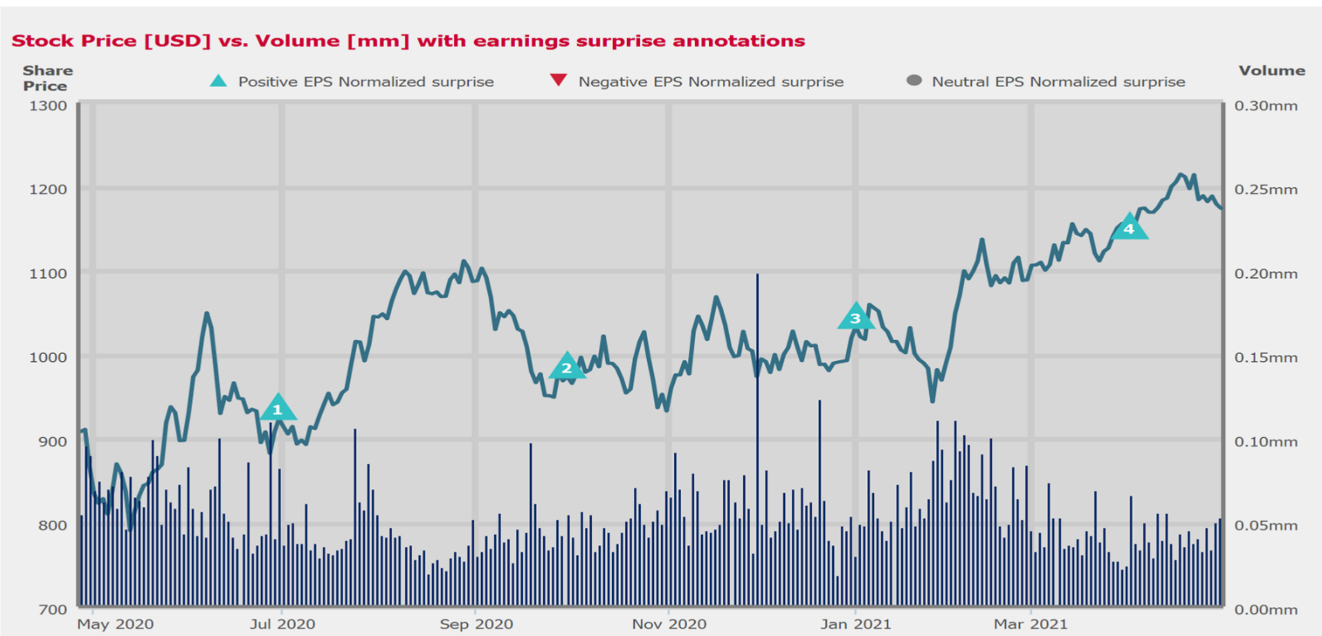
FQ1 2021 Earnings Call Transcripts

Thursday, April 29, 2021 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	10.58	42.02	▲297.16	14.60	52.16	NA
Revenue (mm)	2439.24	2900.19	▲18.90	2536.86	10811.23	NA

Currency: USD
Consensus as of Apr-29-2021 9:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	6.65	15.66	▲1 135.49 %
FQ3 2020	3.36	6.11	▲2 81.85 %
FQ4 2020	9.53	13.86	▲3 45.44 %
FQ1 2021	10.58	42.02	▲4 297.16 %

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Call Participants

EXECUTIVES

Jeremy Andrew Noble
Senior VP & CFO

Richard Reeves Whitt
Co-CEO & Director

Thomas Sinnickson Gayner
Co-CEO & Director

ANALYSTS

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

John D. Fox
Fenimore Asset Management, Inc.

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Presentation

Operator

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

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements.

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

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

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

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you so much. Good morning, and welcome to the Markel Corporation First Quarter Conference Call. This is indeed Tom Gayner, And I'm joined today by my Co-CEO, Richie Whitt; and our CFO, Jeremy Noble. The purpose of today's call is to give you a brief update on our business and answer any questions you might have about Markel.

Well, what a difference a year makes. In my opinion, the first quarter of last year ranked as the toughest 90 days in the history of the Markel Corporation. It felt more like 90 years than 90 days. This year's first quarter report is better, a lot better. A year ago, despite the very real, tangible and intangible costs from the shock of COVID-19, we pressed on. We persisted. The people of Markel demonstrated their resilience, skills and adaptability, and they produced significant rebounds in every aspect of our business as the year went on.

Today, we're pleased to report to you another milestone of progress. Each of our 3 engines of insurance, investments and Markel Ventures produced positive results in the first quarter, and we're optimistic about their prospects. We know we've got more work to do. There's always more work to do. We're excited to be able to report to you results from our insurance operations that are in line with our stated goals of growth and profitability that we outlined in our "10-5-1" initiative.

We're pleased with the improved profitability and risk reductions in our reinsurance business. We're earning appropriate and disciplined returns from our investments. Markel Ventures continues to earn excellent returns, which increases the durability and value of the Markel Corporation, and we're optimistic that we'll achieve meaningfully better results in our insurance-linked securities operations.

Jeremy will review the headline numbers from the quarter, and then Richie will cover the insurance, ILS and state and national operations. I'll come back to chat about investments in Markel Ventures, and then we will open the floor for questions. With that, Jeremy?

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. As Tom said, what a difference a year makes. Our first quarter 2021 results showcase the benefits that come from operating our diverse 3-engine model, with our insurance, investments and ventures operations, each performing well and adding value in the quarter.

