MARKEL CORP
Form 10-Q
October 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2018
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______
Commission File Number: 001-15811

MARKEL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia	54-1959284
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148
(Address of principal executive offices)
(Zip Code)
(804) 747-0136
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Number of shares of the registrant's common stock outstanding at October 23, 2018: 13,884,649

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(dollars in thousands)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments, at estimated fair value:		
Fixed maturities, available-for-sale (amortized cost of $9,946,656 in 2018 and $9,551,153 in 2017)	$9,952,053	$9,940,670
Equity securities, available-for-sale (cost of $2,667,661 in 2017)	—	5,967,847
Equity securities (cost of $2,871,203 in 2018)	6,549,848	—
Short-term investments, available-for-sale (estimated fair value approximates cost)	1,918,691	2,160,974
Total Investments	18,420,592	18,069,491
Cash and cash equivalents	2,347,040	2,198,459
Restricted cash and cash equivalents	279,902	302,387
Receivables	1,817,637	1,567,453
Reinsurance recoverable on unpaid losses	4,836,271	4,619,336
Reinsurance recoverable on paid losses	137,364	126,054
Deferred policy acquisition costs	518,853	465,569
Prepaid reinsurance premiums	1,361,044	1,099,757
Goodwill	1,783,784	1,777,464
Intangible assets	1,241,108	1,355,681
Other assets	1,214,710	1,223,365
Total Assets	$33,958,305	$32,805,016
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	$13,888,489	$13,584,281
Life and annuity benefits	1,028,696	1,072,112
Unearned premiums	3,816,249	3,308,779
Payables to insurance and reinsurance companies	453,132	324,304
Senior long-term debt and other debt (estimated fair value of $3,037,000 in 2018 and $3,351,000 in 2017)	2,993,243	3,099,230
Other liabilities	1,839,603	1,748,460
Total Liabilities	24,019,412	23,137,166
Redeemable noncontrolling interests	158,739	166,269
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,392,322	3,381,834
Retained earnings	6,576,562	3,776,743
Accumulated other comprehensive income (loss)	(184,892)	2,345,571
Total Shareholders' Equity	9,783,992	9,504,148
Noncontrolling interests	(3,838)	(2,567)
Total Equity	9,780,154	9,501,581
Total Liabilities and Equity	$33,958,305	$32,805,016

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	$1,185,323	$1,099,862	$3,484,528	$3,116,038
Net investment income	106,307	104,489	319,710	304,156
Net investment gains (losses):				
Other-than-temporary impairment losses	—	(3,444)	—	(7,261)
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(496)	11,814	(9,084)	31,826
Change in fair value of equity securities	426,571	(48,377)	417,410	(26,080)
Net investment gains (losses)	426,075	(40,007)	408,326	(1,515)
Other revenues	518,244	341,804	1,585,869	980,713
Total Operating Revenues	2,235,949	1,506,148	5,798,433	4,399,392
OPERATING EXPENSES				
Losses and loss adjustment expenses	736,846	1,075,432	1,951,142	2,210,129
Underwriting, acquisition and insurance expenses	441,961	396,972	1,317,921	1,171,520
Amortization of intangible assets	27,795	18,654	86,259	53,450
Other expenses	473,742	344,996	1,471,215	926,385
Total Operating Expenses	1,680,344	1,836,054	4,826,537	4,361,484
Operating Income (Loss)	555,605	(329,906)	971,896	37,908
Interest expense	37,961	31,814	114,722	97,013
Net foreign exchange gains	(1,383)	(1,772)	(65,427)	(2,746)
Income (Loss) Before Income Taxes	519,027	(359,948)	922,601	(56,359)
Income tax expense (benefit)	109,999	(98,913)	299,580	(17,791)
Net Income (Loss)	409,028	(261,035)	623,021	(38,568)
Net income (loss) attributable to noncontrolling interests	(410)	(1,894)	(342)	1,044
Net Income (Loss) to Shareholders	$409,438	$(259,141)	$623,363	$(39,612)
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in net unrealized gains (losses) on available-for-sale investments, net of taxes:				
Net holding gains (losses) arising during the period	$(91,002)	$227,447	$(306,069)	$577,796
Reclassification adjustments for net gains (losses) included in net income (loss)	10,573	(5,207)	5,496	(14,598)
Change in net unrealized gains (losses) on available-for-sale investments, net of taxes	(80,429)	222,240	(300,573)	563,198
Change in foreign currency translation adjustments, net of taxes	(14,471)	16,263	(19,968)	19,770
Change in net actuarial pension loss, net of taxes	509	773	1,741	2,391
Total Other Comprehensive Income (Loss)	(94,391)	239,276	(318,800)	585,359
Comprehensive Income (Loss)	314,637	(21,759)	304,221	546,791
Comprehensive income (loss) attributable to noncontrolling interests	(469)	(1,890)	(382)	1,064
Comprehensive Income (Loss) to Shareholders	$315,106	$(19,869)	$304,603	$545,727

