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Liberty Mutual Holding Company Inc.

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Call Participants

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Investor Event.

[Operator Instructions]

Please note, this call is being recorded. To begin Liberty Mutual's presentation is Nik Vasilakos, Executive Vice President and Treasurer. Please go ahead.

Nik Vasilakos

Good morning, and welcome to Liberty Mutual's March 2023 Investor Presentation. Today, you will hear from Tim Sweeney, President and Chief Executive Officer; Jim MacPhee, President, Global Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; Vlad Barbalat, Chief Investment Officer; and Chris Peirce, Chief Financial Officer.

They will discuss a variety of topics, including our strategic priorities and vision for the company and will be available for Q&A at the end of the session.

As a reminder, today's discussions may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results and other developments.

Actual results may differ materially from those expressed or implied. Please refer to our website for a complete discussion of the risk factors related to this presentation and the company. Also as a reminder, the company will not address any questions pertaining to market speculation or future capital plans. Without further ado, I will turn the call over to Tim.

Timothy Michael Sweeney
President, CEO & Director

Hi, everyone. Thanks, Nik, for the introduction, and thank you to everyone on the line for joining us today. We're excited to be here and to have the opportunity to share with you our strategy and priorities for Liberty Mutual in the years ahead.

I'll start with a quick overview. Our purpose at Liberty is to help people embrace today and confidently pursue tomorrow with an underlying belief that progress happens when people feel secure. We have a long history dating back to our founding in 1912.

Over the past 110 plus years, we've grown and evolved quite a bit, and in more recent decades, have transformed our business from a primarily U.S.-focused commercial lines and workers compensation writer to the diversified global organization we are today.

Major acquisitions over the past 15 to 20 years have been a key part of this transformation from Safeco and Ohio Casualty in the [indiscernible] to Ironshore a decade later and most recently, State Auto and AmGeneral. The acquisitions we've made have helped give us the products, capabilities, footprint, scale and diversification needed to be successful.

Now it's about execution. With strong market positions in the U.S. and globally, we are positioned somewhat uniquely amongst our top peers, both in our diversification with a near perfect 50-50 split between personal and commercial lines and in our mutual holding company structure.

Let me pause right here to say we are deeply committed to mutuality. We view it as a key strength that allows us to focus on long-term value creation and believe the mutual holding company structure allows us the financial flexibility we need. We are organizing to 2 main P&C businesses, Global Retail Markets, or GRM, and Global Risk Solutions, or GRS.

GRM is the larger of the 2 with $34 billion in net written premium and provides personal and small commercial insurance in the U.S. and through our local country operations. GRS writes $15 billion in net written premium and offers a wide array of property, casualty, specialty and reinsurance coverages to commercial entities.

In addition to our 2 insurance businesses, we view our investment team, Liberty Mutual Investments, as a third business unit internally. They manage our invested assets which amounted to just over $100 billion as of year-end. As Nik noted at the top, we are joined today by the leaders of each of these groups will speak in greater detail about their businesses and top strategic priority areas.

Speaking of leaders, here you can see our leadership team with blue circles indicating today's presenters. Some of these faces may be new to you as we've had quite a bit of change to our executive leadership team over the past few years. Most of the leaders you see on this page are in relatively new or recently expanded roles.

Within the past year, we executed an exceptionally smooth leadership transition at the top with David Long retiring as CEO while remaining Chairman of the Board of Directors. I'm immensely proud of the team we've built, which is the strongest, most diverse leadership team in our company's history. The team brings a variety of backgrounds and perspectives with a mix of both internal and external experience and varying tenures.

You'll no doubt be impressed with what this team accomplishes together over the next few years. Moving to our strategy. Over the past year or so, we've spent time refreshing our business strategy and cascading it throughout all levels of the company in order to provide clarity of vision to all employees.

We branded the strategy win with purpose, together, where winning means 4 things: First, we must deliver consistent, strong profitability so that we can keep our promises to our customers and fund investments in our business.

Second, we will build our brand strength through exceptional customer, agent and broker satisfaction and exemplary ESG practices to become the most trusted global insurance brand. Third, we aspire to be the best place to work by embedding a high-performance culture, keeping employee engagement strong and continuing to advance diversity, equity and inclusion, including our DEI representation goals.

And lastly, we need to maintain market relevance by holding a leading global P&C premium ranking. This aspiration is guided by our mantra, integrity, profit and growth in that order. Integrity is paramount and is about living our values and doing the right thing no matter what.

