S&P Global
Market Intelligence

Markel Group Inc. NYSE:MKL

Earnings Call

Thursday, November 2, 2023 1:30 PM GMT

Call Participants

EXECUTIVES

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Teresa S. Gendron
Chief Financial Officer

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Good morning, and welcome to the Markel Group Third Quarter 2023 Conference Call. [Operator Instructions] 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 our most recent annual report on Form 10-K and quarterly report on Form 10-Q including under the captions, Safe Harbor and Cautionary Statements 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 our most recent Form 10-Q. 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 Sinnickson Gayner
Chief Investment Officer, CEO & Director

Thank you, Regina, good morning, and welcome to the Markel Group Third Quarter Conference Call for 2023. My name is Tom Gayner, I've joined this morning by Terri Gendron, the Chief Financial Officer; and Jeremy Noble, the President of Insurance to brief you on our results as well as to answer your thoughtful questions.

At Markel Group, we remain committed to our long-term goal of building one of the world's great companies. We define that as creating a win-win-win culture, where our customers are better off for having done business with us. Our colleagues are better off by being part of the Markel group and our shareholders are in excellent returns on their capital as a result of the wins by customers and colleagues. Overall, I'm pleased with the performance of the Markel Group through the first 9 months of 2023. But we do have a few blemishes to deal with this year.

As always, we will be honest and candid in sharing not only what's working well, but what needs improvement. We believe that this honest and candid self-assessment is the best way to maintain the discipline and clear-headedness needed to make good decisions going forward. It is also the way to earn your trust as we demonstrate to you that we acknowledge our challenges and face them head-on. Terri will provide you with the detailed numbers in just a minute, and Jeremy will follow with his report on our insurance operations.

But before we get to that, I wanted to start off with some high-level commentary. As Sheryl Crow saying, Everyday Is a Winding Road. She's right. We've got some great news, some good news and some challenging news this quarter. While we may be on a winding road, we do continue to move forward. As to the great news, Markel Ventures continues to produce simply outstanding results.

For the first 9 months of this year, operating income rose 52% from $217 million to $330 million. And EBITDA rose 35% and from $353 million to $474 million. There were no material acquisitions at Ventures during this time period. These are basically apple sauce to apple sauce numbers.

I simply could not be more pleased with the performance of Ventures. The management teams that lead those companies continue to produce outstanding results for the Markel Group. The numbers speak for themselves. As to the good news, and is very good. Our recurring interest and dividend income grew 73% from $302 million to $521 million in the first 9 months of 2023. We continue to invest the cash flows and maturing bonds into higher-yielding fixed-income securities. Each investment we make in fixed income these days carries a higher interest rate than the bonds that are maturing. I would expect us to continue to earn even higher amounts of recurring investment income and the trailing interest rate environment.

As to our equity investment portfolio, we earned a return of 9.3% through the first 9 months of 2023. While this trails the S&P return of 13.1%, we do remain over 100 basis points ahead of the S&P for more than 30 years. I would very happily sign up for the sort of annualized investment results we are putting up so far in 2023. I'd also happily accept 100 basis points of outperformance for the next 3 decades, if I could do so. As to the challenging news in our insurance operations, reported a year-to-date combined ratio of 95%. And for the third quarter, we reported a combined ratio of 99%.

These results are below our expectations and stem from multiple factors. First, we continue to experience inflation in our claims payments. That inflation reflects higher overall price levels and social inflation that we see in the current legal environment. We continue to incorporate these trends in our reserve-setting process. I'm pleased to report to you that despite the challenges, we continue to live up to our goal of setting reserves that prove to be more likely to be redundant than deficient. We did report favorable development in the third quarter.

Some of the factors that led to these results include 2 points of losses in the third quarter from natural catastrophes, including Hawaiian wildfires and Hurricane Idalia.

Additionally, we experienced approximately 3 points of losses in the third quarter from the losses in our collateral protection book, which include exposure to the widely reported Vesttoo bankruptcy and fraud case.