NET INCOME (LOSS) PER SHARE				
Basic	$28.56	$(18.82)	$44.29	$(4.52)
Diluted	$28.50	$(18.82)	$44.21	$(4.52)

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
(Unaudited)

(in thousands)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2016	13,955	$3,368,666	$3,526,395	$1,565,866	$8,460,927	$6,484	$8,467,411	$73,678
Net income (loss)			(39,612)	—	(39,612)	(493)	(40,105)	1,537
Other comprehensive income			—	585,339	585,339	—	585,339	20
Comprehensive Income (Loss)					545,727	(493)	545,234	1,557
Issuance of common stock	24	359	—	—	359	—	359	—
Repurchase of common stock	(85)	—	(84,436)	—	(84,436)	—	(84,436)	—
Restricted stock units expensed	—	13,389	—	—	13,389	—	13,389	—
Acquisition of Costa Farms	—	—	—	—	—	—	—	66,600
Adjustment of redeemable noncontrolling interests	—	—	(23,582)	—	(23,582)	—	(23,582)	23,582
Purchase of noncontrolling interest	—	(2,910)	—	—	(2,910)	(8,109)	(11,019)	(6,179)
Other	—	(348)	(241)	—	(589)	77	(512)	(5,928)
September 30, 2017	13,894	$3,379,156	$3,378,524	$2,151,205	$8,908,885	$(2,041)	$8,906,844	$153,310
December 31, 2017	13,904	$3,381,834	$3,776,743	$2,345,571	$9,504,148	$(2,567)	$9,501,581	$166,269
Cumulative effect of adoption of ASU No. 2014-09, net of taxes	—	—	325	—	325	—	325	—
Cumulative effect of adoption of ASU No. 2016-01, net	—	—	2,613,242	(2,613,242)	—	—	—	—

of taxes								
Cumulative effect of adoption of ASU No. 2018-02	—	—	(401,539)	401,539	—	—	—	—
Net income (loss)			623,363	—	623,363	(1,269)	622,094	927
Other comprehensive loss			—	(318,760)	(318,760)	—	(318,760)	(40)
Comprehensive Income (Loss)					304,928	(1,269)	303,659	887
Issuance of common stock	8	2	—	—	2	—	2	—
Repurchase of common stock	(28)	—	(30,829)	—	(30,829)	—	(30,829)	—
Restricted stock units expensed	—	15,521	—	—	15,521	—	15,521	—
Adjustment of redeemable noncontrolling interests	—	—	(6,621)	—	(6,621)	—	(6,621)	6,621
Purchase of noncontrolling interest	—	(4,986)	—	—	(4,986)	—	(4,986)	(7,104)
Other	—	(49)	1,878	—	1,829	(2)	1,827	(7,934)
September 30, 2018	13,884	$3,392,322	$6,576,562	$(184,892)	$9,783,992	$(3,838)	$9,780,154	$158,739