Given the choice between profit and growth, profit must come first, to ensure we will be there for our customers when they need us most today and in the future. Underpinning this aspiration are 5 priorities that will enable us to achieve these goals.

Number one, we must improve profitability, delivering target returns across each of our businesses and manage our capital with greater discipline, investing strategically in areas we believe will drive long-term value.

Two, and intertwined with profitability, we need to strengthen our underwriting capabilities, particularly on the commercial side, becoming a best-in-class underwriter. We also need to prepare for disruption and take advantage of new risks and opportunities by being strategic and disciplined in where and how we place our bets for the future, including areas like cyber and energy transition.

Three, I believe data will be a critical battleground in the future, so we must invest in strengthening our digital capabilities and leverage data and AI to unlock the full power of digital data and analytics.

Four, we are working to create a high-performing, equitable and inclusive culture that empowers the best talent of all backgrounds. Our people are critical to our success, so we need to ensure we're fostering the culture for them where they feel they belong, are supported, and are motivated and accountable to help us achieve our goals.

And five, we will build upon our reputation in the market to strengthen our brand by providing the exceptional customer experience and having exemplary ESG practices. I'll speak in greater detail about our ESG strategy shortly.

Following our mantra integrity, profit, then growth, in the near term, we are laser-focused on improving profitability. We've taken a critical eye to the business over the past year and have gotten clear on where we're performing well and where we need to improve. We're now starting to execute on these plans to improve operating performance.

Our enterprise target is to consistently produce double-digit ROE which means we must achieve a combined ratio of 95% or better at the group level. In order to achieve this, we're targeting a 92% combined ratio for GRS and a 95% combined ratio for GRM. In GRS, we're on the right trajectory, reducing our combined ratio in each of the last 3 years to 1:100 in 2022. We need to continue this momentum and work to close our performance gap to top peers.

Market conditions are a bit more challenging in GRM, which has historically operated at target returns. We're staying on top of these trends and taking significant rate actions while slowing growth to right the ship. The macro environment continues to present challenges, which we will continue to navigate but also some opportunities as we look to the future.

In the near term, we are monitoring a few key trends most closely, the first being inflationary pressures. Monetary inflation significantly impacted 2022 results, namely in U.S. personal auto, with rates accelerating faster and higher than predicted to 40-year highs.

While inflation is far from gone, we expect this pressure to continue to ease over the course of this year. In addition to monetary inflation, social inflation continues to be a concern. We're taking especially close care with this and both defense and offense to address legal system abuse. Within our business, we've been tackling social inflation at key points along the value chain, including underwriting in claims to minimize the impact.

We are also being more proactive externally collaborating with local and national trade associations and working to drive legislative change. This is a top priority of mine and somewhere I hope to see us, in cooperation with the industry at large, drive real change.

Ultimately, it is consumers and companies or customers who foot the bill for these abuses. Severe weather events continue to weigh on results across the industry, leading to a challenging 1/1 reinsurance renewal resulting from a supply-demand imbalance. With elevated cat losses expected to continue, we need to ensure we are being paid properly for the property risks we put on our books.

Recent geopolitical events, including the COVID pandemic and Russia-Ukraine conflict, have caused great uncertainty around the globe. These events have impacted supply chain dynamics and will continue to shape the go-forward geopolitical and economic landscape.

Over the past year, our investment group has navigated significant market volatility, spurred by rate increases by the Fed and recession fears, driving declines in public and private investments. As this volatility and uncertainty persists into 2023, flexibility remains a top priority.

Looking a bit further down the road, we see a number of forces that will shape the marketplace of the future. Shifting market dynamics are driving changes to the insurance value chain, which could ultimately lead to a reimagining of the ways in which risk is originated, evaluated, priced, serviced and warehoused.

Consolidation amongst brokers and carriers, the growth of MGAs and new capital entrants all present implications for distribution. For GRS, this means we need to have greater relevance to our broker partners in order to compete. We need to be easy to work with, offer sophisticated pricing and manage our expenses. For GRM, this means we need to provide value, access and ease so our customers choose and stay with us. As advanced markets reach maturation and growth slows, emerging markets will be increasingly important for future growth prospects.

Winning in the U.S. is critical for us. It is the world's largest P&C market, and where roughly 80% of our business lies. However, we also see value in having a diversified global presence focused on areas where we see long-term strategic value.

Asia will be a key region for the future for its strong growth and scale that could likely surpass the North American market over the coming decades. That said, geopolitical tensions, namely with China, will demand caution in this region.

