Markel Corporation NYSE:MKL

Earnings Call

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Call Participants

EXECUTIVES

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Chief Financial Officer

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

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Presentation

Operator

Welcome to the Markel Corporation First Quarter 2023 Conference Call. [Operator Instructions] During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included 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 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.markel.com in the For Investors 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

Good morning. Thank you, Shauntelle, and welcome to the first quarter Markel conference call. This is indeed Tom Gayner, your CEO, and I'm joined today by my new colleague, Terry Gendron, who started as our CFO in mid-March. I'll remind you, that means she was here for all of 2 weeks of our first quarter. Given that tenure, we'll probably ask her all of the really hard questions. Additionally, Jeremy Noble, President of our Insurance operations, is also on the call with us today.

As always, we remind you that at Markel we focus on the long term. We've been in business since 1930 through 3 generations of the Markel family and have been public since 1986. Every action we take remains focused on the long-term success of Markel. All of us are committed to building one of the world's great companies. We define a great company as one driven by win-win-win architecture. We do our best to make sure that our customers win by doing business with us that our associates win by being part of this organization and that our shareholders win through high and durable returns on their capital.

We are more oriented towards time frames of 90 years than the 90 days that make up quarters, but we do enjoy the process of sharing our quarterly report card with you. You are the owners of this business, and we appreciate the chance to discuss how things are going, what we're working on and any highlights or lowlights happening at your company. We look forward to your thoughtful questions on our circumstances.

As to 2023, we've got good news to share with you. We're off to a good start. As David Letterman might say, compared to the negative headlines that tend to dominate the news, here's today's list of the top 10 things to be happy about as a shareholder of Markel. Number 10, all 3 engines of Markel produced positive results in the first quarter. The beauty of the design of our 3 engine system is that as long as any single one of them is doing well that can create enough thrust to drive the whole shift forward. Not all 3 will always be positive in every quarter and every year, but in the vast majority of quarters and years, we make forward progress.

The first quarter of 2023 was one where there was positive thrust in insurance, ventures and investments. Number 9, earned premiums in our insurance operations grew to $1.97 billion, up from $1.76 billion a year ago. We continue to produce profitable growth through careful and disciplined underwriting. Number 8, the insurance operations produced meaningful underwriting profits. While our combined ratio of 94, it's a bit above our targets. We are proud of that result.

It reflects both underwriting discipline and a commitment to integrity and conservatism in the way we report these results to you. As we state consistently, we wish our loss reserves to be more likely to be redundant and efficient. We continue to meet that crucial goal as witnessed by yet another quarterly report with favorable development of prior year reserves.

We do not accomplish that 100% of the time, but we get pretty darn close to meeting that standard. While we remain in an environment of inflationary pressures, both social and monetary, I think that continuing to report reserve redundancies is a big accomplishment. We remain committed to that goal as we have been for decades.

Number 7, recurring investment income grew to $159 million, up from $92 million as we continue to invest at higher and higher interest rates. Number six, our ventures operations set records in revenues and EBITDA. That growth was almost entirely organic as we didn't do any acquisitions during 2022. It's an apples-to-apples comparison.

Number 5, we continue to purchase attractively priced publicly traded equity securities that met our 4-part test of buying profitable businesses with good returns on capital and not too much leverage, run by managers with equal measures of talent and integrity, with reinvestment opportunities and capital discipline at fair prices. During the first quarter, we bought a net of $65 million of public securities. Number 4, we continue to repurchase our own shares. During the first quarter, we bought $81 million of Markel shares.

Our recurring investment income largely provided the cash we used to buy additional common stocks and our own shares. Number 3, our unrealized gain on our portfolio of publicly traded equities reached $4.9 billion. Number 2, while there is no mark-to-market of the value of our Markel Ventures operations captured by GAAP accounting, I would assert that record revenues and EBITDA would strongly suggest that those businesses continue to increase in value.

Number 1, inbound phone calls for potential acquisitions started to reappear during the first quarter. This seems like a logical consequence of the disruption caused by rising interest rates and volatility in financial markets, and that ought to lead to opportunities for us over time. The net of all these things is that Markel continues to produce wins for our customers, our associates and our shareholders across the board.

With that, I'll turn it over to Terry to provide you with the numbers that flesh out some specifics behind the top 10 list. Jeremy will then pick up some commentary on our insurance operations, and then I'll follow up with a few thoughts about ventures and investing, and after that we'll take your questions. Terry?