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2018	2017
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income (loss)	$623,021	$(38,568)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	140,155	637,271
Net Cash Provided By Operating Activities	763,176	598,703
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	361,768	360,327
Proceeds from maturities, calls and prepayments of fixed maturities	459,517	948,756
Cost of fixed maturities and equity securities purchased	(1,409,263)	(1,162,438)
Net change in short-term investments	257,288	406,138
Additions to property and equipment	(78,886)	(50,099)
Acquisitions, net of cash acquired	(11,314)	(592,045)
Other	(32,325)	(4,864)
Net Cash Used By Investing Activities	(453,215)	(94,225)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	145,813	42,638
Repayment of senior long-term debt and other debt	(246,049)	(224,516)
Repurchases of common stock	(30,829)	(84,436)
Purchase of noncontrolling interests	(13,523)	(18,068)
Distributions to noncontrolling interests	(7,964)	(5,929)
Other	(19,217)	(9,004)
Net Cash Used By Financing Activities	(171,769)	(299,315)
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	(12,096)	65,338
Increase in cash, cash equivalents, restricted cash and restricted cash equivalents	126,096	270,501
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	2,500,846	2,085,164
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS AT END OF PERIOD	$2,626,942	$2,355,665

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Markel Corporation is a diverse financial holding company serving a variety of niche markets. Markel Corporation's principal business markets and underwrites specialty insurance products and programs. Through its wholly-owned subsidiary, Markel Ventures, Inc. (Markel Ventures), Markel Corporation also owns interests in various businesses that operate outside of the specialty insurance marketplace.

a)Basis of Presentation. The consolidated balance sheet as of September 30, 2018 and the related consolidated statements of income (loss) and comprehensive income (loss) for the quarters and nine months ended September 30, 2018 and 2017, and the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2018 and 2017 are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal, recurring items. Interim results are not necessarily indicative of results of operations for the entire year. The consolidated balance sheet as of December 31, 2017 was derived from Markel Corporation's audited annual consolidated financial statements.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and its consolidated subsidiaries, as well as any variable interest entities (VIEs) that meet the requirements for consolidation (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the results of its Markel Ventures subsidiaries on a one-month lag, with the exception of significant transactions or events that occur during the intervening period. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. Readers are urged to review the Company's 2017 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

b)Foreign Currency Transactions. The U.S. Dollar is the Company’s reporting currency and the primary functional currency of its foreign underwriting operations. The functional currencies of the Company's other foreign operations are the currencies of the primary economic environments in which the majority of their business is transacted.

Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency at each foreign entity. Monetary assets and liabilities are remeasured to the functional currency at current exchange rates, with resulting gains and losses included in net foreign exchange losses (gains) within net income. Non-monetary assets and liabilities are remeasured to the functional currency at historic exchange rates. Available-for-sale securities are recorded at fair value with resulting gains and losses, including the portion attributable to movements in exchange rates, included in the change in net unrealized gains on available-for-sale investments, net of taxes within other comprehensive income. While we attempt to naturally hedge our exposure to foreign currency fluctuations by matching assets and liabilities in currency, there is a financial statement mismatch between the gains or losses recorded in net income related to insurance reserves denominated in non-functional currencies and the gains or losses recorded in other comprehensive income related to the available-for-sale securities supporting the reserves.

Assets and liabilities of foreign operations denominated in a functional currency other than the U.S. Dollar are translated into the U.S. Dollar at current exchange rates, with resulting gains or losses included, net of taxes, in the change in foreign currency translation adjustments within other comprehensive income.

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Historically, the Company also designated certain additional currencies, including the British Pound Sterling, the Euro, and the Canadian Dollar, as functional currencies within its foreign underwriting operations that were deemed to contain distinct and separable operations in those foreign economic environments. However, over time the Company's foreign underwriting operations have evolved and are now managed on a global basis. Effective January 1, 2018, management reassessed its functional currency determination as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 830, Foreign Currency Matters, and concluded that its foreign underwriting operations have evolved to function as an extension, or integral component, of the Company's global underwriting operations, and are no longer deemed to contain distinct and separable operations. As a result, more foreign currency denominated transactions are designated as non-functional, with related remeasurement gains and losses included in net income. The change in the Company's functional currency determination has been applied on a prospective basis in accordance with ASC 830. Therefore, any translation gains and losses that were previously recorded in accumulated other comprehensive income through December 31, 2017 remain unchanged as of September 30, 2018.