In our increasingly digital world, strengthening our capabilities across digital, data and analytics is of the utmost importance. As I noted, we see this as a critical battle ground. We are investing in strengthening our digital capabilities across the customer value chain to meet demand and expanding our digital tools to enable our employees to better serve customers while also prudently modernizing our technology stack.

The ever-expanding volume and variety of data, coupled with breakthroughs and artificial intelligence, present an opportunity to generate rich insights on our customers and risks to provide enhanced value. Lastly, social and climate factors are increasingly at the forefront across various stakeholder groups including regulators, rating agencies, customers, employees, et cetera.

ESG is a top priority for us, which I'll spend a bit more time discussing on this next slide. For Liberty, ESG has always been a part of what we do, and we've always served multiple stakeholders. We believe insurance is a socially responsible product by design and we have a deep, long-standing commitment to doing the right thing. ESG isn't merely a check-the-box exercise for us, advancing ESG priorities is both the right thing to do and creates real enterprise value.

While ESG principles have long been at the core of what we do, we formalized our ESG program in 2019 with the creation of the office of sustainability and have made meaningful progress over the years since. We joined and partnered with a number of organizations, including PCAF and the UN PRI and aligned with reporting frameworks like TCFD and SASB.

We've also worked to integrate ESG throughout our business, notably in our investment business, where we've developed an ESG framework and created a dedicated energy transition and infrastructure team. On the insurance side, we recently partnered with Marsh to launch an insurance facility for green and blue hydrogen projects and appointed a head of energy transition risk in GRS.

Last year, we enhanced our ESG governance structure forming the Governance and Sustainability Committee of our Board of Directors to provide strategic oversight of our ESG practices and priorities. Our ESG governance structure embeds ownership and accountability for ESG issues across the company, ensuring that we collectively are identifying the right business risks and opportunities.

Looking to the future, we will continue to drive progress against key ESG priorities. We are enhancing our modeling and mitigation of risks related to climate change to help protect our customers and increase their resilience. We have and will stand by our customers and clients on their climate transition journeys, supporting them through an equitable and responsible transition.

We continue to ensure and invest in innovation and technologies that are foundational to a decarbonized future, exemplified by our collaboration with Marsh and our energy transition and infrastructure investment team. Through our philanthropic foundation, we are identifying ways to positively impact society, including building resiliency to the effects of climate change in underserved communities.

And lastly, we remain committed to advancing diversity, equity and inclusion, embedding DEI across all aspects of our business. We view this work as highly important and we'll always do the right thing for our business no matter what. As we move ahead on our ESG journey, we'll continue to share our story and look to do so with increased transparency.

Before I hand off to our business leaders, I'll wrap up by summarizing our focus areas in the near term. As discussed, we are laser-focused on profitability and we will deemphasize growth in the short term to enable us to achieve our profitability targets, meaning a 95% combined ratio for the group.

In support of this, we are focused on strengthening commercial lines underwriting capabilities across the enterprise. We will also proactively work to address key trends and emerging risks, with social inflation and legal system abuse at the top of the list.

Our brand strength and reputation are places of pride, but we need to continue to enhance these and make progress against our ESG priorities. Our people are the core of our company so we need to ensure we are fostering an environment where employees feel they belong and are able to grow, thrive and help us achieve our goals.

Lastly, to confront an increasingly digital future we must build a tech organization for the future, strengthening our capabilities across digital, data and analytics. I hope this helps to give you a better understanding of our goals and priorities for the years ahead. We have a lot to be excited about as an organization and the future is bright here at Liberty Mutual. And with that, I'll turn things over to Jim. Thank you all again for your time.

James Michael MacPhee
Executive VP, President of Global Retail Markets & Director

Thank you, Tim, and good morning, everyone. Starting with an overview of GRM. We're a leading provider of personal and small commercial lines products with business in 8 markets comprised of 15 countries. The left-hand side shows our net written premium breakdown across our 3 operating regions: U.S., West and East.

The U.S. region, which is about 80% personal lines and 20% business lines, makes up the largest share of our total net written premium at $29.8 billion in 2022. And we hold leading positions across personal auto, homeowners and small commercial lines. The West region is our second largest in net written premium at $2.8 billion and includes 7 countries: Brazil, Colombia, Chile and Ecuador in Latin America, and Spain, Portugal and Ireland in Europe.

And the East region net written premium was $1.4 billion with writings in 7 countries: Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India and China. Our customers, agents, brokers and partners are supported by approximately 33,000 global employees now that we've welcome folks from our acquisition of State Auto in the U.S. and AmGeneral in Malaysia.