Teresa S. Gendron
Chief Financial Officer

Thank you, Tom, and good morning, everyone. I couldn't be happier to be part of the Markel team. It's been just a short while, but I can already see the role the Markel culture plays in our long-term success.

Onto our first quarter results. As Tom remarked, 2023 is off to a good start, reflecting growth in meaningful contributions from each of our 3 engines.

Starting off with our underwriting operations. Gross written premiums were $2.7 billion for the first quarter of 2023 compared to $2.5 billion in 2022, an increase of 6%. Our increased premium volume reflects new business volume and more favorable rates across many of the product lines within our insurance segment with the most notable growth coming from our personal lines, property and marine and energy product lines, while we saw lower premium volume within our professional liability product lines, where we are adjusting our writings in reaction to changes in market conditions and downward pressure on rates within certain classes.

Retention of gross written premiums was 83% in 2023, which is down 3 points from the same period last year. The lower retention in 2023 compared to 2022 reflects higher session rates on our professional liability and personal lines product lines within the insurance segment and our marine and energy product lines within the Reinsurance segment, as well as changes in mix of business within the Reinsurance segment.

Our consolidated combined ratio for the first quarter of 2023 was 94%. This compared to an 89% for the first quarter last year, which included $35 million or 2 points of net losses and loss adjustment expenses attributed to the Russia-Ukraine conflict. The increase in the consolidated combined ratio reflects a higher attritional loss ratio and the impact of less favorable development on prior accident year's loss reserves in 2023 compared to 2022 within our insurance segment. Prior year loss reserves developed favorably by $71 million in the first quarter of 2023 compared to $96 million in the first quarter of 2022.

The decrease was due to favorable development on our general liability and professional liability product lines in our insurance segment in '22, which we did not experience in 2023. We remain cautious and conservative in our approach to reducing prior year loss reserves on our longer tail general liability and professional liability lines, given the current uncertain economic environment.

Turning to our investment results. Net investment gains were $373 million in the first quarter of 2023 and reflect an increase in the fair value of our equity portfolio driven by favorable market value movements. This compares to net investment losses of $358 million for the comparable quarter in 2022, which reflected a decrease in the fair value of our equity portfolio driven by unfavorable market value movements.

As you've 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. We will continue to measure investment returns over longer periods of time. At the end of March, the fair value of our equity portfolio included cumulative unrealized holding gains of $4.9 billion. With regard to net investment income, we reported $159 million in the first quarter of 2023 compared to $92 million in the same period last year.

The increase is largely attributable to higher interest income from our money market and short-term investments due to higher short-term interest rates in 2023. Additionally, interest income on our fixed maturity securities increased, reflecting a higher yield and higher average holdings compared to last year. The change in net unrealized investment losses included in other comprehensive income for the first quarter of 2023, net of taxes was an increase of $164 million compared to a decrease of $521 million in 2022. These movements correspond to changes in the fair value of our fixed maturity portfolio, resulting from changes in interest rates.

Recall that we typically hold our fixed maturities until they mature and we generally expect unrealized holding gains and losses to reverse in future periods as bonds mature. Our fixed maturity portfolio had an average rating of AAA as of March 31, and there are no current or expected credit losses within the portfolio.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased 16% to $1.1 billion in the first quarter of 2023, up from $950 million for the comparable quarter last year. The increase reflects strong organic growth and improved pricing across many of our businesses. EBITDA from Markel Ventures increased 25% to $120 million for the first quarter of 2023, from $96 million during the same period last year.

The increase reflects higher revenues and improved operating results at our transportation related and equipment manufacturing businesses. Before turning to the consolidated results for the quarter, there's one new item I'd like to draw your attention to related to the new accounting standard on long-duration insurance contracts that we adopted January 1, which impacts our portfolio of life and annuity reinsurance contracts. Because our portfolio is in runoff, many of the provisions of the new standards don't apply to our books. The most meaningful change is the requirement to update the discount rate on our reserves each quarter with the impact reflected in other comprehensive income.

All prior periods have been restated as required by the new accounting standard, which was most impactful to our other comprehensive income for 2022, given the significant increases in interest rates throughout the year. The impact of updating the discount rate for our life and annuity benefit reserve as of December 31, 2022, resulted in a net benefit of $89.6 million to the accumulated other comprehensive loss compared to the amount we previously reported.

