

Markel Group Inc MKL

Operator

Good morning, and welcome to the Markel Group's First Quarter 2025 Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star one on your touchtone phone, and to withdraw your question, please press star one again.

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included in the press release for our first quarter 2025 results as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q, including under the caption Safe Harbor and Cautionary Statement and Risk Factors.

We may also discuss certain non-GAAP financial measures during the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in the press release for our first quarter 2025 results or in our most recent Form 10-Q. The press release for our first quarter 2025 results as well as our Form 10-K and Form 10-Q can be found on our website at www.mklgroup.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, Chief Executive Officer. Please go ahead.

Thomas Gayner

Good morning. Thank you, Jeanine. This is indeed, Tom Gayner, your CEO. I welcome you to our Markel Group first quarter earnings call.

Joining me on the call this morning is Brian Costanzo, our CFO and Simon Wilson, our new CEO of Markel Insurance.

In Markel Group, we aspire to be the best home in the world for our businesses. Markel Group is a diverse and resilient family of businesses with our insurance business at its core. Working together, the system creates a relentless compounding machine. We're happy to tell you that compounding continued in the first quarter. While we're always happy to report a good quarter, longer time horizons matter more. Our normal five-year measurements display the relentless compounding of our aspirations.

In the first quarter, we also took a few significant, notable organizational steps of progress on our Forever Foot race. Specifically, we elevated Simon Wilson to be the new leader of our Markel Insurance business. Simon is a proven leader and winner. He has a clear strategic vision for solidifying and growing Markel's market-leading presence and Specialty Insurance, all while putting the customer first. We're excited for you to get to know him and to hear more about his vision and plan. Under Simon's leadership, our insurance business will continue its path of simplification and growth. We're reducing complexity, making it easier for customers to do business with us, all while improving accountability and increasing our operating efficiency.

The re-underwriting of the last two years has created a stronger foundation from which these operational enhancements will build. Under Simon's leadership, I'm confident we can become even easier to do business with and win market share. We see great potential over the years ahead to significantly improve from what's already a strong base of performance.

Operator

Ladies and gentlemen, this is the operator. Please stand by. Thank you.

Thomas Gayner

Yes, good morning. Sorry. , I apologize for the technical difficulties we had. I understand that the call dropped off where I mentioned that we were in the early innings and will take time. We are indeed on the path to better, apparently for the call as well. Further, Simon's appointment and the changes we're making to the insurance business show that while our Board continues to make progress on its review of Markel Group, we are not waiting to make changes where we see they're needed. In terms of the board-led review, it continues a pace, but we won't have any further update on that today.

Stepping back, we enjoy some distinct advantages with our Markel Group system. Markel Group enjoys resilient and robust operating income, comprising recurring investment income of dividends and interest, underwriting profits and operating profits from our Ventures businesses. Further, this operating profit converts well into a river of operating cash flows, given our modest capital expenditures and the negative working capital from our insurance operations. In the full year 2024, that river of operating cash flow amounted to \$2.6 billion. In the first quarter, it was \$376 million. Our Markel Group architecture allows a 360-degree view of capital allocation opportunities to reinvest that cash, all in a cost and tax efficient way.

For the full year 2024, we invested \$208 million in acquisitions, \$394 million in net equity purchases, \$573 million in repurchasing our shares and \$204 million of interest costs and \$255 million of CapEx. In the first quarter of 2025, we invested zero in acquisitions, \$57 million in net equity purchases, \$170 million in repurchasing our shares and \$52 million in interest costs and \$41 million in CapEx. We believe we're deploying that capital into places where we can earn double-digit returns over time. We've consistently delivered on that goal, and we expect to do so going forward as well. Part of it allows us to do so is our unique cost and tax advantage structure that's positioned to redeploy capital with low friction and 24/7 365 day kind of way. Your money is always working in the Markel Group System. The breadth of opportunity across insurance, ventures, public investments and share repurchases increases the odd we can make favorable capital

allocation decisions. All of this amounts to a relentless compounding machine.

It seems like there's a news headline out almost daily these days talking about other companies like Brookfield, KKR, Pershing Square and others, trying to create permanent capital vehicles. I'm proud to say we have one, and we've been at it, building such a virtuous operating model and system with your partnership since our IPO in 1986. People often ask me about market developments and specifically in periods like what we experienced in April, to which I reply, I don't have a crystal ball, no one knows what will happen in the short term, but the beauty of our system is how it's built for safety and resiliency. Fall weather. It's built with the idea that we can't and don't know. We've never known with precision what the future holds, but our record indicates that our system flourishes even without perfect foresight. History doesn't repeat as they say, but it rhymes. There's nothing new under the sun.