Turning to our GRM business profile. On the left, our total net written premium in 2022 of $34 billion was 16% higher than prior year. The 2 main drivers were strong rate action and the acquisitions of State Auto and AmGeneral, which together accounted for about half of our total growth.

Premium growth was tempered by strategic actions to specifically slow policy growth in profit challenged segments and markets. Our combined ratio in 2022 was 102.3%, up 3.3 points from prior year. This was driven by an increase in the claims and claims adjustment expense ratio due to the impact of inflation on U.S. non-catastrophe losses, particularly in personal auto damage and personal property claims.

We realized nearly a full point of expense ratio improvement for the full year, driven by scale benefits of our top line growth and our continued focus on expense management. On the right, you'll see our breadth of product offerings across personal and business lines.

While 2022 presented a challenging environment, we took the necessary actions that have put U.S. personal lines on a path to target profitability, improved our performance in our West region and continue to build scale in our East region. The execution of these actions is supported by our global operating model, which I'll expand on in the next slide.

Our operating model focuses on winning in each market with 3 regions supported by global functions, allowing us to deliver leading personal and small commercial products on a global scale. Our leadership team benefits from diversity of perspective and we hold ourselves collectively accountable to achieving our GRM business results.

Within the U.S. region, we have 2 business segments: personal lines and business lines. Within East and West regions, we have established multi-country markets. The EMEA's multi-country market includes Colombia, Ecuador and Chile. The Western European markets include Spain, Portugal and Ireland. And the Asia multi-country market includes Hong Kong, Singapore, Vietnam and Thailand.

These multi-country markets allow us to sustain local focus while operating with a larger scale that supports the delivery of common solutions where appropriate. Our regions are supported by global functions, which are shown on the bottom of the slide. Our disciplined operating model governing roles, responsibilities and decision-making authority across teams allows us to deliver expertise and strong controls that serve the needs of our customers, agents, brokers and partners by market.

For our employees, we're focused on creating a high-performance, diverse, equitable and inclusive environment that empowers talent of all backgrounds to deliver on our promises and advance our long-term strategic priorities. Our goal is to advance Liberty Mutual by consistently producing a 95% combined ratio and producing profitable growth accretive to our leading global market position as we bring peace of mind to even more individuals and small business owners.

The strategy we're pursuing has 4 primary imperatives across our 4 business segments, consistently deliver our target combined ratio and continue to build on our scale in U.S. personal lines.

Leverage our leading personal lines capabilities to advance our U.S. business lines engine for profitable growth. Take decisive action to achieve target returns and industry growth in the West, and drive to target returns while accelerating growth in building scale across our markets in the East region.

And while several of our long-term strategic priorities point to growth, that growth must be sustained profitable growth that is supported by best-in-class go-to-market strategies that leverage our broad multichannel distribution capabilities. In the immediate term, our focus is on driving to target profitability segment by segment and market by market.

This is an at odds with our long-term priorities. It's foundational to achieving them. We will execute our strategic priorities across all of our business segments by focusing on value, access and ease. Value means delivering a competitive price to our customers. Access means advancing broad and innovative distribution. Ease means making it easy for our customers, agents, brokers and partners to do business with us.

We believe our focus on these levers to drive sustained profitable growth serves us well in the immediate and long term. And while we're excited about what we're building, as Tim mentioned, there are challenges facing the industry and our business. We remain laser-focused on combating rising inflationary pressure that has reached levels in many markets around the globe that we haven't experienced in decades and most notably in the U.S. personal auto and home short tail lines.

On the left, our actions are focused in 3 areas. There is no action more important than having the discipline to take the rate we need to address elevated loss trends. And we increased our renewal rate for personal auto to 12.6% by year-end 2022 and for personal property to 11.1%.

Our rate actions will continue to be based on the leading economic indicators and reflect the increased uncertainty we're seeing in the environment. We're managing our overall unit growth, with personal auto policies enforce declining by 1.5% by year-end 2022. We've done this by increasing our underwriting actions and reducing our new business writings in targeted ways state by state.

And with this more limited growth appetite, we've been able to reduce our marketing and media spend. Given the uncertainty in the environment today and our focus on driving to a 95% combined ratio target, we plan to continue to closely manage growth throughout 2023.

We also remain focused on disciplined catastrophe management, which is particularly important given inflation's impact on home replacement costs. Our focus here is threefold: managing concentrations, building pricing and underwriting programs that rely on our latest detailed understanding of risk by peril, and most fundamentally, a consistent and disciplined approach to pricing that ensures our rates reflect our current view of risk.