Looking at our operating results. Gross written premiums were $2.2 billion for the first quarter of 2021 compared to $1.9 billion in 2020, an increase of 13%. This increase was largely attributable to our insurance segment, which reported gross written premiums of $1.6 billion, an increase of 16% compared to the same period of 2020.

Our increased premium volume reflects both strong growth in new business as well as ongoing favorable pricing trends, both of which are most prominent within our professional liability and general liability product lines, but also experienced within our personal lines and marine and energy product lines.

Within our Reinsurance segment, gross written premiums increased 4% to $533 million, also reflecting growth in our general liability and professional liability product lines, partially offset by lower premium volume on our property product lines, given our decision to transfer this portfolio to Nephila late last year.

Retention of gross written premiums was 87% in 2021, which is up 2 points from the same period last year primarily driven by changes in the mix of business within our Reinsurance segment. Earned premiums increased 13% to $1.5 billion in the first quarter of 2021 versus the same period last year, primarily due to higher written premium volume in our Insurance segment.

Our consolidated combined ratio for the first quarter of 2021 was a 94%, which included $64 million or 4 points of losses attributable to Winter Storm Uri and $19 million or 1 point of adverse development arising from a change in our estimates of the COVID-19 ultimate losses. This compares to a 118% combined ratio for the same period last year, which included 24 points of losses attributed to COVID-19.

Excluding the loss impacts of Winter Storm Uri and COVID-19 in both years, Our consolidated combined ratio for the first quarter of 2021 was an 88% compared to a 94% in the same period of 2020. This improvement reflects a 4-point improvement in our attritional loss ratio and a 2-point improvement in our expense ratio.

With regards to prior year loss reserve development, prior year loss reserves developed favorably by $91 million in the first quarter of 2021 compared to $104 million in the first quarter 2020. Favorable development of prior actuary loss reserves in the first quarter of 2021 was net of the $19 million of adverse development related to COVID-19 that I've just mentioned, all of which was within our Reinsurance segment on our property product line arising from updated and new loss information from cedents.

Turning to our investment results. Net investment gains included in net income were $527 million in the first quarter of 2021 and were primarily attributable to an increase in the fair value of our equity portfolio driven by favorable market value movements. This compares to net investment losses of $1.7 billion in the first quarter of 2020, attributable to a decrease in the fair value of our equity portfolio driven by unfavorable market value movements resulting from the onset of the pandemic.

As I have mentioned in prior calls, given our long-term focus, variability and the timing of investment gains and losses is to be expected. We may continue to see volatility in the equity markets.

With regards to net investment income, we reported $97 million in the first quarter of 2021 compared to $88 million in the same period last year. The increase this quarter reflects the impact of losses recognized on equity method investments in the first quarter of last year, partially offset by lower short-term investment income due to lower short-term interest rates during the first quarter of 2021 compared to the first quarter of 2020.

Net unrealized investment gains decreased $214 million net of taxes during the first quarter of 2021, reflecting a decline in the fair value of our fixed maturity portfolio resulting from increases in interest rates during the first quarter of 2021.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased $707 million in the first quarter of 2021 compared to $511 million in the comparable quarter last year. This increase reflects the contributions of revenues from our April 2020 acquisition of Lansing Building Products. Excluding the contributions of Lansing in the first quarter 2021, operating revenues in our Markel Ventures operations decreased compared to 2020 as a result of lower sales volumes, primarily in our transportation-related and consulting services businesses.

EBITDA for Markel Ventures was $81 million in the first quarter of 2021 compared to $67 million during the same period last year. The year-over-year increase is attributed to a gain recognized in connection with the sale of a portion of one of our health care businesses. EBITDA from our other Markel Ventures operations decreased due to the impact of lower operating revenues at our transportation-related and consulting services businesses this quarter compared to the first quarter of 2020.

Looking at our consolidated results for the quarter. Our effective tax rate for the first quarter of 2021 was at 20% compared to 21% in the first quarter a year ago. We reported net income to common shareholders of $574 million for the first quarter this year compared to a net loss to common shareholders of $1.4 billion in the same period a year ago. Comprehensive income to shareholders in the first quarter this year was $359 million compared to a comprehensive loss to shareholders of $1.4 billion first quarter a year ago.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $318 million for the first quarter of 2021 compared to $66 million for the first quarter last year. Operating cash flows in the first quarter of 2021 reflected the impact of higher premium volume as we continue to see strong growth in our Insurance segment. Invested assets of the holding company were $4 billion at the end of March compared to $4.1 billion at the end of the year.

Total shareholders' equity stood at $13.2 billion at the end of March, up from $12.8 billion at the end of the year. During the quarter, we repurchased just under 20,000 shares of our stock under our outstanding share repurchase program.

Overall, a very pleasing quarter from both the top and bottom line within each of our 3 engines. Financial condition of the company remains strong, and we are well positioned to take advantage of opportunities in the marketplace.

And with that, I'll turn it over to Richie to talk more about our insurance businesses.

Richard Reeves Whitt
Co-CEO & Director

Thank you, Jeremy, and good morning, everyone. A strong momentum from the last half of 2020 continued in the first quarter of '21 as we achieved a combined ratio of 94%, which includes 4 points of cat losses from Winter Storm Uri and 1 point of losses attributable to adverse development related to COVID-19. Obviously, compared to the unprecedented impacts of COVID-19 on our operations and results in the first quarter of 2020, we're pleased to be able to report a solid start to the year.