c)Revenue Recognition. Effective January 1, 2018, the Company adopted FASB Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and related amendments, which created a new comprehensive revenue recognition standard, ASC 606, that serves as a single source of revenue guidance for all contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. ASC 606 is not applicable to the Company's insurance premium revenues or revenues from its investment portfolio but is applicable to most of the Company's other revenues, as described below. See note 2 for further discussion of the impact of adopting this standard.

Other revenues primarily relate to the Company's Markel Ventures segment and consist of revenues from the sale of products and services. Revenues are recognized when, or as, control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. All contracts with customers either have an original expected length of one year or less or the Company recognizes revenue at the amount for which it has a right to invoice for the products delivered or services performed. Certain customers may receive volume rebates or credits for products and services, which are accounted for as variable consideration. The Company estimates these amounts based on the expected amount to be provided to the customer and reduces revenues recognized by a corresponding amount. The Company does not expect significant changes to its estimates of variable consideration over the term of the contracts.

Payment terms for products and services vary by the type of product or service offered and the location of the customer, and payment is typically received at or shortly after the point of sale. For certain products, the Company requires partial payment in the form of a deposit before the products are delivered to the customer, which is included in other liabilities on the Company's consolidated balance sheet.

Product revenues are primarily generated from the sale of ornamental plants, equipment used in baking systems, portable dredges, over the road transportation equipment, flooring for the trucking industry, and residential homes. Most of the Company's product revenues are recognized when the products are shipped to the customer or the products arrive at the agreed upon destination with the end customer. Some of the Company's contracts include multiple performance obligations. For such arrangements, revenues are allocated to each performance obligation based on the relative standalone selling price, which is derived from amounts stated in the contract.

Service revenues are primarily generated by delivering healthcare services, retail intelligence, consulting services and investment management services. Service revenues are generally recognized over the term of the contracts based on hours incurred or as services are provided. Investment management fee income is recognized over the period in which investment management services are provided and is calculated and recognized monthly based on the net asset value of the accounts managed. In connection with the investment management services provided, the Company is also entitled to participate, on a fixed-percentage basis, in any net income generated in excess of an agreed-upon threshold as established by the underlying investment management agreements. In general, net income is calculated at the end of each calendar year and performance fees are payable annually. Performance fee income is recognized at the conclusion of the contractual performance period, when the uncertainty related to performance has been resolved.

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2. Recent Accounting Pronouncements

Effective January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and several other ASU's that were issued as amendments to ASU No. 2014-09, which apply to all contracts with customers to transfer goods or services or for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. ASU No. 2014-09's core principle is that a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In adopting this standard, the Company is required to use more judgment and make more estimates than under the previous guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company adopted ASU No. 2014-09 using the modified retrospective method. Prior periods were not restated and a cumulative-effect adjustment of applying the new standard to all open contracts at January 1, 2018 was $0.3 million, and is included as an adjustment to 2018 beginning retained earnings. The Company's other revenues for the quarter and nine months ended September 30, 2018 and its receivables, other assets and other liabilities as of September 30, 2018 were not materially different from the amounts that would have been recognized under the previous guidance. ASU No. 2014-09 also requires expanded revenue disclosures which are included in note 8.

Effective January 1, 2018, the Company adopted ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. As a result of adoption of this ASU, equity instruments that do not result in consolidation and are not accounted for under the equity method are measured at fair value and any changes in fair value are recognized in net income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recorded in other comprehensive income. Upon adoption of this ASU, cumulative net unrealized gains on equity securities of $2.6 billion, net of deferred income taxes of $684.4 million, were reclassified from accumulated other comprehensive income into retained earnings. Prior periods have not been restated to conform to the current presentation. See note 4(e) for details regarding the change in net unrealized gains on equity securities included in net income for the quarter and nine months ended September 30, 2018 and included in other comprehensive income for the quarter and nine months ended September 30, 2017.