Looking at our consolidated results for the quarter. Our effective tax rate for the first quarter of 2023 was 20%. The estimated annual effective tax rate is 22% in the first quarter of 2023 compared to 21% in the same period last year.

We reported net income to common shareholders of $489 million for the first quarter of 2023 compared to a net loss to common shareholders of $52 million in the same period a year ago, largely attributed to the year-over-year swing in changes to our public equity portfolio valuation. Comprehensive income to shareholders for the first quarter of 2023 was $646 million compared to a comprehensive loss to shareholders of $512 million in the first quarter of 2022, with both fixed maturity and public equity valuations as the largest drivers.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Turning to cash flows, net cash provided by operating activities was $284 million for the first quarter of 2023 compared to $415 million for the first quarter of last year. Operating cash flows in the first quarter of 2023 reflected strong cash flows from each of our operating engines, but most significantly within our underwriting operations given the strong premium volume in recent periods.

Within our underwriting operations, operating cash flows in the first quarter of 2023 were net of a $125 million payment made to complete a retroactive reinsurance transaction to seed our runoff book of U.K. Motor Casualty business. Total shareholders' equity stood at $13.7 billion at the end of March compared to $13.2 billion at the end of the year.

During the first quarter of 2023, we repurchased 63,000 shares of our stock under our outstanding share repurchase program, which is consistent with the number of shares repurchased in the first quarter of 2022.

All in all, we are pleased with the start of the year, producing strong results that reflect the benefit of our 3 engine architectures. We're confident in the strength of our business and the contribution each makes in building shareholder value over time. With that, I'll turn it over to Jeremy to talk more about the insurance engine.

Jeremy Andrew Noble
President of Global Insurance Engine

Thanks, Terry. Great to have you here, and good morning, everyone. I'm pleased to be with you today to recap our 2023 first quarter insurance engine results. We are off to a nice start to the year with total revenues within the insurance engines that are passing $2 billion for the quarter, generating pretax operating income of $152 million, and increasing float while we invested in increasingly attractive yields. Let me now share a few thoughts on our first quarter results from across our collection of insurance businesses, which include our insurance and reinsurance underwriting operations, State National Program Services operations and the fill insurance-linked securities operations.

Looking first at our insurance segment. For decades, we've said we will walk away from business that is not adequately priced and does not meet our profitability targets. The first quarter of this year is a good example of us displaying rate adequacy discipline, top line gross written premium growth within our insurance segment came in at 8%. That being said, we actually grew nicely in a number of product areas where we have a high degree of confidence around margins. We took advantage of improved pricing environment in property and grew in areas such as inland marine, binding, personal lines and select London market marine and energy classes.

However, we are not comfortable with the pricing trend in the professional liability space, particularly in much of the large account D&O space. As a result, we are shrinking, selectively allowing some business to lapse and being very discerning around new accounts. Another example is in excess casualty lines where we saw some contraction as the pace of new business slows a bit, and we are pushing hard for rate and are willing to let existing business lapse where we are unable to get it. We are doing what we said we will do. Another highlight for this quarter is that we continue to see benefits from our actions taken to minimize volatility in our underwriting results through actively managing our net exposures to natural catastrophes.

We experienced minimal losses in the quarter from winter or convective storm events. Within our insurance operations, we produced a combined ratio of 94, up 7 points from a year ago due to higher attritional loss ratio and prior accident year's loss ratio, which admittedly is above our target. However, we are confident about the strength of our current portfolio, while also displaying caution as we acknowledge the current level of uncertainty around insurance market conditions at the moment. Another area where we remain consistent and do as we say, is with regards to our loss reserving philosophy.

We continue to take a cautious view on loss reserving given the continued uncertainty in the market around loss trends and impacts from various forms of inflation, in particular within our longer-tail professional and general liability lines. Over the past few quarters, we've raised our attritional loss ratios in many of our general liability and professional liability subclasses, as these trends have become more apparent, leading to a year-over-year increase in the attritional loss ratio within our insurance operations. We also increased our current year loss ratio within our professional liability lines this quarter due to exposures arising from the recent bank failures.

We also are maintaining a cautious approach relative to prior accident year loss takedowns. Prior year favorable development is lower year-over-year as we saw minimal development across our general liability and professional liability product lines compared to more favorable development a year ago. We continue to be quick to strengthen reserves in the pre-covid soft market accident years when we see or anticipate increased claims activity. Encouragingly, we are seeing favorable actual versus expected trends in the more recent accident years.