There's an old golf saying that you can't win the tournament on the first day, but you certainly can lose it. Despite starting the year with a slightly higher combined ratio due to the unprecedented winter storms, we believe we are still well positioned to win the tournament and achieve our previously stated underwriting profitability goals for the full year. Sure. I absolutely would have loved to start the year on the right side of 90% combined, but I feel like we're in striking distance.

Many of the tailwinds we've discussed on our last call remain in play, with our ability to achieve meaningful rate increases across almost all insurance and reinsurance product lines resulting in reductions in our first quarter 2021 attritional loss ratios. We continue to find areas to add new business and program opportunities and take full advantage of the current market environment, while also engaging in continuous portfolio management aimed at improving profitability and reducing overall volatility.

Now I'll discuss our insurance operations, which include our underwriting operations, State National Program Services operations and Insurance-linked securities operations. So let's get started with the Insurance segment. Gross written premiums for the quarter in our Insurance segment were up $224 million or 16%, and earned premiums were up $137 million or 12% compared to 2020.

Premium growth was driven by continued strong new business growth, along with the impact from rate increases across several product lines, most notably our professional liability, general liability, marine and energy and personal lines products. Virtually all of our growth continues to be in our preferred product offerings. We continue to see favorable rating environments within several of our product lines, with the exception of workers' compensation, and we look to continue to take advantage of these market opportunities.

The combined ratio for the Insurance segment for the first quarter was 91% versus 119% in the same period last year. The 28-point combined ratio decrease was primarily driven by the impact of COVID-19 losses in 2020 compared to much smaller cat losses in 2021. We recognized $39 million or 3 points of losses in the first quarter of '21 related to Winter Storm Uri versus $293 million or 27 points related to losses from COVID-19 last year.

Besides the impact from COVID and cat losses -- events within our ongoing operations, we also reported a 3-point reduction in our 2021 current accident year attritional loss ratio. This decrease was driven primarily by the impact of premium rate increases across several of the product lines I previously mentioned. In addition, we benefited from a 2-point reduction in our expense ratio due to the impact of higher earned premiums, efficiency efforts and expense control.

Turning to the Reinsurance segment. Gross written premiums for the quarter were up $19 million or 4%, and earned premiums were up $28 million or 12% compared to last year. Premium growth was driven by new business due to significant new treaties in our general liability and professional liability lines where we see attractive opportunities.

As we've said in the past, individual contracts can have significant impacts on our premium writings. The growth that we saw in general liability and professional liability really related to 3 new contracts that we thought were good opportunities in the first quarter.

This was partially offset by lower premiums in our property product line. As a reminder, during the first quarter of this year, we executed on our planned transition of our reinsurance property lines from our reinsurance underwriting operations to be managed by our Nephila ILS operations as part of our ongoing strategy to match risk to the most appropriate capital. We will continue to see impacts from the reinsurance treaty transition throughout the remainder of the year within the results of our Reinsurance segment.

The combined ratio for the Reinsurance segment for the first quarter was -- of 2021 was 109% compared to 115% last year. The 2021 combined ratio was primarily driven by the impact of cat and COVID-19 losses where we recognized $25 million or 10 points of losses related to Winter Storm Uri and $19 million or 7 points of adverse prior accident year development related to COVID-19. The 2020 combined ratio included $32 million or 14 points related to losses from COVID-19.

In addition, The 2021 combined ratio was favorably impacted by a decrease in our current accident year attritional loss ratio, primarily within our product line -- property product lines, and from a lower expense ratio due to the impact of higher earned premiums.

While our Reinsurance segment results are still not where they need to be, we achieved significant growth in our more profitable general liability and professional liability product lines this quarter and saw favorable trends in both our current accident year attritional loss ratio and expense ratio compared to the same period a year ago.

We are working hard to price all 2021 business to a 90% combined ratio or lower. The difference between the 2021 reported current accident year combined ratio and that pricing target is the result of earnings on business written in previous years and our consistent application of Markel's reserving philosophy, which is to set reserves at a level that are more likely redundant than deficient.

Next, I'll touch on our program services and ILS operations, both of which are reported as part of our other operations. Gross written premium volume for our State National Program Services operation increased by 56% to $612 million versus $393 million a year ago. Premium growth was due to the expansion of existing programs and the addition of new programs. Premium in the first quarter of 2020 were impacted by a onetime unfavorable adjustment of $55 million related to the in-force cancellation of a particular program.

The overall increase in premiums under management also favorably impacted our operating revenues and margin in the quarter. As a reminder, almost all of the gross written premium within our program services operations is ceded. We continue to see a strong pipeline of program services opportunities in the current market.

Next, I'll discuss our ILS operations. Our ILS operations consist of the results of Nephila plus start-up expenses related to Lodgepine. For the quarter, operating revenues within our ILS operations decreased due to lower investment management fees related to having lower assets under management versus the same period a year ago. Assets under management at Nephila were $9.5 billion as of March 31, 2021.

Earnings also continued to be impacted by costs associated with building and supporting the growth of Nephila's 2 MGA platforms as well as preparing for the launch of additional fund investment vehicles. Nephila continues to build and identify new areas of opportunity to deploy capital and launch new investment opportunities.

Finally, I'd like to point out that we made a change in our disclosures this quarter to recognize the run-off nature of the CATCo operations by moving those results out of the ILS operating revenues and expenses and into other for all periods presented. CATCo continues to make solid progress to the orderly wind-down of its operations and currently have approximately $900 million in AUM.