The U.S. personal lines, our primary focus is our work to drive to target profitability. And our work on the 3 value drivers that I show here are additive to rate activity and growth management actions I mentioned. On the left, we're continuing our investment to increase the segmentation underpinning our pricing and underwriting programs.

We're improving our capabilities at fuel speed to market by getting new data into the hands of our data scientists faster, and by employing more advanced techniques to improve our models. We use the same data-driven approach to improve our core automated underwriting capabilities.

Another area where we're leveraging data and analytics is to improve decision support to help us deliver the best value for our customers and our claims processes. We're leveraging predictive models to aid in early identification of high-risk claims, continuing to automate simple tasks and transitioning to improved estimating platforms.

And finally, we're focused on continuing to improve our expense ratio by growing our digital self-service capabilities, automating processes, modernizing the technology platforms that underpin our core systems and leveraging strategic partnerships to drive efficiency and effectiveness.

Turning to access. We have some of the most expansive multichannel distribution capabilities in personal lines, and we're continuing to evolve our go-to-market approach to match our customers' changing needs.

Our independent agent channel is our largest distribution channel and the acquisition of State Auto increased our agency appointments, primarily across the central region of the U.S. As the second largest personal lines writer through independent agents, we aim to be a top carrier of choice.

And we're working to improve our technology to make us even easier to work with. Our other local channel is our comparing insurance agency, an independent but wholly owned entity that was formed when we transitioned our traditional exclusive agents to this new model. With this new approach, our comparing agents provide customers with expert advice and tailored insurance options from Liberty Mutual and other national and regional carriers.

Direct distribution remains a growing and critical channel for GRM U.S., selling directly to consumers online and through our sales call center. We're focused on continually improving our marketing and media effectiveness to optimize lead generation and the simplicity of our customer experience. And finally, our partnership channel expands our reach by allowing our business to be sold through more than 16,000 partner organizations.

The focus now is to enable the embedded purchase of Liberty products within partner ecosystems. Moving to U.S. business lines. We're making good progress in driving to target returns through disciplined rate and by leveraging personal lines data and analytical approaches to increase the sophistication of our pricing programs and our underwriting tools.

We have 3 key priorities we're focused on. The first has been our work to stabilize the renewal book. We've done this by leveraging lifetime value pricing to ensure our renewal rate and underwriting action is better matched to the risk assumed.

As part of this, we're upgrading our underwriting workbench to provide better decision support for our underwriters. We're also deploying more sophisticated new business capabilities. These span 4 key areas: First, improvements to our appetite guides to support our underwriters, territory managers and agents; second, better tools that guide underwriters on the expected profitability of a prospective account; third, improved pricing programs that better segment risk; and fourth, a focus on data prefilled to improve overall data accuracy.

All of this work is designed to better match risk with rate at new business. Lastly, similar to personal lines, we continue to leverage data analytics and digital capabilities to enable automation and identify ways to simplify processes so we extract the benefits of our scale and lower our expenses.

Turning to East and West regions. Our global operating model allows us to take our collective capabilities around value, access and ease and deploy them to help us build scale and leading core capabilities in any market. From a value perspective, we're continuing to advance a deep understanding of the cost of risk and realizing the benefits of pricing and underwriting sophistication across each market.

We're also leveraging our global learnings to create simpler and more effective claims processes and improve our operating efficiency. In addition to expanding our access through multichannel distribution, we are focused on strategic acquisitions and partnerships, like our recent AmGeneral acquisition that includes a 20-year bank agreement with AmBank, Malaysia's sixth largest bank, our new alliance with Bankinter in our Western European markets.

Lastly, we make it easy for our customers and partners to do business by continuing to invest in our win with digital efforts, to drive experience, expense and employee outcomes. This focus on digital self-service capabilities across the customer, agent and partner life cycles, ensure we're offering a seamless multichannel experience across our global markets.

To close, we know that the environment we're operating in today has serious headwinds, but we're confident that we're taking the right decisive actions to drive our business in each of our regions to target profitability. We have long-term goals for each of our business segments, and we're focused on creating value for our customers from expert pricing and underwriting, disciplined expense management and data-driven decision support across the customer life cycle.

We'll continue to evolve how we access new customers and meet their specific needs and will leverage digital technology to drive seamless and efficient customer experiences. We'll do all of this while we continue to ground who we are in our ESG priorities and build our high-performance culture here at Liberty Mutual.