Given our conservative reserving approach, we are generally holding off on releasing reserves and allowing more time to gain greater certainty over the longer-term loss trends. Turning next to our reinsurance segment, I am pleased to report that we continue to show profitability improvement with a 91 combined ratio for the quarter compared to a 95 a year ago. Our re-underwriting actions within the portfolio over the past 2 years continue to show up in the reinsurance results. The 4% decrease in gross written premiums within the Reinsurance segment was due to lower premiums in our professional liability and credit and surety lines, partially offset by higher premiums in our general liability and Marine and Energy lines.

All of these movements are largely attributed to either premium adjustment activity or timing differences related to renewals. This is most notable in our transaction liability book within our professional liability product line, where deal flows dropped considerably over the past few quarters, resulting in lower ultimate premium volumes.

Lower premium adjustment activity creates an increase in our current year attritional loss ratio, which is an offset -- which is offset by a decrease in our prior accident year's loss ratio.

Next, I'll touch on our program services and other fronting operations and ILS operations, both of which are reported as part of our other operations. Our Nephila ILS and State National program services teams continue to remain focused on capturing market opportunities, building their value proposition to clients and partnering with our underwriting divisions to take advantage of synergies available within our multifaceted insurance platform.

As a reminder, almost all of our gross written premium from our program services and other fronting operations is ceded. Total premium production within our program services and other fronting operations totaled $778 million this year versus $879 million a year ago. Premium decrease was due to a termination of certain programs, which was expected. Terminations will occur in part because periodically, a partner obtains a rating agency increase or regulator licensing approval or is acquired, and moves away from needing a fronting model.

The good news is, as we continue to see a strong pipeline of opportunities in the current market and our ability to handle more complex transactions in this space differentiates us from competitors. Within the Nephila ILS operations, revenues and expenses for the year were down due to the impact of selling our Velocity and Volante MGA operations last year, as well as from the impact of lower assets under management, which stands at $7.2 billion at the end of the period. As a reminder, we realized a gain of $107 million in the first quarter last year related to the sale of a majority stake in our Velocity MGA operations.

While our current results in Nephila reflect lower levels of AUM being experienced, we continue to work hard to raise capital across all 3 of our strategies, property catastrophe, climate and specialty lines. Current pricing environment and property when combined with our initiatives around transparency of risk assessment and portfolio construction, leads us to conclude that the risk return proposition is as compelling as it has ever been.

Turning to market commentary and outlook, submission activity and new business opportunities generally remain strong in the first quarter outside of professional lines. Clients are still turning to specialty market solutions given current levels of uncertainty and ongoing economic activity. Our diverse product and risk management capabilities, our specialty underwriting expertise and strong reputation in the marketplace are particularly compelling in more uncertain times like these.

Just a couple of comments on rate. Across our portfolio, rates are holding up fairly well. And broadly, in our estimation are keeping up with our view of trend. We have many products where rates are up 5% to 10%, particularly most lines where rate adequacy is more in focus. The biggest exceptions are property to the good with rates accelerating more meaningfully from the start of the year and risk managed large account D&O to the bad, where prices continue to decrease. Rate increases in large account excess casualty have also continued to slow, which concerns us.

I want to reiterate that we are focused on achieving rate adequacy across the entirety of our portfolio and where we are unable to attain sufficient rate increases or effectively adjust terms and conditions or limits, we are walking away from accounts that do not meet our profitability targets.

These actions may have the effect of slowing the growth trend from what we've seen over the past couple of years and given the breadth of product offering we have, we are confident we will fund pockets that are attractive to grow, and we remain very optimistic around our mid- and longer-term profitable growth objectives. Thank you. And with that, I will turn things back over to Tom.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Thank you, Jeremy. At Markel Ventures, we enjoyed a wonderful first quarter. As Terry reported, revenue grew to $1.1 billion, up from $950 million. That growth was almost entirely organic as there were no ventures acquisitions in 2022. EBITDA grew to $120 million, up from $96 million a year ago. It is indeed appropriate to remember that the D of EBITDA is a real cash expense. Capital expenditures in the first quarter, which you can find in the statement of cash flows in the financial statements and which lead to the accrual accounting calculation of D totaled $37 million for all of Markel in the first quarter.