I'll finish up with some market commentary. Trends in the first quarter were very similar to trends we discussed on our last call. We see continued pricing momentum in almost all lines. The glaring exception, I guess, is workers' comp. Our

Insurance and Reinsurance rate increases average over -- averaged double digits in the first quarter. Reinsurance pricing, which as we've previously discussed, has lagged primary insurance pricing, closed the gap some more during the first quarter and during the January 1 renewals. But it's still not as strong as rates being achieved in the primary market. This continuing dynamic obviously explains our continued double-digit growth in Insurance versus roughly flat in Reinsurance.

As we've discussed, while new entrants and incremental capital raises certainly have impacted the market around the edges, we believe that this pricing momentum will continue due to a multitude of factors such as low interest rates, the continued elevated cat activity, social inflation, further COVID-19 impacts and economic uncertainties that are likely to persist throughout 2021.

We do note that there seems to be much discussion recently of a moderation of rate increases. While it certainly does appear to us that rates are not going up at the same pace that they have over the last several quarters, we really do not view this as cause for alarm. We are in the third year of meaningful rate increases, which creates a compounding impact. It would be unrealistic to think that rates could continue to accelerate indefinitely.

Also, it's worth pointing out the dynamics of all lines are not the same. While D&O price increases are beginning to stabilize, cyber prices are on the way up given recent loss events and as insurance and reinsurance capacity has decreased. In our view, the overall market picture remains extremely healthy.

We're also starting to see the benefit to our business as the economy recovers from the impacts of COVID-19. People probably obviously saw first quarter GDP increasing at 6.4%. Small businesses, which is a meaningful part of our portfolio, is starting to show signs of recovery, and it is showing up in our premium writings. To sum up the first quarter, we're off to a solid start and are excited to continue to move our business steadily forward over the rest of the year.

Thanks for your time today, and now I'll turn it over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie. In our Ventures operations, the headline numbers show revenues of $707 million compared to $511 million a year ago and EBITDA of $81 million compared to $67 million. As is usually the case, though, There's more going on than what's spotlighted in headlines. As to revenues, the biggest reason for the increase is the inclusion of Lansing. Typically, the first quarter is seasonally the lightest for Lansing as well as several other of our businesses, and I would expect normal seasonal increases in profitability as the year progresses.

As to the increase in EBITDA, we recognized a gain from the sale of a facility within one of our health care operations. I would point out, that transaction should give you some insight into the conservatism of the accounting in place at Markel Ventures. We've struggled a bit with our health care operations and the fact that we could sell a facility in an underperforming business and that, that would yield a gain should give you some comfort that we're not braggy when it comes to how we're reporting our results to you.

For years, we've publicly stated and committed to conservatism in the presentation of our Insurance results. We've operated with the goal of being more likely redundant than deficient when setting insurance reserves, and I hope you take some comfort from that spirit -- that, that spirit and culture of conservativism exists at Markel Ventures as well.

For the entirety of Markel Ventures, this year's first quarter was a COVID quarter, to use a phrase, while our first quarter of last year was pre-COVID. We've had BC and AD as conventions to describe dates for a few millennia. For at least a little while longer, I think we'll distinguish the current era as PC, DC and AC. Tom Hanks was the first person I heard breakup time into those categories, and he is a first-hand veteran of the pack. Personally, I'm looking forward to the AC period, but it's not here yet.

I continue to be grateful and amazed for the performance throughout the Markel Ventures organization. The results are excellent. They also require more work per unit of output compared to pre-COVID circumstances. Economic activity and order books are very good. There is plenty of business to be had, and we're getting our fair share of it.

Fulfilling orders and producing goods and services is getting harder. Our Ventures CEOs use new words like supply chain roulette when describing the daily realities of their business. Labor shortages and inflation are facts of life. Your team is doing an outstanding job of coping and adjusting with the realities on the ground, but what I see in real time from real businesses seems different than many news reports and comments from officials about inflation.

If current economic and financial markets conditions continue to prevail, we should enjoy record results and revenues and EBITDA this year for Markel Ventures. In the current pricing environment of very low interest rates and very high transaction price multiples, I do not expect us to make sizable acquisitions in 2021. We've got an excellent capital position, a lot of dry powder and a great network of CEOs and relationships that keep us connected to opportunities. But I think we're better off focusing on our existing operations and organic growth opportunities at this time. We'll adjust as circumstances change, and that ability to change is a fundamentally attractive feature of our overall structure at Markel.

On the investment front, we earned 8% on our equity portfolio during the first quarter. In our fixed income operations, we posted a negative 1.3% return, which occurred entirely due to rises in interest rates. There were 0 credit losses in the portfolio. The total portfolio after all expenses and foreign currency adjustments rose 1.4%.

In any 1 quarter, and frankly, in any 1 year, expect a lot of volatility from investments. We make no efforts to dampen volatility artificially through expensive derivatives or the difference between publicly-traded mark-to-market valuation practices versus private self-reported valuation marks. We just stick to the fundamental and basic task of trying to earn the best returns we can over long periods of time.

Currently, our capital position is quite strong. We've accumulated higher-than-normal cash positions. Fortunately, that cash supports our current growth in insurance underwriting opportunities, which carried the expectations of meaningful returns. As time goes by and capital continues to build, we expect to be able to apply capital to all 4 components of our capital allocation triage ladder. We're currently funding the organic growth of our insurance businesses.

We've got ample capital to fund growth initiatives within our ventures operations. We're modestly adding to our publicly-traded securities portfolio We're open-minded about potential acquisitions when opportunities arise. I'll add, they always do eventually. And we are repurchasing our shares.