Collateral protection is a relatively new product to us and to the marketplace. We learned some tough lessons here, and we've made significant adjustments to the product. While we are extremely disappointed with this loss, we believe we've addressed the causes aggressively. And we are actively working to mitigate potential future losses associated with this product. We are especially disappointed with these particular losses as they obscure the outstanding performance from so many other components of our insurance operations. Rest assured, we continue to work tirelessly to make each engine in the Markel Group performed at the highest levels.

And we look forward to future periods of sharing our progress on exactly that with you. We never like calling out specific reasons for our disappointing results. Discussions of natural catastrophes and headline events can deteriorate into an exercise of excuse making. I don't like making excuses any more than you like hearing them. We know that you as shareholders expect us to be able to manage the normal flow of catastrophe losses, headline events of wars, consequences of climate change and other things that go bump in the night and still produce acceptable results. That is the very nature of what a successful insurance operation does.

We understand the assignment. Rest assured, we continue to work tirelessly, to make each engine in the Markel Group performed at the highest levels, and we look forward to future periods of sharing our progress on exactly that with you.

Finally, as one additional marker of our overall financial strength and performance, we invested $270 million in additional public equity investments during the first 9 months, which should produce additional returns into the future. The current unrealized gain on our public equity portfolio stands at over $5 billion. I expect that amount to continue to grow over time. We also repurchased $269 million of our own stock so far in 2023. Compared with $208 million in the first 9 months of last year.

My expectation is that we'll continue to produce profitable results in our insurance ventures and investment engines and we will be dividing those profits among future shares, fewer shares. That seems like a recipe for increasing shareholder value to me. Additionally, I stated last quarter, that in 5 of the last 6 quarters, I've personally taken money out of my pocket to buy Markel Group stock on the open market. I continued to do so again during the past quarter.

In fact, I invested approximately my entire after-tax salary for Markel Group during the quarter to purchase shares in the open market. At this point, I now have purchased Markel Group shares in 6 of the last 7 quarters. I am confident in our team, I believe in their talent and dedication. I believe they will produce excellent results. We remain committed to building one of the world's great companies, and I thank you for your ongoing support.

With that, I'll turn it over to Terri to provide you some of the details of our financial results. Jeremy will pick up with his comments on our insurance engine, and then we'll open the floor for questions. Terri?

Teresa S. Gendron
Chief Financial Officer

Thank you, Tom, and good morning, everyone. As Tom pointed out, we have a mix of results this quarter, which highlights the importance of our 3 engine architecture. Using the words of Sheryl Crow, the diversity in our family of business may be helping us to get a little bit closer to feeling fine. Starting off with our underwriting operations. Gross written premiums grew 5% to $7.9 billion for the first 9 months of 2023, compared to $7.5 billion in 2022. Our increased premium volume reflects new business and more favorable rates across many of the product launches within our insurance segment, partially offset by lower premium volume within our professional liability product lines where we're adjusting our writings in reaction to changes in market conditions and downward pressure on rates within certain classes. Our consolidated combined ratio for the first 9 months of 2023 was 95% compared to 91% for the same period last year.

Our 2023 combined ratio included $46 million or 1 point of net losses attributed to the Hawaiian wildfires and Hurricane Idalia. Our 2022 combined ratio included $70 million of net losses attributed to Hurricane Ian and $35 million attributed to the Russia-Ukraine conflict which together added 2 points to the combined ratio.

Excluding these losses from both years, our consolidated combined ratio for the first 9 months of '23, was 95% compared to 89% in 2022. The increase was driven by a higher attritional loss ratio in 2023 within our insurance segment, which Jeremy will discuss further. Prior year loss reserves developed favorably by $170 million in the first 9 months of 2023 compared to $204 million in the first 9 months of 2022.

We experienced favorable loss reserve development across multiple product lines in '23. Most notably across our international professional liability product lines and our property product lines within the insurance segment. The favorable development in 2023 was partially offset by adverse development on our general liability product lines within our insurance segment due to an increased frequency of large claims over the past several quarters under excess an umbrella and primary -- and primary casualty contractors liability products.