We'll always work to be a company where our employees feel like they really belong, where their contribution is valued, and where there is equity and opportunity. Thank you for your time this morning. I'll now turn it over to Neeti.

Neeti Bhalla Johnson
Executive VP, President of Global Risk Solutions & Director

Thanks, Jim, and good morning. Global Risk Solutions offers a wide array of property, casualty, specialty and reinsurance products and services distributed through brokers and independent agents globally.

We are recognized as having leading competitive positions and industry rankings. Our business is supported by approximately 10,000 employees across 24 country operations and is organized into 4 major operating segments: North America, Liberty Specialty Markets, Liberty Mutual Reinsurance, and Global Surety, which I will cover in more detail in a moment.

GRS, in line with the industry, has experienced significant growth over the last couple of years. Furthermore, our operating performance has improved as evidenced by a total combined ratio of 98.6% for 2022, which is an improvement of 8.3 points since 2020 and just over 9 points relative to our average performance over the last 5 years.

As displayed in the chart on the right, GRS underwrites a diversified portfolio of risks, spanning insurance and reinsurance solutions, which we will break down further on the next slide. GRS is organized into 4 market-facing segments, each supplying tailored products and services to their distinct customer base.

We deliver insurance solutions through both the retail and wholesale channels. Our North America business comprises U.S., Canada and Bermuda. We have a strong diversified suite of products across commercial and specialty markets. We have long-standing partnerships, some spanning decades, growing relevance with large corporate customers as well as a middle market business that represents a tremendous go-forward opportunity for us.

We go to market with the Liberty Mutual brand in the retail channel. Ironshore is our wholesale exclusive brand and Helmsman is our third-party administrator that offers claims management solutions for specialized risks in niche markets. We have an industry-leading global surety franchise with a sizable competitive position in the United States and the ability to help our global clients with their surety needs worldwide.

We have leading specialty franchises outside North America, where we leverage numerous country markets and our Lloyd's platform to curate solutions to best meet the needs of our global clients. We maintain critical hubs and scale in certain markets to optimize access to global risks, including a strong presence in London, Continental Europe, Latin America, a leading position in Australia, and growing relevance in select markets in Asia.

Complementing our global direct offerings, we have an assumed reinsurance business through Liberty Mutual Reinsurance, which was elevated to a stand-alone segment last year. Altogether, Global Risk Solutions has a strong foundation, established with a respected market reputation a well diversified suite of products with relevance to clients and broker partners and a global footprint that gives us access to profitable risks worldwide.

With an eye to the future, we are building upon the strong foundation in order to truly deliver a globally integrated data-driven expertise focused underwriting organization in every local market interaction. The case for transformational change is clear.

First, the insurance industry is facing a confluence of structural and cyclical shifts including geopolitical tensions, climate change, economic uncertainty, elevated inflation, both monetary and social, and new emerging risks, all resulting in a greater uncertainty around the range of possible outcomes for loss trends. Furthermore, rate trends through 2022 suggest greater inconsistency in pricing for shifting loss trends across different lines of business.

We believe that this inconsistency is here to stay, at least through 2023. So while rate versus trend varies by line of business, in aggregate, we still do expect rate increases to exceed the loss trend in 2023, though not as positive as in the recent years.

Second, our core beliefs about the future imply an important inflection point. This decade, we believe, will be more volatile than the previous one due to underlying macro and micro shifts. Dynamic, forward-looking underwriting-centric cultures will be best equipped to respond to this environment.

We also see alternative capital continuing to play a role in supporting the industry broadly and the importance of digital capabilities to continue to inform a deeper, more granular understanding of risk and segmentation, portfolio construction and to drive efficiencies in the underwriting process.

With that, we expect the future of the industry will be defined by 2 key insights. One, our clients and broker partners need us more than ever as we have a crucial role to play in helping them understand, mitigate and manage their risks and building resilience against the many and growing causes of business interruption is becoming a strategic priority.

Two, the market demands a bolder approach as there is no clear playbook for future success, and leaders need to be agile to capture opportunities as the nature of risk evolves. As a result, the journey forward for GRS is more than positioning ourselves well in a competitive environment. We are building a commercial and specialty reinsurer for the future. To accomplish this, we've made strategic choices to be greater pricing and portfolio management and build product and risk expertise in the areas where we choose to strategically play.

Simply put, underwriting discipline is our biggest driver for strong pricing and portfolio management, including intentionally choosing our partners, and leveraging data and technology to improve the quality and speed of decision-making.