We'll continue to incur the small opportunity cost of carrying large cash balances until conditions change. We are not interested in locking in low long-term rates of return. We will continue to be opportunistic as we look at any investment decisions.

To close, we are pleased with the progress we're reporting to you this morning. We've got demonstrated wonderful results in our Insurance business, improving results in our Reinsurance business, demonstrated wonderful results in our Markel Ventures operations, appropriate returns in our investment portfolio and gritted teeth determination to improve results in our Insurance-linked securities operations. I love our culture and I like our hand.
With that, we welcome the opportunity to answer your questions.

Question and Answer

Operator

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

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

A question on the rate levels. In the Insurance segment -- I think in both Insurance and Reinsurance, you kind of referenced, they're still at the double-digit levels, but you're kind of seeing a stabilization there. How much of that, I guess, could you maybe speak to the environment? Are you seeing higher competitive levels at this point? Or is there maybe just sort of a pause in social inflation with the courts being closed? What do you see kind of driving that stabilization?

Richard Reeves Whitt
Co-CEO & Director

Jeff, it's Richie. I think it's a number of factors. I pointed out we're in the third year of rate increases. It gets harder to sell continued double-digit rate increases after you do that a couple of times. So I mean there is a point at which things have to level off. So I think that is part of it. We've been through a couple of renewal cycles and continued double-digit rate increases get harder and harder to sell.

There's certainly competition, always is. And certainly, as rates, as people start to see rates go up and they have their opinion as to where those are versus rate adequacy, obviously, the higher they go, the more people feel like, hey, that's a good risk, and I should maybe jump in on it.

So I think it's just the signs of a healthy market. I mean that is what's going to happen. As I said, I mean, we really did not see -- I mean we were pretty flat, quite honestly, in the first quarter, looking at rate increases versus fourth quarter. I know some people talked about being down a bit. We were sort of flattish, and that growth -- maybe we'll see that growth dip below flat in the second quarter, but still double digits in both Insurance and Reinsurance.

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

Okay. And then in the Reinsurance segment, just looking at that, underlying loss ratio down a fair amount, high 50s. I think it's 58%, historically mid-60s. And I think you referenced a lot of that is just a mix shift as you exit the property cat business. Is that the case? I mean should we think of kind of high-50s being more of the run rate there versus mid-60s?

And I guess the same with the expense ratio. It was down at 30%. I think that looks to be mix shift related to that. I'm just trying to think of the run rates in these items with that property cat business out.

Richard Reeves Whitt
Co-CEO & Director

Sure. Sure. Yes, I think both of those are a little abnormal just as a result of what we're doing in terms of property and just some of the other issues that happened in the quarter. I think the low-60s is probably about the right place in terms of an attritional loss ratio and maybe a tick higher on the expense ratio.

We are pricing -- I did say this in my comments, the team is trying to price everything at a 90% or lower that they're putting on the books. But we're not going to see that show up in our results for a while. And 2 reasons: we're still earning premium that was put on the books in prior years and maybe didn't have as strong rate increases; and secondly, just our conservatism.

We want to be more likely redundant than deficient. We're coming off a few years of tough performance in reinsurance. We're going to be from Missouri in terms of the results for a while. So while we're pricing it less than 90%, my goal would be something in the mid-90s in terms of what we can do this year.

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

Right. Okay. And then just one kind of broad comment. Just looking at that compound annual growth rate of book value, I think over the last 5 years, the 9% stock price has increased about 5%. Do you have any general kind of thoughts or comments on that? And I mean, is there an opportunity there to maybe increase share buybacks at all to help the stock price?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes, there is, and we are doing that.

Operator

Our next question comes from Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. On the Reinsurance business, you got the positive growth despite the trimming of your property exposure. I think you've mentioned 3 programs in particular. When we think about the balance of the year, are those programs going to continue to make a contribution? Or are we looking at a positive top line for Reinsurance?

Richard Reeves Whitt
Co-CEO & Director

Given our relatively small portfolio, run the books. But if not, we could be downcourt in being opportunistic. So it's going to be a little hard to give you guidance on how the next 3 quarters play out in terms of premium volume.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Understood. On the retention within Reinsurance, it was up this quarter. I think you talked about mix. Depending on what comes in the door, is the retention likely to stay more elevated?

Richard Reeves Whitt
Co-CEO & Director

Yes, it is. Our retentions on our property business were lower because of the cat protection that we bought, reinsurance protection that we bought. We tend to keep much more of our casualty, professional and specialty business net. So those retentions should go up.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Then in the Nephila, you talked about investments that you're making. Assets were flat or down a little bit in the quarter. When do we start to see more forward progress with Nephila at the bottom line?

Richard Reeves Whitt
Co-CEO & Director

That's a great question. I can tell you we've been frustrated. We feel like we make 2 steps forward and then there's a step backwards. Uri in the first quarter and we have losses and that obviously reduces AUM, reduces fees.

It's been a tough 4 years in the ILS business with the cats. But we can't make excuses. We have to figure out a way to get our business moving forward. So certainly, we project the business moving forward the rest of the year and certainly wanted to move forward in '22 and onward. But we've got work to do. There's just no other way to say it. We've got work to do to get where we want to be in ILS. And part of that is hopefully, fewer cats. But the bigger part of it is getting the right price for the exposure. So I and a lot of other people believe prices need to continue to go up for cat risk.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

If I might ask one more question. Tom, you mentioned inflation. I just wonder how you feel like the Ventures business is positioned for inflation. And what you might be doing in the equity portfolio. Are you shifting on the assumption that inflation will be worse than the broader market assumes?