We manage our balance sheet and business to withstand stress. We have not relied on financial leverage to drive our equity returns. In times of low interest rates, that has made it difficult to keep up with many who do. But in a period of deleveraging, if that is, in fact, where we're in now, while it proved painful for the economy broadly, our model will stand ready to capitalize on its competitive advantages. We will continue serving customers come what may, and I think our conservative and low leverage approach will serve us very well in the period to come.

This morning, I'd also like to extend a warm welcome to Jon Michael, who recently joined our Board of Directors. Jon joined RLI, a specialty insurer we know quite well at Markel in 1982. He was the President and CEO of RLI for 20 years from 2001 through 2021. RLI is one of the longest duration holdings in our stock portfolio. We have owned it for over three decades over which time the business generated tremendous shareholder value. There is much we can all learn from Jon, and we are excited for the chance to do so. Jon's arrival also coincided with the conclusion of Tony Markel's over six decades of contributions to the company that bears his name.

We look forward to properly celebrating Tony later this month at our Annual Meeting, which we now call the Reunion on May 21 in Richmond. Tony is a lion of the industry and for this company. His paw prints are all over the Markel Group, and this will continue to be the case for generations to come. Upon his retirement from the board, Tony will continue to serve as Chairman Emeritus, marking his outsized contributions to your company. The only other person to be given such an honor, the late Alan Kirshner, that should tell you what Tony means to us. Thank you, Tony.

Finally, before I turn things over to Brian, in the Q&A, we'll focus on our operating results for the last quarter. I would kindly ask that you keep your questions today focused on those results. We also look forward to being with many of you in Omaha and/or Richmond for our Reunion on May 21st. In Omaha, we intend to share more with you about how we seek to relentlessly compound your capital for the generations to come. We will also take your questions. If you haven't signed up for our reunion, we encourage you to join us and sign up at mklreunion.com. We're excited to welcome over 2,000 shareholders from around the world to our home in Richmond. The reunion for us is our Markel style on display and a chance for you to feel what our home is like.

With that, I will now turn it over to Brian, who will walk you through our results for the quarter. After you hear from Brian, Simon Wilson, the new leader of our Insurance business, will introduce his vision for that business and the work that lies ahead. Then we will open the floor for your questions. Thank you. Brian?

Brian Costanzo

Thank you, Tom. Good morning, everyone. At the start of 2024, we began reporting Markel Group operating income for investments, ventures, insurance and on a consolidated basis. Operating income is a key driver of intrinsic value and our long-term incentives. If you must pick one metric for our scorecard. Operating income is the best place to start. We use five year periods to best keep that scorecard and over the past four calendar years, plus the first quarter of this year, we

have accumulated operating income of just over \$10 billion. Longer time horizon to normalize the expected volatility swings in the mark-to-market of our equity portfolio. In the first quarter of 2025, consolidated operating income was \$283 million versus \$1.3 billion in the same period one year ago. The biggest driver of the year-over-year difference was from changes in unrealized gains on the equity portfolio, which flows through GAAP revenue and operating income distorting any signal within quarterly year-over-year comparisons.

First, within insurance, our largest operating business, we locally empowered great leaders to serve customers in the markets that they know best all while focusing on the long-term with the help of our strong balance sheet. Insurance operating income was \$145 million for the first quarter of 2025 versus \$136 million in the same period one year ago. The slight improvement year-over-year was driven by more favorable prior year loss development and \$31 million of income related to our minority investment in Velocity, a former subsidiary of Nephila. These were largely offset by an increase in catastrophe losses. In Ventures, our operating businesses are autonomous and accountable. We use equity capital to acquire our family of businesses, while promoting a long-term focus and our shared set of values. We see companies with lasting competitive advantages that provide strong, steady returns on capital across economic cycles. Within certain of our businesses, cycles will and do occur, we price that into our underwriting.

Although we didn't complete any new acquisitions during the first quarter of 2025, we began consolidating EPI this quarter upon attaining the required regulatory approval following our September 2024 investment in this business. Ventures revenues were \$1.1 billion in both the current and prior year quarters for a decline of around 1% year-over-year. Our consumer and building products businesses and transportation businesses saw a deceleration in end market conditions. We saw improvement year-over-year in demand in our equipment manufacturing businesses. Recent acquisitions of Valor and EPI contributed \$28 million in revenue in the most recent quarter with no contribution in the same quarter one year ago. Ventures

operating income was \$103 million in the first quarter of 2025 and \$104 million in the same period last year or down 1% year-over-year.