We also experienced adverse development within our Reinsurance segment in 2023 on our general liability product lines. and a discontinued portion of our public entity product line.

Turning to our investment results. We reported net investment income of $521 million in the first 9 months of 2023, compared to $302 million in the same period last year. With meaningful increases from fixed maturity securities, short-term investments and cash and cash equivalents. Interest income on our fixed maturity securities reflects a higher yield and higher average holdings compared to last year. On a year-to-date basis, yields on our purchases of fixed maturities have been about 250 basis points higher than securities that rolled off. Higher income from short-term investments is due to higher short-term interest rates in the current year. The largest share of the increase is due to higher interest income from our cash and cash equivalents, as we have increased our allocation to money market funds to take advantage of the current interest rate environment.

During the first 9 months of 2023, we recognized net unrealized investment losses with another comprehensive loss of $135 million net of taxes, compared to net unrealized investment losses of $1.3 billion, net effect in 2022. These movements correspond to decreases in the fair value of our fixed maturity portfolio, resulting from increases in interest rates. Recall that we typically hold our fixed maturities until they mature. And we generally expect unrealized holding gains and losses attributed to changes in interest rates to reverse in future periods if bonds mature.

As of September 30, over 99% of our fixed maturity portfolio was rated AA or better, and there are no current or expected credit losses within the portfolio. Net investment gains of $591 million for the first 9 months of '23, reflect favorable market value movements driving a return of 9.3% on our public equity portfolio during the period. This compares to net investment losses of $2.2 billion for the same period of 2022. As you heard us say many times before, we focus on long-term investment performance expecting variability in the equity markets and the timing of investment gains and losses from period to period. With regard to our Markel Ventures segment, revenues from Markel Ventures increased 6% to $3.7 billion in the first 9 months of 2023, up from $3.5 billion for the first 9 months of last year.

The increase reflects growth and improved pricing across several of our businesses. EBITDA from Markel Ventures increased 35% to $474 million for the first 9 months of 2023. From $353 million during the same period last year. The increase was driven by our products businesses, which had higher margins in '23, compared to '22, as we saw material and freight costs stabilize.

Our effective tax rate for the first 9 months of 2023 was 21% compared to 23% in the same period last year. We reported net income to common shareholders of $1.2 billion for the first 9 months of 2023 compared to a net loss to common shareholders of $926 million in the same period a year ago. With the change largely attributed to the year-over-year swing in our public equity portfolio valuation. Comprehensive income to shareholders for the first 9 months of 2023 was $1.1 billion compared to comprehensive loss to shareholders of $2.1 billion in the first 9 months of 2022, with swings in both fixed maturity and public equity valuations as the largest drivers.

Net cash provided by operating activities was $2 billion for the first 9 months of 2023 compared to $1.9 billion for the same period last year. Operating cash flows in 2023 reflected strong cash flow from each of our operating engines with the most significant contribution from our insurance engine and a notable year-over-year increase coming from our Markel Ventures engine. Total shareholders' equity stood at $14 billion at the end of September. Compared to $13.2 million at the end of the year.

Overall, we're pleased with our consolidated results so far this year. and are confident that we're taking the right steps to address the current challenges on our road to building long-term shareholder value.

With that, I'll turn it over to Jeremy to talk more about our insurance engine.

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Thanks, Terri, and good morning, everyone. It's great to be with you to discuss our insurance engine results for the third quarter. Clearly, our insurance operations performance is not where we want it to be. However, I am confident that we are taking the right actions quickly in the near term to successfully confront what are predominantly industry-wide challenges that set Markel up for long-term success.

As I walk you through our financials, you will see our performance is being impacted by a few pockets within our product portfolio that are negatively influencing our underwriting results for the period. This includes the well-documented higher loss cost trends in recent years, which are creating prior adverse reserve development within our risk-managed D&O and excess casualty lines, and mid-market excess an umbrella in primary casualty contractors liability books. We are working incredibly hard to evaluate the ultimate cost to set on claims on these meaningful portfolios, examining the maturing accident years from the last soft market cycle, while seeking to gain confidence around margins on more recent accident years that were written in a more favorable market environment.