Thomas Sinnickson Gayner
Co-CEO & Director

It would be my expectation that the actual inflation that's really taking place on the ground is more than what the headlines would report. So all of the managers who live and eat and sleep and breathe these businesses every day, they're doing the best they can to control their costs, to get their supply chains humming and working and making sure that they're charging appropriate prices to earn a good margin of whatever product or service they're providing.

That's true every day. That's true in the public securities portfolio of the companies we look at. And we're really looking for the same kind of behavior from the managers of our businesses at Markel Ventures as we expect from the managers of the publicly-traded companies that we're investing in. And that really doesn't change whether inflation is low or high, but I don't want to be caught asleep at the wheel and not aware of the heightened sensitivity and focus that I think should be applied to that line of thought these days.

And to sum it up, and I think I mentioned it in the comments, we think the dumbest thing you could do right now is to lock in low, long-term rates of return. So we don't plan to be geniuses or the smartest people in the room, but we try not to be the dumbest. So as long as we don't do stupid things, the good things compound.

Operator

Our next question comes from John Fox with Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

I have a number of questions. First for Richie, on the COVID losses in Reinsurance. I'm just -- I mean, that's to be expected. It's obviously, as Tom said, still an ongoing situation.

I'm just curious on the logistics of that. Is that some loss that pops up, you get notified from one of your carriers that you're reinsuring? And is that new information for them? And just could you just talk about the logistics of how that comes about?

Richard Reeves Whitt
Co-CEO & Director

Well, certainly, as a reinsurer, there's a bit of a delay in reporting. And obviously, COVID is a situation that's developing, and it's the first time people have really seen the situation. So it is taking a while for people to get their heads around how the losses might flow through the system.

So I mean what we're seeing is notifications that -- mostly what we're seeing is notifications that people may be sending losses to us. I think there are very few instances of actual hard -- this is a loss that we're going to be putting to the treaty. So the great majority of what we have up today at the reinsurance operations is IBNR. And my sense is it's going to take quite a while for it all to play out. All the language has to be reviewed. There's probably going to be some negotiation between the cedents and the reinsurers. I wouldn't expect this to be resolved quickly, and it's just prudent to hold the IBNR at this point.

John D. Fox
Fenimore Asset Management, Inc.

Okay. Great. And then by my calculations, which may not be correct, but I've been looking at your accident year every quarter, which at least by my quotes, has been running 105-plus for a lot of quarters historically. Now it's closer to 100 or maybe even 98, 99. And I'd just like you to comment, is that observation accurate? And if so, what's the reason for that? I'm assuming 3 years of good price increases probably helps. But if you could just comment on that.

Richard Reeves Whitt
Co-CEO & Director

Yes. I can't comment on your numbers, John, and maybe we can sync up later and get on the same page. We would actually say the current accident year combined ratio was lower than that. But the direction, the trends you're talking about is absolutely true. On the loss side, it is, as you said, 3 years of price increases and term improvements. And then there's -- don't forget the expense ratio component. Over the last few years, it's probably approaching 3 points off the expense ratio. So your trend is absolutely correct. I can't confirm your numbers, and we can maybe catch up later and try to get that sorted.

John D. Fox
Fenimore Asset Management, Inc.

No, that's fine. The trend is correct, which is fine. And then I have to admit I'm struggling with Ventures with Page 35, the disclosure on the gain. So is the Ventures EBITDA of $81 million minus $22 million, and that has also has to come out of the revenue? Or I didn't understand the -- it's included in services and other expenses.

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. The gain would be at the EBITDA line. It would not be in the revenue line. It was just -- within the business that was underperforming, we sold something and had a $22 million gain on it. So you might be confused, but I hope you're at least happy.

John D. Fox
Fenimore Asset Management, Inc.

I'm happy with the results. I am confused on some of the disclosure.

Thomas Sinnickson Gayner
Co-CEO & Director

The results are better.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, Research Division

Yes. Several of my questions have already been covered. But I mean on the reserve addition, was that related to -- most of the reinsurance book was contingency-related. Was it primarily related to that -- the reserve addition?

Richard Reeves Whitt
Co-CEO & Director

No. It is related to business interruption where I'd tell you, the language, there's a lot of different language out there, and there's going to be a lot of negotiation on what is actually covered and what is not. But it would be instances where cedents believe they have an element of coverage for business interruption through their property reinsurance.

And as I said, at this point, it's mostly notifications that we may have a loss that we're going to cede to you. Very, very few hard and fast actual loss notifications. And so the great majority of the reserve is IBNR, and I do believe it's going to take quite a while for that all to be sorted out.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Was it a U.S. cedent? Or was it non-U.S.?

Richard Reeves Whitt
Co-CEO & Director

I don't know, Mark, whether it's U.S. or international. It's probably some of both. I'm sure it was more than one just reviewing notifications that have come in.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Good. Fair enough. Second question, you mentioned -- and it was also mentioned for the first time in a little while in the 10-Q about kind of the ramp-up of Lodgepine. I'll admit I kind of lost track of that thing. I think it was first established back in 2019. And maybe just an update of what's happening there and what you're hoping to accomplish in '21 with it?

Richard Reeves Whitt
Co-CEO & Director

Sure. Well, in terms of the underwriting side of Lodgepine, that got off the ground immediately and had a great year in 2020. So they were in the market, wrote business. And from a retro standpoint, retro writers I think had a really good year in 2020. Most of the losses were contained in the -- retained by the insurance companies or made it into reinsurance, but not to retro.