Turning over to our investments. Through our public equity portfolio, we own interest in many of the best businesses in the world. We seek out profitable businesses with good returns on capital, management teams with integrity and talent and companies that have attractive reinvestment opportunities and capital discipline that are available at reasonable valuations. Further, we invest the float of our insurance operations into highly rated fixed income securities, while seeking to minimize credit, currency and interest rate risk across our asset liability profile. Investments operating income was \$82 million for the first quarter of 2025 and \$1.1 billion in the same period one year ago. Our equity portfolio declined 1% in the first quarter with \$147 million in mark-to-market losses, which are included in our Q1 2025 operating income versus \$907 million in gains in the comparable quarter last year.

Over the long term, our public equity portfolio has created excellent return a cumulative unrealized gain of \$7.8 billion. We continue to take advantage of our low cost and tax efficient structure long-term lens and incoming cash flows to compound capital in our public equity portfolio. Net investment income was \$236 million in Q1 2025 versus \$217 million in Q1 2024. For Q1 2025, our fixed income book yield was 3.5%. During the first quarter, we added new fixed income investments at higher yields, approximating 4.4% versus maturing bonds at approximately 3.6%. 98% of our bonds portfolio was held in fixed income securities that are rated AA or better. Moving now to a little more detail on our underwriting operations, our largest operating business. In the first quarter of 2025, underwriting gross written premiums were up 3% to the prior year, driven by strong growth in U.S. personal lines, specifically our E&S homeowners and Hagerty lines and more modest growth within our U.S. programs and international general liability and professional liability lines and our reinsurance workers' compensation line. U.S. professional lines are down as expected due to the product transition within our U.S. risk managed portfolio.

Our more modest gross written premium growth this quarter reflects the combination of us achieving growth within the majority of our portfolio while remaining balanced with selective deployment of capital in certain U.S. lines where profitability is more challenged. Earned premium was down 2% in the quarter. We're running a little ahead of plan given we expected to decline in earned premium from our underwriting actions taken last year. We expect the impact of these re-underwriting actions on our earned premiums to soften throughout the year. The overall combined ratio was 95.8% versus 95.2% in the same quarter one year ago. This quarter included roughly \$81 million or just under 4 points of impact from the California wildfires, including both losses and reinstatement premiums. That resulted in an x-catastrophe combined ratio of 92%, which is 3 points better than a year ago. The level of losses we incurred from the California wildfires is a testament to the underwriting actions taken over the past few years to manage our exposure to such events. An industry loss of this size a few years ago would have produced a larger impact on our first quarter underwriting results.

Our current accident year loss ratio was 67.2% in the first quarter of 2025 and 64.1% if you exclude the impact from wildfire losses, which is consistent with the same period one year ago. Prior year loss development was 7.2% favorable in 2025 versus 3.6% in the comparable period. The expense ratio was 35.8% in 2024 versus 34.7% in the comparable period. That's up a point from the same period one year ago, but it's also a point better sequentially versus Q4 2024 and from our plan as we made some progress on efficiency initiatives, which were offset by negative operating leverage from the slight decline in earned premiums. Our exit collateral protection insurance product line or CPI, added \$16 million or 1 point to the consolidated combined ratio in the first quarter of 2025. As we noted on the previous earnings calls, we still expect CPI losses to decrease in 2025 versus 2024. As a reminder, we took numerous corrective underwriting actions starting early in 2024. We exited several product lines, including primary casualty retail, business owners policy, risk-managed excess construction, risk-managed architects and engineers and collateral protection insurance.

Second, across our portfolio, we meaningfully reduced the construction mix in our casualty portfolio. We changed the terms and conditions to eliminate certain exposures to subcontractors, reduced limits on excess lines and implemented premium caps in challenging states, achieved double-digit rate increases across the casualty portfolio and walked away from risks that were not adequately priced. Third, and our most challenged class U.S. public D&O. We moved to a single access point for public D&O and large financial institutions coverage based out of our Bermuda platform. These collective actions comprised a reduction of \$350 million in 2024 gross written premium, but were accretive to our 2024 combined ratio results. As we noted in the Q4 '24 call, they will be further accretive to our 2025 results, but will also continue to put pressure on top line premiums, which in the first quarter of 2025, reflected a reduction of \$33 million in premiums related to these exited lives.

Finally, we continue to hold reserves at a level that we believe is more likely redundant than deficient, shoring up pockets of adverse development trend over the past few years. We expect our reserving philosophy to produce prior year loss takedowns in future periods. We expect all our actions to drive an improved attritional combined ratio in 2025 and continued improvement into 2026. Our reinsurance operations showed modest improvement this quarter with a combined ratio of 90.8% and prior year favorable development of 5 points in the quarter. We remain prudent in our reserving and continue to increase the levels of margin in our current accident year loss picks in reinsurance.

With that, I will turn it over to Simon, the new Head of our Insurance business.