We are also maintaining a higher level of prudence on our current accident year loss picks within these products due to the uncertainty around future loss cost trends. We are acting with a great deal of discipline being more selective around new business, pushing rates and terms and letting business laps that doesn't meet our profitability targets. We are in the process of remixing our portfolio to improve overall profitability. And ensuring our reserves are robust as we move into 2024. In short, Markel has long been a conservative company and one that demonstrates caution when it comes to evaluating adverse claims trends.

Let me now share a few further thoughts on our results from across our collection of insurance businesses, which includes our insurance and reinsurance, State National program services and the fill insurance-linked securities operations. Across all of our businesses within the insurance engine, through 3 quarters, we have produced $6.3 billion in revenues, up 8% from last year, while generating pretax operating income of $371 million. The insurance engine also continues to generate significant operating cash flows, and we have been intentional about taking the cash and maximizing the investment return on the float generated by our underwriting operations and attractive market yields.

Moving to the results of our underwriting operations. We reported a combined ratio of 99% in the third quarter results, which was significantly influenced by several noteworthy items -- three, to be exact. First, we realized a total of $46 million or 2 points of losses in the quarter related to catastrophe events, specifically the Hawaiian wildfires and Hurricane Idalia. Losses concentrated in our small commercial, inland marine and binding property lines. We also recognized $30 million or just under 2 points of development on the prior accident year losses within a runoff portion of our public entity line in reinsurance. We exited this segment of reinsuring not-for-profit entities in California and other West Coast-based states in 2020, recognizing that this book was not performing adequately.

We now believe the ultimate losses from this book are likely to need to be greater than what we had previously allowed before. Based on a recent completion of an actuary and claims review.

Finally, we recognized losses in the quarter within our intellectual property collateral protection product line, including a $25 million or 1 point impact to the combined ratio from credit losses related to a fraudulent letter of credit provided by Vesttoo. Our CPI product in total had a 3-point impact on our combined ratio. If you exclude these 3 items, our reported combined ratio of 99% in the quarter converts to 93%, consistent with our result for the first half of this year. This highlights the fact that we have many product lines within our portfolio that are performing very well. Turning to premium production.

Overall, gross written premiums in our underwriting operations grew by 1% in the quarter and 5% year-to-date. As I pointed out last quarter, we continued to achieve premium growth in lines where we see opportunities and feel good about the levels of rate adequacy. We are taking advantage of the improved pricing environment and have achieved strong growth in our property, in the marine, binding, personal lines and select marine and energy classes internationally. As well as regional growth in our U.K., European and Asian operations. Just as important, we continue to reduce writings in certain classes where we are seeing unacceptable rate decreases relative to loss cost trends.

Within our professional liability lines, this is the most notable in the large account public D&O space. We've also decreased writings in our intellectual property collateral protection line as part of our re-underwriting effort in that product. Our professional lines writings have also been impacted by changes in the broader economy, including the slowdown in M&A and public listings. Which is impacting premium volume within our transaction liability product line within both our insurance and reinsurance segments.

In other professional classes, in particular, within our international portfolio, we are pursuing growth opportunities where we find the business to be adequately priced, although growth has moderated over the course of 2023. Within our general liability product lines, we are seeing solid rate increases overall and achieving moderate opportunistic growth. For example, we are increasing our writings in our finding casualty and environmental lines, which have been consistently profitable. Conversely, we are contracting premiums in our primary casualty contractors liability and excess and umbrella lines where loss costs have been more challenging, and we are carefully selecting risks, pushing rate, managing limits and attachment points to combat these trends.