Most of that does relate to Markel Ventures, but I hope that calculation gives you some comfort that remain attentive to the ultimate free cash flows that the ventures businesses generate after all cash expenses. The management teams that run our ventures operations continue to demonstrate operational excellence, creativity, adaptability and discipline amidst an ongoing jumbled economic environment. Inflationary pressures are real, and the economic fallout from higher interest rates as well as overall tightening credit condition, thanks to the job of delivering those sorts of results harder and harder.

I could not be more grateful and proud of the team for how they continue to manage through the daily challenges of running their businesses. As I mentioned earlier in the call, we are starting to have some early conversations with people looking to join the Markel Ventures family, and I would hope that some of them will come to fruition in the fullness of time. We will be thoughtful and disciplined stewards of your capital as we consider possibilities.

In our investment operations, we reported recurring investment income of $159 million, up from $92 million a year ago. That reflects the higher interest rates we're receiving as we invest the cash flows of our normal operations. I expect that number to continue climbing given the current levels of interest rates. In our equity holdings, we enjoyed a positive return of 5.3% during the first quarter. Our unrealized gain reached $4.9 billion, and we have invested an additional net $65 million into our publicly traded equity portfolio.

I would also point out that in both our equity and fixed income operations, we have nothing to report to you about the recent headlines of bank failures, real estate defaults or other bursts of speculative bubbles. We simply weren't there. We were at home, doing our homework, [Indiscernible] eating vegetables and going to bed at a reasonable hour. We were having fun in our own way.

To sum up, I'm delighted with our position. We continue to build balance sheet strength. GAAP accounting statements captured that well in the case of our insurance and investment operations. GAAP accounting doesn't do as good a job capturing the intrinsic value growth of our ventures operations. That value doesn't show up in the balance sheet in the same way that it does with insurance and investments. That doesn't make that growth any less rear.
As I consider our overall position at Markel, I feel a little bit like Buzz Lightyear when it says to infinity and beyond are on the way. So with that, I'll now open the floor for your questions about dialectic and existential issues, insurance market pricing trends, tax rates or anything else you'd like to talk about. Shauntelle, would you be kind enough to open the floor?

Question and Answer

Operator

[Operator Instructions] Our first question comes from [Charles Gold] with Truist.

Unknown Analyst

Congratulations on the continued progress. I had a question about share repurchases. I know you have a program that automatically increases your appetite as the price is lower. Does that program eliminate all restrictions of the window being open or not open.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Well, you're correct that we try to do what we think is rational. So we make our own intrinsic calculation of what we think Markel is worth, and we make rational repurchase decisions based on that calculation and the other capital allocation opportunities that we look at. We have designed this to be able to try to be consistent in our ability to repurchase stock on a regular basis.

Unknown Analyst

The window question. Are you able to buy stock this morning?

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

The answer to that is yes.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, Research Division

A couple of questions. First, I noticed that there was a notable reserve release related to the CATCo unit. I guess that ran through the other segment. I guess what I wanted to check is sort of an accounting question ultimately, is that amount that benefit that shows up in the other segment? Is that ultimately then neutralized by a higher minority interest or minority interest charge down further in the financial statements?

Jeremy Andrew Noble
President of Global Insurance Engine

Mark, it's Jeremy. That's right. So you may recall, we entered the settlement first quarter last year. And as part of that, we consolidate the Markel CATCo Re in the Markel's financial statement. So you just get noise above the line and below the line. So it shows up as you point out in the other operations. And then it's eliminated below the line through noncontrolling interest change. So what that highlights is that the reserves continue to run off favorably, and that inures to the benefit of the investors.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Just a side question on that, I think that was my main point was really just that it ultimately doesn't hit the run rate earnings. But to the extent that you have that favorable development this quarter, was that the byproduct of a reserve analysis or review? Or was that some continued innovations as that book continues to run down?

Jeremy Andrew Noble
President of Global Insurance Engine

Yes, it's more of the latter, Mark, just finalizing positions and commutation activity and just closing the deals out.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Very good. The second question that I had related to I guess, the accident year margins in the Insurance segment. I mean, I appreciate that you guys have always been very conservative, and I suspect that will probably ultimately be the answer to the question I'm going to ask, but -- I mean, it doesn't seem consistent to me that you could have a pricing environment where you're saying pricing is running level with or better than loss trend and then you would need 300 basis points more of accident year margin related to a book of business that is reasonably homogenous with the book you wrote a year ago. Can you just comment on that thought and where I might be off on that?