The difficulty has been, and I think we've talked about this just in terms of the ILS market in general, raising capital. It has been, with COVID, with recent results in ILS, it has been a very long ramp-up to raise the capital. We feel like we're within a whisker of raising that capital and sort of launching the fund side of things, but it has taken considerably longer than we ever would have guessed.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. And then the last question, mainly -- well, actually 2 questions. One related to the Insurance business. When you characterize the growth, I mean you talked about the rate increases. So I think you covered that. Within the balance of the growth, is that more associated with exposure unit growth within your insureds? Or is it more associated with kind of new business wins or gaining policy count?

Richard Reeves Whitt
Co-CEO & Director

Yes. And I don't have details right in front of me right now, Mark. But if anything, we have been trying to shorten limits in a number of areas in the hardening market. It just makes sense, try to get paid more for less exposure, if possible.

So I would say, I believe most of the growth that is out there besides rate increases is going to be new policy count. Because as I said, in a number of areas, where possible, we're asking underwriters to be very judicious with the amount of limit they're willing to put out.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. Helpful on that. And then the last question, maybe for Tom. I mean, you sounded particularly for your own conservative self, relatively bullish about Markel Ventures for the upcoming year. And I guess the one question I wanted to maybe push back on just a little bit was, because it seemed like as a group of businesses, they were relatively less pandemic-affected in the first place during last year.

So is the growth simply just a recovery in those lines -- in those underlying businesses that were impacted? Or is it a more broad, general inflation of the economy that you feel like you're capitalizing on?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. No, I think, first off, I want to say, last year, in the pandemic effect, these businesses were whomped by the pandemic and set aside whatever journal entries or accounting you want, the human dimension of what was involved in those businesses and the effects on the people that were running them. I mean there's just never been anything like it.

And I'll remind you that it's over 15,000 people mainly who work in factories, doing field service, distributed all around the country. Those are the frontline workers. They never missed a day of work. They were in the factory, in the field every single day.

And the scrambling that took place to just keep everything on the rails where you had to keep doing business in the way that you were doing it in many regards. We've heard this from one of the CEOs of Havco that makes the flooring in the back of a dry van trailer on a tractor trailer truck. He said, we can't make wood floors from home. So the impact to that business was immense and unprecedented.

Clearly, at the instant where March 13, when the shutdown orders took place, a lot of order books collapsed and you add shocks to the system. And again, I keep using the same 2 words, amazed and grateful at how quickly both the management teams responded and figured out how to conduct and operate businesses and how fast the order books came back and, in fact, started to top up and go further.

So last year's results were very good. I think they represent sort of a phase shift and a change in the maturity and size and scale of what Markel Ventures is relative to the total company. But it's not something that -- that's sort of a new baseline. And as you -- as we look in 2021 and 2022, we would expect the profitability that we saw last year to continue and to grow.

And what gives me excitement is just to see the quality of the people that are running those businesses, how well they've done at a time of great testing and what kind of results they're putting on the board and how they're taking care of their customers and their people. It's just exciting to be part of it.

So you pick up the right tone in terms of optimism and bullishness, and this is no longer a lab experiment. It's a big business. It matters.

Operator

Our next question comes from Josh Shanker with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Yes. This is Phil Stefano. So -- can you hear me okay?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. We hear you.

Richard Reeves Whitt
Co-CEO & Director

Yes. We got you.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Perfect. Just wanted to make sure that, that was me. So Richie, I appreciate the show-me state reference. As we think about the evolution and the earn through of price and business mix changes, is there an acceleration in the improvements of the underlying loss ratios as we look through this year? Or does the conservatism kind of hold? I mean I understood you talked about Reinsurance first quarter was a bit quirky and how that was reported. But just in thinking about the sequential changes in this as we look ahead.

Richard Reeves Whitt
Co-CEO & Director

Yes. That's a great question, and I'm trying to think about how to answer it. I think it's fair to say -- start with more likely redundant than deficient. We are going to try always to be more likely redundant than deficient. And we're going to be slow to recognize good news, fast to recognize bad news. That's what we've always tried to do in terms of running our Insurance businesses.

I do not believe -- just because of how we think, I do not believe all of the rate increases that have been received in excess of claims inflation, I do not believe they're all baked into our combined ratio at this point. I can't tell you -- I think it's 20% in there and 80% to come, it's 50-50. I don't know exactly.

In good markets, things tend to get better than you expected. In bad markets, things to get worse than you expected. I do -- I guess the thing -- the best thing I can tell you is I do not believe we have baked in to our attritional loss ratios at this point all of the rate that we've been achieving.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. No, that's fair enough. And so looking at Reinsurance, I would have assumed that pulling out the cat business would have been a headwind for the attritional loss ratio. It probably would benefit, I mean, absolutely the volatility in the long run. But it feels like the commentary around the low-60s makes the lift from pricing all that more impressive.

Is the -- am I thinking about this right, that the cat business coming out would have been a headwind, that pricing is helping to offset?

Richard Reeves Whitt
Co-CEO & Director

Yes. I'd tell you, the first quarter is difficult to parse. It really is. Because of the -- well, the current accident year loss ratio for -- we still had earned premiums from cat in the first quarter that had Uri in it. The thing I can tell you, we can go away and try to kind of think through pulling apart the numbers. The thing I can tell you is, on a go-forward basis, we think the specialty casualty professional book should be somewhere in the 60s. And I won't give a specific number, but that's what we're shooting for in terms of how we're pricing that business.

So the first quarter had some anomalies in it with the transfer of the business -- some of the business over to Nephila, the underwriting results of Lodgepine being in there, and just Uri, the losses on Uri being in there. So it is a little hard to pull apart.