Our year-to-date consolidated combined ratio of 95% for the first 9 months of the year is up 4 points from a year ago. This increase is driven by the items I just discussed earlier, impacting the third quarter results along with the impact from higher attritional loss ratios in our professional liability and general liability product lines and slightly lower overall prior accident year loss takedowns largely driven by our general liability lines. With respect to the increases in our current accident year loss ratio, we remain cautious in recognizing the benefits from our product diversification and re-underwriting strategies within our general liability and professional liability product losses. We are choosing to increase the confidence level in our loss picks to reflect the higher loss cost trends we are seeing in prior accident years and the uncertainty around the economic and claims environment that will exist in the future when we ultimately settle claims on these long tail lines.

We also continue to maintain a cautious approach to recognizing prior accident year loss takedowns. We recognized $170 million or 3 points of prior accident loss takedowns through the first 9 months of the year, down slightly from a year ago. As I've stated in prior quarters, our loss reserving philosophy remains unchanged. We continue to hold loss reserves at levels that are more likely to prove redundant than deficient. And we are reacting quickly by recognizing additional loss reserves and loss trends outpaced previously held expectations. One final comment to make relative to our underwriting results with respect to our reinsurance segment where we produced a combined ratio of 102% in the quarter. While this result is disappointing, it should be noted that the prior accident year was adverse development in the runoff segment of our public entity book added 11 points to the third quarter reinsurance segment combined ratio.

Excluding this development, our reinsurance result is more aligned with our long-term underwriting targets. We have worked hard in the past 2 years to reunderwrite our reinsurance treaty mix and return our reinsurance results to profitability. We remain confident that over the long term, we will see positive and sustainable impact of those efforts materialize in our results.

Next, I'll quickly touch on the 2 portions of our business that are reported as part of our other operations, our program services and other fronting operations and our insurance-linked securities operations. Total premium production within our program services and other fronting operations totaled $3 billion year-to-date versus $2.6 billion a year ago. resulting in an increase in operating revenues of 2% for the first 9 months of the year due to expansion of existing programs and addition of new programs. Our State National team continues to perform extremely well producing consistent profitability and continuing to pursue opportunities within our business development pipeline. Within our Nephila insurance-linked securities operations, revenues and expenses for the first 9 months of the year were down due to the impact of the sale of our MGA operations in 2022. Revenues within our fund management operations are up from last year due to revenues recognized during the third quarter of this year of $30 million related to the release of capital that had been trapped inside pockets.

Our assets under management and Nephila up $6.8 billion, is down from a year ago, due to the redemption of side pocket classes in the quarter, which outpaced profits generated from the funds year-to-date. However, the current pricing environment for catastrophe-exposed property risk has created a very attractive return proposition for investors. The platform has produced profitable results for the year. The team is working very hard to capitalize on these market opportunities, focusing on price transparency and portfolio construction. At this time, we feel very well positioned heading into 2024.

Turning to current market commentary and outlook. Submission activity and new business opportunities remain robust outside of professional lines, which continue to be impacted by less M&A activity and an unfavorable pricing environment. Overall, trends within the specialty insurance marketplace remain strong. Just a few comments on rate across our portfolio. Throughout 2023, we have achieved modest rate increases across the landscape of our diversified product portfolio.

In the current pricing environment, rate trends are more divergent by product class in contrast in the past few years. Pricing seems to be keeping pace with or staying slightly ahead of trend. We are achieving significant rate increases in our property coverages in select marine and energy product lines due to the recent industry loss experience and increasing cost of obtaining reinsurance protection. Additionally, within our general liability product lines, we continue to achieve modest rate increases across most product classes and have seen the level of increases improve over the course of the year.

Within our insurance and reinsurance professional liability product lines, we have seen modest rate decreases overall, driven by notable decreases within our public directors and officers product consistent with the broader trends across the industry and to a lesser extent within our errors and omissions coverages. In other professional product -- liability product lines, particularly within our international portfolio, we are generally seeing consistency in rates and are continuing to pursue growth opportunities where we find the business to be adequately priced. We're also seeing moderate rate decreases globally within our cyber product line. In response to several years of significant rate increases and strong industry underwriting performance. Despite these current trends, we view cyber as a long-term growth opportunity.