Simon Wilson

Thank you, Brian, and hello, everyone. Thank you for this opportunity to introduce myself and share with you a brief word about my vision for Markel Group's Cornerstone Insurance business. First up, I want to say that I'm a person who likes to keep things simple. The organization that I'm responsible for sells a variety of specialty

insurance products across the world. No more, no less. Over many years, Markel has shown that it's been able to do more than hold its own in this competitive market. The key observation that I would make about Markel Insurance is that we really are an amalgamation of many teams who specialize in their very particular areas of the marketplace. We win when we empower the outstanding leaders of these teams to focus on their customers and build businesses around them.

My job is to set direction, select great leaders, provide them with the environment in which they can make decisions and hold them accountable to those decisions. In that context, I've looked at the position of Markel Insurance and made several key decisions over the past few weeks. Firstly, we simplified our structure to ensure that our core business units are clearly aligned with the buying behavior of our customers and distribution partners. The U.S. Specialty business have become a bit too large in this context. The leadership with structured delivering products to so many different customers, so we've begun to find it difficult to prioritize our investments. As such, we divided U.S. Specialty into two divisions, so that we can do more things while retaining a high degree of focus on our customers.

Second, we're going to double down our commitment to the U.S. Wholesale and Specialty market. This is our absolute core business and why Markel has made this name over a long period of time. It is also a market that has grown significantly in recent years and one that we expect will continue to grow. I'm delighted to say that Wendy Hauser will be leading this critical area of our business. Third, we will progressively shift our shared service organizations such as IT, which currently reside at a corporate center to our frontline divisions. This will create far stronger alignment between technology and underwriting, for example, will also drive greater efficiency in decision-making and increase the speed at which we're able to deliver products to customers. I plan to share more about the broad outline of this plan when we speak to our investors in Omaha on May 4th, as today's call is dedicated to our quarterly results.

In summary, I firmly believe that the combination of selecting great leaders and then trusting and empowering them to build great

businesses, differentiates Markel, when hiring people and serving customers is the secret sauce that creates pride and ownership to ensure that good decisions are made every single day without the need for micro management. Markel has believed in this approach since the beginning, and it will drive our success going forward. I want to end by saying this role is the most exciting professional opportunity of my life. I look forward to the work ahead. We have tremendous potential here at Markel. It's time for us to show the world what we can do.

Thomas Gayner

Thank you, Simon. And unfortunately, given our technical difficulties. I'll ask my colleagues to let me know if you can hear me or not.

Simon Wilson

We can hear you.

Thomas Gayner

Okay, great. Thank you, Simon. Finally, you may have noticed the press release that we sent on April 15th. As part of our annual Omaha Brunch tradition, this year we will be answering questions as we always do, and we can't wait to see all of you there. Before we open the Q&A this year in Omaha, we will be giving a brief presentation. While this marks a slight deviation from our tradition, there's been a lot going on in the business, and we felt in this specific year, it is important that we share some updates with you, our partners. We thought there would be no more appropriate setting to do so than in Omaha in a room full of our longest tenured and most engaged partners.

With that, we will open things up to your questions. And I'd also like to note that Mike Heaton, our COO is also in the room to join us for the Q&A. Jeanine, it'd be so kind as to open the floor for questions.

Operator

We will now begin the question and answer session. To ask a question, you may press star, then the number one on your touch-

down phone. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then one again. At this time, we will pause momentarily to assemble our roster. Our first question comes from the line of Andrew Kligerman from TD Securities. Sir, please go ahead.

Andrew Kligerman

Hi, good morning. I guess the first question is around the favorable 7.2% prior year development and I think it was called out in the release, professional liability and general liability. Could you -- just given that you've taken a big charge in those areas about five quarters ago, could you elaborate on the accident years and maybe a little bit more on the products where you're seeing the favorable development?

Brian Costanzo

Yes. Thanks, Tom. Andrew, so what I would say is really what we saw in the first quarter was pretty much a quiet quarter from kind of an actual versus expected loss development. And so if you pair that with kind of our level of prudence and how our reserving philosophy is formed consistently be more likely redundant than deficient. That reserving philosophy produces a natural amount of takedowns quarter-over-quarter. We allocate that prudence largely into those professional and casualty longer tail lines. So really what's coming through is just us moving prudence into the current year and taking a little of that out of the prior years with kind of benign activity across the rest of the portfolio.

Andrew Kligerman

Got it. Okay. And maybe moving over to the expense ratio at 35.8%, and you cited that it was one point better than Q4. I've observed a number of developments. I think you talked about some time ago, put out a release on Guidewire, managing your claims, Simon, who's just talked about simplification. Any sense of where that 35 intake could go? I know a lot of your peers are under 30. Any thoughts on your objective or where that can go?