Effective January 1, 2018, the Company early adopted ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU provides an option to reclassify tax effects remaining in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (TCJA) to retained earnings. Upon enactment of the TCJA, the U.S. corporate tax rate was reduced from 35% to 21% and the Company's U.S. deferred tax balances were remeasured to the lower enacted U.S. corporate tax rate. U.S. GAAP requires the effects of changes in tax rates and laws on deferred tax balances to be recorded as a component of income tax expense in the period of enactment, even if the assets and liabilities relate to items of accumulated other comprehensive income. As a result of adopting the ASU, the Company reclassified $401.5 million of previously recognized deferred taxes from accumulated other comprehensive income into retained earnings as of January 1, 2018.

The following ASUs relate to topics relevant to the Company's operations and were adopted effective January 1, 2018. These ASUs did not have a material impact on the Company's financial position, results of operations or cash flows:
- ASU No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory
- ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
- ASU No. 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires lessees to record most leases on their balance sheets as a lease liability with a corresponding right-of-use asset, but continue to recognize the related leasing expense within net income. The FASB subsequently issued ASUs with improvements to the guidance, including ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides entities with an additional transition method to apply the new standard. Under the new optional transition method, an entity initially applies ASC 842 at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The ASUs become effective for the Company during the first quarter of 2019 and will be applied using a modified retrospective approach. The Company intends to elect the new transition method permitted by ASU No. 2018-11. The Company's future minimum lease payments, which represent minimum annual rental commitments excluding taxes, insurance and other operating costs for noncancelable operating leases, and which will be subject to this new guidance, totaled $311.7 million at December 31, 2017. Adoption of this standard will impact the Company’s consolidated balance sheets but is not expected to have a material impact on the Company’s results of operations or cash flows. The Company is currently evaluating ASU No. 2016-02 to determine the magnitude of the impact that adopting this standard will have on its consolidated financial statements.

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In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade, reinsurance, and other receivables as well as financial instruments measured at amortized cost. For available-for-sale debt securities, which are measured at fair value, the ASU requires entities to record impairments as an allowance, rather than a reduction of the amortized cost, as is currently required under the other-than-temporary impairment model. ASU No. 2016-13 becomes effective for the Company during the first quarter of 2020 and will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating ASU No. 2016-13 to determine the potential impact that adopting this standard will have on its consolidated financial statements. Application of the new expected loss model for measuring impairment losses will not impact the Company's investment portfolio, none of which is measured at amortized cost, but will impact the Company's other financial assets, including its reinsurance recoverables. Upon adoption of this ASU, any impairment losses on the Company's available-for-sale debt securities will be recorded as an allowance, subject to reversal, rather than as a reduction in amortized cost.

In August 2018, the FASB issued ASU No. 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The ASU requires insurance entities with long duration contracts to: (1) review and, if there is a change, update the assumptions used to measure cash flows at least annually, as well as update the discount rate assumption at each reporting date; (2) measure all market risk benefits associated with deposit (or account balance) contracts at fair value; and (3) disclose liability rollforwards and information about significant inputs, judgments, assumptions and methods used in measurement, including changes thereto and the effect of those changes on measurement. ASU No. 2018-12 becomes effective for the Company during the first quarter of 2021. The ASU will, among other things, impact the discount rate used in estimating reserves for the Company’s life and annuity reinsurance portfolio, which is in runoff. Currently, the discount rate assumption is locked-in for the life of the contracts, unless there is a loss recognition event. The Company is currently evaluating ASU No. 2018-12 to determine the impact that adopting this standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The ASU requires an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Currently, such costs are generally expensed as incurred. ASU No. 2018-15 becomes effective for the Company during the first quarter of 2020 and may be applied on a prospective or retrospective basis. Early adoption is permitted. The Company is currently evaluating ASU No. 2018-15 to determine the impact that adopting this standard will have on its consolidated financial statements.