Finally, we continue to realize low single-digit rate decreases within our workers' compensation product line and are reacting accordingly on a state-by-state basis to maintain profitability. In closing, our focus as a business unit remains on achieving long-term profitable growth across our insurance platform. We have numerous success stories to celebrate across our diversified portfolio of doing just that. Reinsurance market conditions are favorable, and we are taking advantage of this within our operations. Our State National business continues its track record of consistent profitable performance. And Nephila, we are seeing strong returns thus far this year within our portfolios, opening the door to future growth opportunities.

Thank you. And with that, I will turn things back over to Tom.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director
Thank you, Jeremy. And with that, Regina, if you would please be so kind as to open the floor for questions.

Question and Answer

Operator

[Operator Instructions]. Our first question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

In the contractor book with the GL line, I think you described some challenges there. How long is the tail on that book? Do you think is it a broader issue that perhaps others are not recognizing yet? Or do you think they are and are acting accordingly? Just a little more there would be helpful.

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Yes. Great, Mark, it's Jeremy. A couple of things on that. So on that primary casualty contractors liability book, and I think I might have spoken to this last year when we experienced some development in that book in the third or fourth quarter. We would observe that the tail has extended. And some of that would be naturally the result of the court closures and the pandemic effect. We didn't really react to that. But generally speaking, I think tail patterns within primary casualty are growing a little bit longer, and that's part of what we've adjusted within our sort of reserving models moving forward.

Some of that is going to be in a re-write a significant amount of construction business. Some of that is also the nature of, as you get into larger projects, the tail is a little bit longer as well. So that is a little bit of what's going on there. I can't speak to what others are or are not recognizing. Clearly, there's been a lot of conversations from reinsurers with regard to their elevated levels of concerns around exposures that are growing. And Clearly, they've got access to a lot of data from clients to evaluate what that looks like. I can't speak to what's going through others' books.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. When you think about your top line, the written premium in the insurance segment, as you kind of take steps to adjust to this environment, would you expect the growth rate to be more consistent with this quarter or kind of pop back up to the high single, low double digits?

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Yes, great question, Mark. So I think some of that has worked its way through. So growth in insurance from a [indiscernible] standpoint, clearly is moderated compared to recent years, and that was further the case in the third quarter. I think there's kind of 2 meaningful offsetting stories. So we've got pockets of premium contraction which are, I think, being offset by numerous bright spots of growth. So one, we're a substantial writer of professional and financial lines. It represents north of 1/4 of our overall writings. And as well been covered, that sector has been hit both by less economic activity from lower M&A and public listing activity as well as a decline in pricing.

And the latter of which has meant that we're less comfortable with the risk adjusted funds and rate adequacy. And therefore, we've let some of that business lapse. That's leading to lower renewal retention. We're being less aggressive on new business. So we're seeing contraction there. Internationally, the business is performing well. The premiums are flat. We've also contracted in pockets of the general liability portfolio, which I touched on in my comments. As we look to reshape the portfolio, improve diversification.

I think the best example of that is demonstrating more discipline within construction in the big 4 states. And lastly, in our marine and energy portfolio internationally, we let go one very large facility that wasn't performing, and we're seeing less adjustment premiums in our marine war book given the closure of the grain corridor in the Black Sea. We've been able to offset those reductions with meaningful growth across a broad range of products.

So property in the marine, binding, personal lines, surety, programs, environmental, insurtech in our U.K., Europe, Asia platforms across other marine energy lines. So I feel we're actually really good about our forward prospects.

And about the actions that we've been taking. A lot of that is working its way through the portfolio. But all of those actions collectively, I think that should be accretive to earnings into returns. The one other comment I might make on premium volume kind of pertains to the property marketplace. And we've grown here but that's due in large part to taking meaningful rate versus expanding exposure. And property overall is a smaller component of our portfolio than I think it is for many others. I do believe the risk-adjusted returns on property have been very compelling this year, we've been taking advantage both in insurance as well as our Nephila operations. But that said, I appreciate some have certainly leaned into the market harder this year and use that to fuel overall growth in returns, and it's been a good year through 10 months, no doubt. If the property price environment remains constructive, and I think it will, we can further take advantage of that across our platform in '24, as well.