Thomas Gayner

Yes. Thank you, Andrew. Brian, continue, if you would, please.

Brian Costanzo

Yes. So Andrew, what I'd say is we're not where we want to be. The expense ratio at where we're at is not where we want to get to. We certainly have a little bit of drag in there from a handful of things, one being continued investment in the IT space. Another we talked about is launching some new platforms, particularly in Asia and Europe, where we've hired a lot of the staff to grow those businesses. The earned premium just hasn't come through to catch up with that. So you've got some natural things that will bring that down over time. We also have a few things in the quarter, our total earned premium being down 2%.

Some of the underwriting actions we took last year starting to come through. That will start to diminish off, and we'll see more normal earned premium growth which will create some lift downwards in the expense ratio there, along with a few onetime items in the quarter, around some consulting expenses and severance costs that has a little bit of a drag. So while we won't give an exact number, we definitely are targeting something lower than what we're sitting today.

Simon Wilson

Yes. And Andrew, I might just add. Simon here. We talked about simplification. One of the things that I'm very, very focused on is having clearly align P&L statements and owners that sit on the top of those P&Ls. And I kind of spoke a little bit in my comments about moving our central services into those business units. And I think what that does naturally is give business leaders a decision to make over what needs to have and what's nice to have. And I think there's just a natural opportunity there for us to reassess the expenses and we're putting those investments or where we're spending our money. And naturally, I think that will reduce the total number of dollars that we're spending on various things. Now like Brian said, I'm not going to put a target on that today. But that's the direction of travel. And when you

put business leaders in charge of their P&Ls and give them clear accountability for it, I think good things come from that overall.

Operator

Our next question comes from the line of Mr. Mark Hughes from Truist. Please go ahead.

Mark Hughes

Yes, thank you very much. Good morning. What should we think about the cadence of the top line as we go through the year. I think you'd mentioned we should start to see a little bit more momentum. Just trying to get a sense of how much more kind of refinement of the book is ahead of us? Or will we start to transition to more of a growth top line?

Thomas Gayner

Thank you, Mark. And I think both Simon and Mike and Brian might have a point of view about that. I will also add in from the Venture side comparisons we had against a wonderful year last year made for tough comparisons, but the Ventures business is doing well, and I'll let my colleagues speak on the insurance side.

Simon Wilson

Yes, Simon speaking. I'll go first on this, Mark. Thanks for the question. A couple of things on this point. '23 and '24, there is a significant amount of focus on re-underwriting here. There's underwriting actions that Brian spoke about. That, as you take those decisions in the round, they're good words, they're going to improve the combined ratio over time, no doubt on that. But it does depress growth because we are going to focus on trading back in a few different areas. So we have had that '23, '24, I think a lot of the heavy lifting is being done during that period, and that gives me a really nice foundation from which to focus on. Can we say that no further is required? We have got a huge book of business. Lots and lots of different lines. So we're always kind of making decisions in and around them, but I would suggest that the real heavy lifting is really behind us from that perspective. That gives us a great opportunity to

turn to growth, and that's really why we set up in a way that I started to describe earlier. Just to give you a sense of that by passing out our wholesale and specialty unit under Wendy Houser, and then putting our programs and solutions businesses under Alex Martin, we got two leaders there who've got smaller portfolios than we had in that U.S. business previously. That gives them more opportunity, time and attention to say how do we win in these specific marketplaces that we've created P&Ls for here.

An example within Alex Martin's Programs and Solutions business, we've got a business called Markel Personal Lines run by an individual called Jeff May. Great business. We've been seeing huge demand actually in that particular space over the last few years. But Jeff's been really pushing that forward on its own with his own team. That now elevates into the organization where Alex is looking at really strongly, I'm looking at really strongly and saying, "Well, what can we invest in Jeff's personal lines business there" to take that to the next level and move it from to \$650 million business at the moment, how do we make that to a profitable \$1 billion business, for example. You can ask the same question for our workers comp book, our surety book, and of course, the big business that Wendy will be leading in our wholesale and specialty lines. So the way that we've set up really magnifies our attention on where the best opportunities are for investment and I think as I look, not just in the U.S. but around the world, there is significant scope for us to do more as an organization. So '25 is a bit of a transitional year as that premium is kind of flat in the early stages, and we expect some acceleration during the second half. But the initiatives that will set off during the course of '25 will pay dividends in '26 and beyond.

Brian Costanzo

Maybe I'll just throw two quick things at what Simon said. If you think on the U.S. side, our most profitable lines grew about 8% in the quarter. A lot of that was in our E&S book and E&S platform in the U.S. side. The other point I'll make on the international side, our growth was around 3%, but the dollar weakened quite a bit in the first quarter. So if you take constant rate of exchanges to normalize that,

it's more like 6%. So there is a little bit of FX noise kind of in the top line number, particularly on the international side.