The following ASUs are relevant to the Company's operations and are not yet effective. These ASUs are not expected to have a material impact on the Company's financial position, results of operations or cash flows:

- ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities
- ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement
- ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

3. Acquisitions

State National Acquisition

In November 2017, the Company completed its acquisition of 100% of the issued and outstanding common stock of State National Companies, Inc. (State National). Results attributable to State National's collateral protection insurance coverages are included in the Insurance segment, which was redefined during the first quarter of 2018. Results attributable to State National's program services (fronting) business are not included in a reportable segment. Total consideration for this acquisition was $918.8 million, all of which was cash consideration.

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As of December 31, 2017, the purchase price was preliminarily allocated to the acquired assets and liabilities of State National based on estimated fair value at the acquisition date. During the first quarter of 2018, the Company completed the process of determining the fair value of the assets and liabilities acquired with State National. The Company recognized goodwill of $379.2 million, none of which is expected to be deductible for income tax purposes. The Company also recognized indefinite lived intangible assets of $32.0 million and other intangible assets of $338.5 million, which are being amortized over a weighted average period of 13 years.

The following table summarizes the intangible assets recorded in connection with the acquisition, and as of September 30, 2018.

(dollars in thousands)	Amount	Economic Useful Life
Customer relationships	$289,000	13 years
Trade names	22,500	13 years
Technology	27,000	Nine years
Insurance licenses	32,000	Indefinite
Intangible assets, before amortization, as of the acquisition date	370,500	
Amortization (from the acquisition date through September 30, 2018)	25,407	
Net intangible assets as of September 30, 2018	$345,093	

Nephila Acquisition

In August 2018, the Company entered into a definitive agreement to acquire all of the outstanding shares of Nephila Holdings Limited (Nephila), a Bermuda-based investment manager offering a broad range of investment products, including insurance-linked securities, catastrophe bonds, insurance swaps and weather derivatives. Nephila has more than $12 billion of assets under management and generates revenue primarily through management and incentive fees. Total consideration for this acquisition is estimated to be $975.0 million, all of which is expected to be paid in cash. Upon completion of the transaction, Nephila will continue to operate as a separate business unit and its operating results will not be included in a reportable segment. See note 6 for further discussion of the Company's reportable segments. The transaction remains subject to customary closing conditions and is expected to close in the fourth quarter of 2018.

Brahmin Acquisition

In October 2018, the Company acquired 90% of Brahmin Leather Works (Brahmin), a Massachusetts-based privately held creator of fashion leather handbags. Total consideration for the acquisition was $194.0 million, which included cash consideration of $173.3 million. Total consideration also includes the estimated fair value of contingent consideration the Company expects to pay based on Brahmin's earnings as defined in the purchase agreement, for the period of 2019 through 2021. The purchase price allocation for Brahmin will be performed in the fourth quarter of 2018. Results attributable to Brahmin will be included within the Company's Markel Ventures segment.

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4. Investments

a)The following tables summarize the Company's available-for-sale investments. Commercial and residential mortgage-backed securities include securities issued by U.S. government-sponsored enterprises and U.S. government agencies.

	September 30, 2018				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities	$241,485	$20	$(3,360)	$—	$238,145
U.S. government-sponsored enterprises	359,348	3,612	(8,081)	—	354,879
Obligations of states, municipalities and political subdivisions	4,289,636	73,456	(50,246)	—	4,312,846
Foreign governments	1,463,626	105,158	(17,047)	—	1,551,737
Commercial mortgage-backed securities	1,672,438	13	(70,603)	—	1,601,848
Residential mortgage-backed securities	898,169	1,058	(31,136)	—	868,091
Asset-backed securities	24,819	—	(309)	—	24,510
Corporate bonds	997,135	20,351	(17,489)	—	999,997
Total fixed maturities	9,946,656	203,668	(198,271)	—	9,952,053
Short-term investments	1,918,495	649	(453)	—	1,918,691
Investments, available-for-sale	$11,865,151	$204,317	$(198,724)	$—	$11,870,744

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(dollars in thousands)	December 31, 2017 Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					