Jeremy Andrew Noble
President of Global Insurance Engine

Well, I think, Mark, you're right to kind of highlight that. So we clearly -- as we kind of spoke to throughout the course of last year, we were seeing confluence of that rising interest rates that were compounding, social inflation becoming more clear, the effects of the courts working through their case backlogs, and we witnessed actual loss frequency and severity in excess of our expectations. So we took action and ultimately that resulted in some adverse development in the fourth quarter, which as Tom alluded to earlier, we detest that.

So what we're highlighting is acting with caution, acting with prudence. And you're exactly right, that we will have built in an additional margin of safety in our '23 accident year and how we opened the year up, as we continue to look to gain more credibility around how the 2020 and 2022 years are performing. Now fortunately, 2019 and prior, so the pre-COVID softer market years where we had experienced in development. We had some -- we didn't experience meaningful loss reserve development. We were pretty neutral on those years in total.

The trends continue to be somewhat positive with regards to actual loss experience compared to expected 2020 to 2022. And to your point, we're actually probably doing a little bit better right now on rate to start '23 than we anticipated and also contemplation of rate and exposure change acting as rate relative to trend. So what we're left with is being cautious, acknowledging it's one quarter, acknowledging it's the first quarter of the year, allowing a little bit more time to apply credibility to the trends that we've seen and just acknowledging that there's uncertainty around insurance market conditions at the time. But I do think that, that is a bit of an extra layer of margin of safety right now.

Mark Alan Dwelle
RBC Capital Markets, Research Division

That's a helpful discussion. I appreciate that. A question for you, Tom. I guess, within Markel Ventures, are you seeing any particular signs of the economic slowdown that CNBC tells me is occurring or all around me, your 16% growth rate would suggest that's not so much the case, but it's obviously a very diverse book of businesses. So maybe some are doing superlative and some are kind of just chugging along.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Yes. I don't want to dwell on the answers here to try to make economic forecast. But it is palpable that you could just feel the credit conditions, which during the first quarter wasn't until after the close of the quarter, they had some of the bank value issues and some headlines about office buildings or the keys being turned in with that and we see and feel that a bit, but it's not the sort of thing we have any control over. And I do want to reiterate, I think the people running those businesses are just doing a fantastic job. And the spread of businesses that we have it's going to provide a wide degree of exposure to just general economic conditions. I just wouldn't draw any too much in the way of conclusions.

Mark Alan Dwelle

RBC Capital Markets, Research Division

So people are still buying a lot of house plants and stuff like that, right?

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

I know I feel better when I do. I was recommending the same for you.

Operator

Our next question comes from John Fox with Fenimore Management.

John Derwin Fox
Fenimore Asset Management, Inc.

First question for Jeremy. Program Services, you mentioned 1 client leaving for whatever reason, and it was a very tough compare. Do you expect that to grow for calendar 2023.

Jeremy Andrew Noble
President of Global Insurance Engine

It's a great question, John. I don't know that I want to be in the prediction game and grow quarter-over-quarter grow in prior year comps. I'm not exactly sure even which one you'd be pointing to. Much of the activity that we would have anticipated with regards to changes in the programs, was occurring over the back half of last year and into this year. But there still can be some changes in that space. As I think I commented on, fortunately, I think the new business pipeline is pretty strong. And to be honest with you, you were starting to see some -- we've commented before that there's rising levels of competition in a lot of new players and we're starting to see some cracks in some of that. So State National, I think, is very much a long-standing durable platform that has great relationships and is very good at dealing with larger and more complex deals.

So that helps us get a lot of inbound calls and we feel pretty good about the new business pipeline, but I'm not going to predict where that will play out.

John Derwin Fox
Fenimore Asset Management, Inc.

Okay. My second question for you, move on. When I think about the rhetoric in the industry, it's rate increases on top of rate increases and compounding for a number of years, more business moving to the E&S marketplace. And then as we've been through your gross written premium growth was 8%, which is the lowest in a while, and your retention was a little bit lower than the previous year. And so on the one hand, the industry rhetoric is how great premium increases are and you're slowing down. So I know you've addressed this a couple of times, but any other reaction to that in my comment.