Mark Hughes

Yes. The 6% adjustment, was that the overall written premium company-wide?

Thomas Gayner

No, that's just on our international division, just within the international business.

Mark Hughes

Okay, yes, yes. Okay, very good. And then, Simon, I think you mentioned you had optimism about U.S. wholesale and specialty. I think the new structure is part of that. Is there anything out of the market that you see that gives you optimism? Anything about casualty pricing, loss trends, driving the top line? What is the -- influencing your thoughts there?

Simon Wilson

Yes. So wholesale and specialty, if we just take the excess and surplus lines aspect of that, actually let me just get the figures for it. Mark, the compound annual growth rate in that E&S market in the U.S. over the past five or six years, it's been 20% year-on-year-on-year. Now sometimes, that's a soft market, hard market thing. So in a hard market, business shifts into E&S. My view is that there is a structural move now within the U.S. marketplace of a move towards the excess and surplus line space. Reason for that, I think customers become much more demanding in what they want from their wording and the solutions that are being delivered by insurers. They don't want the vanilla solutions quite so much these days. They do want a specialty offering, which is tailored towards their needs. And that's typically when you go into the E&S market, that's where that comes from. So we've seen significant growth, we've got a buildup in customer demand for the products being sold there.

And the strength of the brokerages that have developed in that space, take the big 3, CRT, RT Specialty. I mean business is gravitating towards them and they're putting more and more investment into that space. So I just feel that there is a structural shift and tailwinds within that E&S space in the wholesale and specialty market in the U.S. large. So this is a natural consequence of that business continues to grow, it is round about \$100 billion in total these days. I'm positive about that because this is absolutely the sweet spot for what Markel office and our capabilities around underwriting, distribution, the way that we interact with customers and brokers in that space. On the rate question, that's a good one. The casualty market, in particular in that area is seeing ray. I think that was needed. We've seen claims trend spike really in the last few years. That's been a constant theme throughout the industry. And the market is responding to that and responding quite hard. So we're seeing rate in the first quarter of this year at 13%, and that's on top of 10% rate in 2024.

So there's a compounding of upwards rate in that area. We're also seeing kind of the size of lines that are being offered in the market, they're shrinking, they're getting smaller. So people are able to really underwrite our way through the market in the casualty space. I think that creates very significant opportunity for Markel now that we've cleaned house, as I said, in '23 and '24. So reasons for optimism is absolute general growth, our capabilities in this space and in particular, the casualty lines of business are seeing some really favorable rates as we look at it today.

Mark Hughes

That's a pretty good dual point there, Simon. You would say if we were operating at peak efficiency, you still feel pretty optimistic about the marketplace and tailwinds, summing up some of what you said there, but you couple that with some of the changes you're making internally where for whatever reason, we haven't necessarily had quite clarity of P&L ownership that you might want to see. And now you've got leaders who will be very, very clear and about the business that they own and the decisions that they're responsible for making. You put those two things together, it's going to be pretty interesting.

Operator

Our last question comes from the line of Andrew Andersen from Jefferies. Please go ahead.

[Andrew Andersen](#)

Hey, good morning. In the Q, you had mentioned that you decreased the level of caution and loss reserves. Could you maybe talk about what drove that level of change in caution, just given that and social inflation is still pretty high across the industry?

[Brian Costanzo](#)

Yes. I would say it's cut it back to the answer that I gave Andrew earlier. It's really about kind of realizing a fairly benign quarter and kind of flipping some of the prudence into the current year, taking some out in the prior year. We still hold a high level of redundancy in our casualty lines, our core loss picks there have remained fairly steady. We haven't budged off of those at all. It's just more of the level of prudence that we hold across the balance sheet as a whole that's moving around. Within the professional space, we continue to be watching closely, particularly in that risk managed kind of large account. Certainly, we've seen some pops and claims in the 2022 year across the industry, has started out fairly early in the tail, pretty rough. So we have been adding a little bit in that space to kind of continue to buffer that year.

[Andrew Andersen](#)

Thanks. And then I think you said on the insurance underlying loss ratio, you think there could be improvement year-over-year. I just want to level set what base should we be looking at for '24.

[Brian Costanzo](#)

Yes. I would say, ultimately, what's going to happen is the underwriting actions that we've taken over the last 1.5 years or so, start earning their way through. Those underwriting actions were targeted to bring down the attritional loss ratio. So you'll see that kind of call its way through the results quarter-over-quarter and the earnings mix shifts. We've also shifted the portfolio from just a growth

standpoint towards more premium in our more profitable lines, so that should -- that will improve the combined ratio overall may or may not shift the loss ratio versus the expense ratio depending on which line that is. So a line like Surety that we feel very good about. We've been growing quite a bit in that has a very different kind of loss ratio, expense ratio profile than some of our other lines.