Jeremy Andrew Noble
Senior VP & CFO

And Phil, it's Jeremy. I'll just maybe jump in there as well. I think that's an important point that Richie is making. It's going to take a little while for the earnings tail to run off. So our earned premium in property lines was somewhat comparable year-over-year. And some of that is because we are purchasing less reinsurance. So that benefits it as well.

So when you take the actual cat experience out and you look at that attritional loss ratio, it's very low on the property lines but still has earned premium. That's going to fade away as we get into the year. And importantly, as we approach the midyear, we really start cutting off risk in property as well. So we should have less exposure and less volatility.

And you'll start seeing the blended result in the Reinsurance segment really being the combination of our casualty professional and specialty lines. And that will blend to be, as Richie was commenting earlier, slightly higher than what we see on an attritional basis in the first quarter.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And switching gears to the Venture business. I guess when I tried to tease out the Lansing impact, it feels like the first quarter underlying revenue was still down high single digits. And I think that's the pace that we saw in the back half of 2020 as well.

Tom, how economically sensitive is this business to the go-forward rebound in the economy? Or as -- do you feel like the -- this underlying growth there has kind of hit a nadir and we pivot as we look forward?

Thomas Sinnickson Gayner
Co-CEO & Director

Well, I think, directionally, your numbers and the sensation of the portfolio prior to Lansing top line revenue numbers are correct. And I would describe a lot of that happened because of the shock that would have happened on March 13 when you shut the economy down. Through 2020, all of the businesses recovered as time went by. So it got better as the year went on.

To answer your second question, how cyclical are they? There are a lot of cyclical businesses in there that are highly exposed to things like transportation, freight volumes, new car sales, things of that nature. And I want to harken back to look at the language that I put in the annual report, where I put those 5-year buckets. Because that's really how we think about things. And look at what has happened.

We've got 15 years. So there's 3 5-year buckets. And if you look at the results and the cash flows, the EBITDA, the net income, however you want to categorize it or look at it, and you look at it in those 5-year bucket terms, that's a very up into the right chart that we're looking at.

Secondly, I want to pick up with a point that Richie made in answer to some of the questions about the reporting and what the pace of things being apparently getting better are. He said, we are quick to recognize bad news and slow to recognize good news. That's true for Ventures as well. We don't have a different philosophy or a different culture when it comes to reporting the Ventures results as opposed to the Insurance results.

And one of the points I was trying to make about the culture and the size and the scale being large now is in the early years of any deal where you have purchase accounting and the amortization of goodwill and customer lists and all of those sorts of things, proportionally, they would tend to be the heaviest at the beginning and diminish over time.

Now if we were interested in sort of managing earnings per share, we would work a little harder about trying to smooth that out and make it paint a prettier picture on Day 1. We don't care about that. We care about the cash returns and the earnings that the businesses themselves produce, and we want that to be sustainable over an indefinite long-term period of time.

So it's only after a couple of years that they're part of the family and part of the company that the accounting conservatism sort of burns off and you start to be able to discern the true underlying economic performance of the business. And so that, in reality, is what is happening. You want to see the hard, physical, visual evidence of it, look at the annual report letter and look at the 5-year buckets and see how you feel.

Philip Michael Stefano
Deutsche Bank AG, Research Division

So just one more, and then I'll get back in line. I guess in my mind, on the Insurance business, one of the things that allows you to be slow to recognize the good news and quick to recognize the bad news is the cost of goods sold is much less transparent than, in my mind, it is in the Ventures business.

I guess what flexibility do you have in the Ventures reporting to allow -- not flexibility, maybe that's not the good word. But what optionality do you have in the Ventures reporting that allows you to have that mindset?

Thomas Sinnickson Gayner
Co-CEO & Director

Well, not as much as I would like, quite frankly. So the purchase accounting rules, which change from time to time -- and these are GAAP, under the auspices of PCAOB-imposed things. And I do remind people that I was formally trained as an accountant. I am a CPA, nonpracticing, and I look at some of the accounting rules, shall we call them, and I try to think of them with my financial hat on and economic hat on and cash hat on as opposed to GAAP hat on.

And the accountants around here get tired of my lectures on these sorts of things. But it doesn't matter, and I don't care. What we care about is the cash earnings of the business and the growth and the returns on capital, and those are up and to the right.

So we're slow. It's painful in the current years in the freshness of a deal because from the inside perspective, where I know the business and I see what's happening, it's better than it looks. And it just takes a period of time before it looks as good as it is. And the size and scale, absent a large deal, we're starting to get to the point where it's starting to look as good as it is.

Now if we do a big deal, we'll start that clock all over again, but the denominator and the size and scale of the -- of Markel Ventures' entirety right now, means that the incremental effect of any new deal is probably a lot less than what it used to be. And again, I'd just keep getting back to that notion. If you really want to be able to draw hard lines and reconcile them into GAAP accounting, look at those 5-year charts.

All right. Maybe Phil's out there looking at them. I think we've lost him. We might be having some technical difficulties. I'll ask our operator...

Operator

Look's like this is going to go ahead and conclude our question-and-answer session here.

I'd like to turn the call back over to Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner
Co-CEO & Director

All right. Perfect. Thank you so much for joining us. We're happy to report the kind of news we were able to do. We look forward to continuing to do so as time goes by and look forward to seeing you at our annual meeting on May 10 in Richmond, Virginia. We will be live and in person, and anybody who could join us, we'd love to see you. Thank you so much.

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