Jeremy Andrew Noble
President of Global Insurance Engine

Yes. I think what we've been talking about for a period of time, John, is that it's a little bit more of a nuanced market. So there's a story within various product lines, and that was a little bit of what I was trying to bring out in my earlier comments. You could take professional lines and we write a lot of professional liability. The lack of activity around SPAC and de-SPAC and IPOs, I mean across the industry has reduced the total flow of business in that space above and beyond just what's happening in the pricing environment that makes us pull back a little bit, if you will. But then we see other pockets where we opportunistically believe we can grow, and we did grow in the first quarter, binding in inland marine and personal lines and London market marine and energy classes.

So we'll see how that portfolio balances. But some of those pockets on the general liability and professional liability side are pretty big segments of our book where we're a little bit more focused on rate adequacy. And we're going to push. And if we just don't get the rate that we believe is appropriate, we're willing to let some of that business lapse. So there's a bunch that's going into that story. But what I would say is, I think that net-net, that leads to a more healthy and even potentially a more balanced portfolio.

John Derwin Fox
Fenimore Asset Management, Inc.

Right. And I mean, it was great to see reinsurance premium down and profits up. So that was a great job. And for time, I was wondering if you could just give us some more detail. You have about $2 billion of CMBS and you alluded to the problems in the market that we're all aware of. But could you talk about the CMBS, how much is government guaranteed, how much is private? And any other kind of details you can give us on the risk of that holding.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Yes. The vast majority of it is indeed agency and government guarantee sort of things. The bit that would not be would tend to be stuff that we inherited through some of the acquisitions we've done over the years, and we sort of let that continue to diminish and run off. And we obviously scrutinize that and look at it. We have no concerns about any exposure to things that look vulnerable to us at this point.

John Derwin Fox
Fenimore Asset Management, Inc.

Okay. And I just want to confirm, I mean, you don't disclose it, but you don't have any loan participations or financed any commercial office buildings or whole loans or anything like that?

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

No.

John Derwin Fox
Fenimore Asset Management, Inc.

Okay. So it's all in liquid CMBS.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Correct.

Operator

Our next question comes from Bob Farnam with Janney.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

My question is probably similar to ones you've already answered. But I just wanted to get your current thoughts on your 10-5-1 aspirational goals. In light of the underwriting discipline and the caution you're mentioning, the rate increase is slowing, the pulling back from certain lines and the overt pressure on loss trends, it seems like, at least to me, you can either get the premium goal or the profitability goal, but probably not both. And I just wanted to know what your thoughts are on that.

Jeremy Andrew Noble
President of Global Insurance Engine

Yes. Bob, it's Jeremy. Happy to answer that. So I think it's important to add some context to what we mean and what we've talked about with that vision around sort of 10-5-1, which is to say, back in 2019 when we sort of started to establish the idea, we really were talking about what would need to be true and what would we look like if we were to double the size of the company. Now numerically, that was an acknowledgment of $10 billion of premium by 2025. And because of our focus on profitability, we sort of established that $1 billion profit target. But what underpinned all of that was to say what needs to be true with regards to talent, to product, distribution, to territory, to region, to technology, to data, the digital capabilities, all of those sorts of things. So we continue to invest to make ourselves a bigger, more resilient, more durable, more long-standing insurance operation.

So if we get to the end of 2025 and all those things are rattled off, we're doing really well out in line with what our expectations are. And the premium is not at $10 billion. I'm not going to be terribly concerned because we acknowledge we have to operate through a market cycle. And as you hopefully would appreciate, for decades, we have spoken to the fact that we are about underwriting profitability. That's an incredibly important component part of how we contribute to the overall engines and dynamics of the Markel Corporation. So we're going to be focused on underwriting profitability, and we can still achieve a lot of those objectives. We'll see on growth. That's about managing the market cycle. That being said that breadth of product offering, the diversification we have, there are plenty of ways that we can grow across a very broad product set. So I think I still feel pretty good about mid- and longer-term profitable growth objectives. We're not holding ourselves to a number.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

Yes. No, I agree that you're aspirational. So I know this is not a set and start or anything like that. So yes, I was just curious to see if there were any updated thoughts. So thanks for the context.

Operator

[Operator Instructions] This concludes our question-and-answer session. I would like to turn the call back over to Tom Gayner for closing remarks.

Thomas Sinnickson Gayner
Chief Investment Officer, CEO & Director

Thank you so much for joining us. We would love to see you at our annual meeting in Richmond on May 17 at 2:00 p.m., at Robin Center at the University of Virginia. Between now and then, we'll see you soon. Thank you.

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