[Andrew Andersen](#)

Sorry. So just to be clear, if we're looking at the 63.5% insurance ex cat, ex PYD, that's what we should be thinking there's improvement relative to?

[Brian Costanzo](#)

I would say we would continue to see that markets way down slowly over time, yes.

[Andrew Andersen](#)

Okay. Thanks. And then just last one. I think last year within Nephila, you made a comment that you were kind of doing some hedging and you didn't really deploy all the business just given, I think it's still kind of an active hurricane outlook according to Colorado State, and it's still obviously very early in the year. But can you maybe talk about just capital deployment on Nephila and how it could earn into other ops?

[Brian Costanzo](#)

Yes. So I mean, Nephila, they kind of go year-by-year in terms of their strategy, looking at what's out there in the marketplace. They deployed some of their capital, some of their capital is still in the process of being deployed, certainly elevated cat seasons on their mind. What they're going to do is what they think is in the best interest of their investors. And how do they manage returns for their investors and kind of what they believe the current climate is. So that could involve various levels of buying certain types of hedges, whether they be cat bonds or IOW within the portfolio. When they buy those, they tend to use our rated paper to front them. So that's what you're seeing in the queue. It's just Markel providing access to our rated paper to

facilitate the transactions that they're using to manage kind of the expected returns for their investors.

Operator

Thank you. Our next question comes from the line of Andrew Kligerman from TD Securities.

[Andrew Kligerman](#)

Yes, thank you for taking my follow-up question. Simon, I'm kind of curious, you know, with the addition of Guidewire, what are you doing in terms of data and analytics and AI and how do you see Markel's insurance operations relative to your peers in that area?

[Simon Wilson](#)

Thanks for the question, Andrew. So data and analytics on my mind, is absolutely fundamental critical area of the industry, right? People who are going to start winning in data analytics, they're going to be able to price better, price quicker, respond faster to various customers. Whether you're in personal lines, commercial lines or specialty lines that we're putting forward here, I think that's going to be very, very important. Obviously, I was responsible for a long time for the international operations. And in that segment, we probably increased our spend in the data and analytics team fivefold over the last three years. So we've created a body of people who literally come to work and just building models and they're building data warehouses, which are operating with API tucked in as well to tell us more about the business than we've ever seen before. And we're getting genuine with huge returns on that and the underwriting community is using that team more and more and more.

I think we've probably got upwards of 40 people in that team, and it was only a team of kind of three or four previously. We're going to be taking those skill sets that we see in the international operations and building on a smaller group of people that we have here in the U.S., but it's something that I'm very, very focused on to spend some more of our investment dollars. That's going to be crucial to us in the future. AI technology, that's being used increasingly around the

business. We see it in some of the data ingestion that we're bringing into some of our systems so that that's being done automatically rather than it's being done by people, frees up our people's time to underwrite and then serve customers. So I think that will play an increasing role as we go through the next few years. Not all the AI, by the way, is being done in-house. We're partnering up with specialists outside of the organization to do some of our processes for us. We see quite a lot of that from partners out in India. So AI doesn't always have to be done at home. It can be done with partners who are the real focused in that area.

Guidewire is slightly different. I would say the Guidewire investment is particular to our claims organization. We've taken many systems that we're operating independently, and we're putting all of those on one claims Guidewire system, which we felt it was a terrific investment in that particular area. And ultimately, claims is what we're selling when we need those people to work both efficiently and have workflows, which are just top of market, and that's what the Guidewire system does. That's just coming to forced actually over the last quarter, we started to use at Guidewire on annual, and we'll start to use that increasingly as we go through the year. And I think that will lead to both efficiencies, but the quality of our claims dealing as well. I hope what I've given to you, and very happy to take follow-ups on this, is a focus on investment around data analytics and our core technology stack as well. We are spending tens of millions in those areas at the moment to revolutionize the quality of what we do at the coal phase, but our ability to actually see what's going on across the portfolio from a management perspective as well is it's something that I'm passionate about and will continue to push over the next year or so.

[Andrew Kligerman](#)

And those are really good insights. Thank you for that. And then just my follow-up would be around the Ventures business. It looks like revenue dropped off about 1%. And I'm just kind of curious color around -- I think on the call, you cited consumer and building products seeing a deceleration or maybe even a drop in revenue. Maybe just elaborate a little more on what you're seeing across your different

ventures, businesses and what we might expect over the course of the year.