We will build product and risk expertise by staying close to the client needs and focusing on capabilities that matter the most to them. In addition, we will remain risk aware, not risk averse as we respond to new and emerging risks for our clients. To win, GRS can no longer be everything to everyone, and we have, therefore, facilitated a large-scale transformation built around these strategic choices.

To better meet the future demands of our clients, the industry and Liberty Mutual, we have begun to radically transform by launching an integrated business model grounded in a One GRS mindset, with each segment viewed as part of the whole. We have established our core objectives as a clear North Star.

In addition, we have aligned on key performance metrics to hold ourselves accountable to while focusing on integrity, profit and growth, respectively. In pursuit of our core objectives, we have made strategic choices, including the development of our global operating model, which we will dive into over the next few slides.

We're combining our internal knowledge and brand favorability with external perspectives to support our cultural transformation. This transformation is underway, and we have put in place the business model we need to execute and succeed. So as I said, we've established a clear North Star through our key objectives.

These are capturing our identified performance gap opportunity, delivering consistent risk-adjusted underwriting profitability through the cycle, and providing exceptional value to partners and clients. To drive accountability and clarity of direction, we have distilled these objectives into specific performance targets, a 92% combined ratio, a low 60s loss ratio, and an underwriting expense ratio below 30%.

And we are shifting the organization to a high-performance cultural mindset. Our objectives and performance targets are designed to support Liberty Mutual's long-term outcomes for success and a group-wide mandate of prioritizing integrity, then profit, then growth in that order. Pursuant to our key objectives and performance targets, we have made a number of strategic choices, as you can see.

One of these is the establishment of our global operating model, which organizes the various functions of our business in terms of demand and supply. The global operating model is more than just an organizational chart. It encompasses multiple components, including strategy, capabilities, processes, technology, talent and the governance required to achieve the benefits of global scale and maximize the value of One GRS.

Our demand functions, which are led by the presidents of our 4 business segments, are the focal points we're executing for servicing brokers and clients. These pillars capture the where and the why we generate and service demand. These functions include distribution, claims and market level leadership.

Meanwhile, supply functions capture the what and how we deliver on these demand pillars by generating tailored products and services horizontally across each segment. These functions include the newly created roles of President of Underwriting, Chief Operating Officer and Chief Strategy Officer, which I'll discuss from the next few slides.

To enable our operating model, we have continued to build out the senior leadership team, add new talent and new roles across GRS. Of the 12 current GRS leadership team roles, 10 have been filled by either new hires or our new positions. Talent matters in transformations. And we have put into place the team we need to execute on our objectives and to deliver in building a high-performance culture. As mentioned before, we created the office of underwriting and appointed a President of Underwriting, which I'll discuss further on the next slide.

Furthermore, we will enable underwriting performance through the office of the Chief Operating Officer, another newly created global supply function. The COO will support pursuit of our objectives through improving operational efficiency and effectiveness, which will support profitable growth, risk reduction and improve our customer and broker experiences.

The last newly created global supply pillar is our Chief Strategy Officer, which will be critical for aligning across GRS and orchestrating strategic planning, market intelligence efforts and our innovation discipline. An element of our operating model also includes the elevation of Liberty Mutual reinsurance as an independent demand pillar as noted before.

We believe bringing these pillars to the market as One GRS will deliver a globally integrated firm into each locally empowered interaction. Recognizing the nature of our business, a critical enhancement of our operating model was the establishment of an empowered office of underwriting.

This is a key linchpin to developing risk expertise, accountability and infusing a consistent underwriting performance-based culture across all of GRS. Our underwriting organization will link markets to products through a common core underwriting framework. The framework provides that segment CEOs can execute in their respective market supported by centrally coordinated portfolio management, planning and performance assessments.

Additionally, product leaders will be accountable for the strategy, planning and performance of their respective products, enabling global orientation and high coordination across business segments. More on this on the next slide.

As mentioned earlier, we're entering a different phase of the market cycle. The industry is now at a point in the cycle where the performance gap between industry leaders and laggards will expand. We need to be ultra disciplined around risk selection, granular segmentation and market sensing to drive a common view of risk and consistent execution.

Therefore, it is increasingly important that we focus on dynamic cycle management and there are numerous initiatives underway to enhance our execution. The key recent enhancement, which is aligned with our operating model and the underwriting organization broadly is the establishment of global product boards.