Operator

[Operator Instructions] Your next question will come from the line of Andrew Andersen with Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

Maybe continuing on the property opportunity in insurance. If I look back at '22, I think Property and Marine was maybe about 15% of NPE. Is there kind of a ceiling for the amount that you'll write for those 2 lines? And I'm thinking it carries a higher CAT load, but perhaps a better underlying loss ratio just given the strong rate environment?

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Yes. And important to recognize, it's Jeremy again. Important, too, to recognize that we add access and to take advantage of the property market environment and the risk-adjusted return propositions in a couple of different ways. So we can write that through conventional traditional insurance. And we can also take advantage of that and are taking advantage of that through our Nephila insurance-linked securities operations, which is more where the reinsurance would come into play as well.

This year has been interesting. So it's fortunately, we're kind of 10 months into the year, we're largely through the wind season. The book has performed -- the books have performed across the industry quite well. But it's been a challenging last 6 years previously. 5 of the last 6 have been aggregate insurance losses for natural catastrophes in excess of $100 billion. So while the risk-adjusted return proposition from a modeled situation looked very compelling this year. There was questions in our mind as to how is the year going to play out. We would benefit if it did play out well. We did grow and took advantage of the rate and pricing environment. And then it was a question of what will it look like going into 2024.

Will the pricing environment be sustainable? Or would it sort of change after sort of one year? It does look like we should have stable but firm and constructive market pricing environment. So we have the ability to deploy more capital there should we choose to do so. We'll look at that. I'm not going to put a projection around that, but it's certainly something that we would take a close look at of a good year.

Andrew E. Andersen
Jefferies LLC, Research Division

Yes. And then maybe on the reinsurance side, the book has changed a lot over the years and so is the rate environment. How should we kind of think of like an updated target near to medium term for an ex-CAT ex-PYD combined ratio? And maybe just with that, can you kind of give us a refresher of the type of GL and professional liability accounts you're writing in this segment?

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Sure. So from a sort of a reinsurance platform standpoint, we are, first and foremost, focused on profitability, versus being focused on growth. Now it's happened to be within the professional casualty and specialty lines, the last few years, we've been able to take advantage of some pockets of growth opportunistically to offset some of the contraction that the portfolio experienced when we repositioned property through Nephila. From a profitability target standpoint and a combined ratio, we've kind of spoken in the last couple of years, I mean, we want that book to generate meaningful returns on -- meaningful and appropriate returns on capital and pushing it towards the lower 90s or 90 even being a target is something that we are aspiring to sort of achieve.

And we're certainly trying to price our deals and portfolio on the most recent underwriting years in that regard. But there's just a lot of noise on the back here. And on long-tail lines within reinsurance, it takes a while to ultimately see where that book gets. We're going to always reserve with an added degree of caution on long-tail professional and liability lines. So that will take a little bit of time. As far as the makeup of the book, it really can kind of change, and it really depends on the underlying clients. We have both quota share and excess of loss structures. These are often broad highly -- well respected, highly regarded insurance companies where we participate on a subscription basis on the accounts, and it's a wide range of underlying risks. It is more of a U.S. position book, but it does have some international exposure as well.

Operator

Your next question will come from the line of Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just a question on the intellectual collateral protection line. Just wondering if you feel like you captured most of the impact there from some of the recent events that were in the headlines. And just how comfortable are you with, I guess, the exposures there and also some of the changes? I think you touched a little bit on those are some of the changes you made to that book...

Jeremy Andrew Noble
President of Markel Insurance Operations & President of Global Insurance Engine

Yes. Sure, Scott -- Yes. Sure, Scott again, Jeremy. So we previously disclosed. Sorry, disclosed our exposure to Vesttoo was in the form of 2 fraudulent letters of credit, which were provided as reinsurance collateral to our Bermuda-based insurance carrier for intellectual property collateral protection insurance products. One was for $50 million. The other is for just under $78 million. During the third quarter, we had to pay a claim for the $50 million amount. That we otherwise would not have had to pay had the collateral be valid. And that's where we recognized $25 million as far as credit loss.