Thomas Gayner

Hey, Andrew, yes, it's Tom, and I'll invite my colleague Mike to speak as well. Mainly, the first quarter last year was a white hot quarter and specifically the highest heat and the most wonderful economic performances were in the realm of transportation and construction that we spoke of. So it's just, frankly, a fairly challenging comparison. By the time we get to the second half of the year, those comparisons will be a little easier and a little more normal. In terms of the turbulence that you see in the economy, I think the first quarter was pretty good. We're attending, we're looking at the monthly financial statements. We're attending the Board meetings of each of the businesses to try to keep our fingers on the pulse of what's happening there in the economy. And I would say any data, any hard data that you look at is still pretty early days, but everybody is hypersensitive to changes in the economy that may or may not come as of yet, things are carrying on at a pretty good level. So I'll pause there and let Mike pick up if he has anything he wants to add to that.

Mike Heaton

Maybe just to further the point, I agree with all of that for sure. Maybe here's the way you could think about it, Andrew, if you think about each of those businesses as a car. We have different kinds of cars within that family of companies. Some of them are Steady Eddie's. They go 55 miles an hour down the road every single day. And those are a little easier to get your hands around. We've got a really good stable base of those. And a number of those businesses, Tom alluded to, and we've said this quarter after quarter after quarter for many years or the kind that you buy expecting to go 55 miles an hour, but sometimes they're going 65 miles, sometimes they're going 45 miles. In recent years, a number of those important cars have been going to 65 miles. And that's fantastic. I mean we'd love that and now maybe they're easing back down closer to the 55 miles. And sometimes it's hard to know if they're going to go to 50 miles before they come back to 55 miles. We don't really worry too much about that

as long as over the course of years, they're going to the speed at which we expect them to go. And on the whole, that's absolutely true. So that's some of what we're feeling, and it's a little hard to look at them and know exactly which speed on aggregate, we're going to end up on. But as Tom said, we're really thrilled with the last couple of years. And that's a good thing.

Operator

Our question comes from the line of Charles Gold from Truist. Please go ahead.

Charles Gold

Thank you. Simon, congratulations. I can't wait to spend some time with you at the reunion. I appreciate the move towards simplicity and clarity. I'm not sure the clarity I see is based on recent cataract surgery or the numbers are becoming clear. But a couple of observations, and I hope you could correct my thoughts. First of all, I saw acquisitions last year two, I believe that we're roughly \$310 million in cash. The way I view that you're taking 4% dollars and putting them in 10% to 12% returns over time and compounding that. The investment income line approaching the \$1 billion number. I know you don't pay full tax, because some is muni, but \$800 million after taxes and 12.5 million shares comes out to a pretty big number, \$60 a share that we start every year with. And I know the lines will cross again, but right now, they're still going in our favor.

You've got two products that have been punishing the IP and letters of credit but they're in runoff. And the numbers are coming in a little lower than you first put up. So those look like maybe two points that will be favorable '26 versus '25 and the probabilities of that are extremely high. I never like to do the -- if we didn't count the catastrophe line, but maybe the fires are exceptional, and maybe 2% is a more realistic number. So you take the 2% and the 2% and you're operating somewhere around 92% as we speak on a going forward basis and a point for the expense ratio, which you say is headed down. So it looks like we have a 91% company heading into next year with half the catastrophe losses that we had this year, and we're

struggling in the 96% to eight area. So you take the \$1 billion of investment income, which we should hit this year, should hit that \$2.50 a quarter number and a 5-point reduction in combined ratio and a Markel Ventures division that's doing better than treading water and with the new additions should produce more revenue and EBITDA. The picture has cleared up for me. And I just want to see if I'm looking at things correctly through my new eyes.

[Thomas Gayner](#)

Hey, Charles, this is Tom Gayner. I'm glad to hear your cataracts are indeed working well. Directionally, I agree with your math. The only other thing I would add is that we did last year, spent \$573 million to buy back our shares, and we also spent \$170 million doing that through the first quarter of this year. So we're applying some of that capital that we're already generating, not theoretical. So it's being divided by fewer number of shares outstanding.

[Charles Gold](#)

As you know, that's only on my mind daily. And I've beaten you up over the years on that subject, and I applaud the actions that you're taking. You're not saying the words, you're walking the walk. So that's the right thing to do.

[Thomas Gayner](#)

Thank you. I don't think my colleagues have anything to add. They can jump in if they do.

[Charles Gold](#)

Show up at bridge sometime.

Operator

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

[Thomas Gayner](#)

Again, thank you all for joining us. We apologize for our technical difficulties along the way. We hope to see you in-person, either in Omaha and/or Richmond over the coming weeks. And if not before then, we'll connect 90 days from now on the call. Thank you very much for joining us. Be well.

Operator

This concludes today's conference. Thank you for attending today's presentation. You may now disconnect.