So we're suggesting we believe there's some degree of an ability to mitigate some of that exposure. But that would be a pocket of exposure. We have assessed the likelihood around whether a claim may arise. It's a claims-made product. So on that second exposure, there isn't a claim yet. And just for familiarity on the product, you have to have both a claim. And then it has to be the case that the underlying assets, including the intellectual property, can't -- don't have a value that it could offset against the loan that was in place.

And so what we're highlighting there is we have exposure and we're flagging that it's at least reasonably possible that, that could become a claim. And if it were to, we have additional exposure there. Clearly, in that situation, we will take every step that we possibly can to mitigate or remediate against that loss as well. So we're actively pursuing remedies, including within the Vesttoo bankruptcy to reduce any losses that we incurred.

On the core product line, this was a relatively new product. It was a new product. It was brought to market I think sort of in 2020. We had -- played an integral role in the inception of a sort of a nascent product. And undoubtedly, we've learned from the early years, if you analogize it to sort of R&D. And we've taken a number of underwriting actions within that book. But we've also contracted our premium writing significantly. And one of the things we've done is we shorten the limits that we issue. And clearly, we're not fronting within that book anymore either.

So we'll watch how the core book performs. But a lot of the exposure that is more meaningful to Markel come to that exposure to Vesttoo, which I covered off.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

And then just another question just on -- you mentioned you're increasing loss picks in certain lines, which I know Markel is a conservative company and has always been a conservative company. But is there any particular areas that you can point to? Or is that just kind of broadly just in -- casualty, just trying to pick up inflation and severity and those kinds of things? Just anything more to add on that?

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Yes. Scott. It is not significantly concentrated within our general liability and professional product lines and more specifically within segments of those classes, but there are large segments and ones we've runner for a long time, we've also grown meaningfully over the years. So again, that primary casualty contractors GL, accessing umbrella, D&O, E&O and what I would sort of say there is we feel like there continues to be uncertainty in the current claims environment. And we're dealing with a degree of unknown.

And I would just say, generally, that causes our radar to be up. And it doesn't feel like the recent social inflation trends, the cost to adjust and settle claims, the prevalence of litigation funding, the aggressiveness of the plaintiffs' bar, the sentiment of juries and so on is likely to abate in the near term. So we're planning accordingly. We're building in a margin of safety today to try to get a step ahead of that tomorrow.

That's kind of what Markel has always done to your point. We are also responding by we're pushing rate. We're adjusting terms. We're shortening limits. We're modifying attachment points on a deal-by-deal basis.

We're shaping our portfolios, really taking a robust analysis of this underlying claims trends and activities, using segmentation strategies that can impact exposures and locations subclasses, insureds and so on. And we're trying to build more diversification into our book by challenging areas where we were maybe slightly concentrated in favor of segments where we wanted to grow. So I mentioned earlier the example of sort of thinking of construction or contractors in the 4 largest states, being sensitive to the weight of the business in those spaces.

So each organization, each company is going to sort of take different approaches. Timing is always going to differ largely, I think what I'm speaking to. We view that to be an industry-wide set of circumstances. We've been talking about it for a while. The industry has been grappling with in a while. And I would also say that, fortunately, I think it's leading to really good conversations with our trading partners. In the current trading environment, given some of the industry missteps on the year, I mean, more due consideration is given to the quality of the insurance solution, our market-leading claims handling capabilities, I think, are really well recognized, and clients are thinking really carefully about who's going to be there for them in 5 years and 10 years and 20 years.

So I think we're kind of trying to go with that from a little bit of a position of strength.

Operator

And this concludes our question-and-answer session. I would like to hand the call back over to Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Thank you very much for joining us. We look forward to catching up with you 90 days from now. Thank you so much. Bye-bye.

Operator

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