These product boards involve demand and supply leadership to drive a unified global product strategies for GRS. Product boards will improve strategic alignment, enable agile execution and accelerate flow of contemporary intelligence on risk and competition. Additionally, spurred by our transformation efforts and operating model, there are several initiatives underway that we will continue to implement and push forward in 2023.

These initiatives are all in support of addressing where and how we will execute as One GRS and focus on improving the loss ratio. Our enabling capabilities will be aligned to solving business problems, optimizing timely flow of data, insights and tools to allow our teams to make better, faster decisions and enhance underwriting experiences across our organization.

As Tim mentioned, we believe that a commitment to sustainability and climate transition is a once-in-a-generation opportunity. In support of this, we recently appointed a new GRS Head of Sustainability, who will partner closely with all GRS supply and demand functions and the Liberty Mutual Sustainability Office to drive and integrate our sustainability strategy across the entire global business.

In addition, we launched the GRS sustainability ambition. This is a commitment to increasing customer resilience so our customers are protected and prepared for evolving risks enabling sustainable growth by proactively offering services to support responsible transitions, including climate concerns, improving lives and communities through generous philanthropy and employee engagement and advancing diversity, equity and inclusion by fostering environments where ideas flourish, opportunities are equitable and everyone belongs.

I hope you can sense the focus, discipline and excitement in GRS. As we look forward to the remainder of 2023 and beyond, we are focused on deliberate execution of our choices. The biggest driver of our strategic choices is intentionality.

Conscious choices on where and how we play, informed by a sharper focus on underwriting discipline and delivering global risk expertise. Tactically, this means making sound and consistent underwriting decisions, leveraging the breadth of our underwriting knowledge, sensing the market cycle in detail, embracing clients and broker partners' existing needs and viewing new and emerging risks as opportunities while dynamically shaping our portfolio across the cycle.

We have made the strategic choice to play where we can differentiate ourselves. We will have platform coverage that enables brokers to place U.S. client risks at every access point based on their needs and preference both inside and outside the U.S. In addition, our international footprint will provide access to the right opportunities to deliver consistent profitability and sharpen our specialty expertise.

Deliberately balancing supply and demand in our adaptable operating model will allow us to maximize the value of One GRS, deliver a globally integrated firm into each local interaction and maintain flexibility to adapt to changing market conditions. We are focused on an increased consistency of execution.

And we'll continue to make investments in technology and analytics to improve the quality and speed of decision-making. Our mindset and culture will truly determine our success. Our transformation delivers a common understanding of what a high-performing, equitable and inclusive culture means and why it is critical for us to achieve our bold ambition. With that, I will turn it over to Vlad.

Vlad Barbalat

Thank you, Neeti, and good morning. Let me start by saying that the other members of the executive team and I talk a lot about winning with purpose, together. This reflects our sharing one balance sheet, the insurance businesses on one side, and investments on the other.

Our collective aspirations and our ability to deliver on our promises require capital. So our mission and investments is remarkably simple to create capital for Liberty Mutual while ensuring that our obligations will be met.

We put integrity first, then profit, which together will help us drive growth. That is how we win. We manage approximately $101 billion for the general account, including cash and cash equivalents. Our asset classes include the full spectrum of fixed income assets, public equities and private investment strategies across private equity, venture capital, real estate, private credit, and energy transition and infrastructure.

We characterize our strategy as a modified total return strategy that includes a long-term commitment to our strategic partnerships while maintaining the flexibility to turn over the public portfolio as better opportunities arise. We realized many benefits from our commitment to our private platforms and our fixed income capabilities, while we also understand that flexibility is key given the many uncertainties we face.

Looking back, you can see our strategy in action. We actively decreased risk assets leading into the pandemic due to late-cycle macro dynamics. As a result, we entered 2020 conservatively positioned. The increase in allocation to growth assets while assets under management was also increasing over time, has been supported by market movements and exceptional private returns in 2021.

More recently, we have been increasing our allocation to noninvestment-grade credit in 2022, given favorable market dynamics. More generally, assets under management have been up due to the market rally throughout the pandemic, reinvestment activity and cash from operations.

We take pride in our performance, and the investment team's long-term contribution has been strong. We have generated $16.2 billion of pretax income over the last 5 years. Despite extreme market turbulence, our portfolio has been resilient and the team took advantage of market dislocations to redeploy capital in a very attractive environment for reinvestment yields.

In fact, total yields on the largest portion of our fixed income portfolio are at the highest levels we have seen in more than a decade, and offer strong go-forward return potential. In alignment with our strategy and supported by market movements, we have seen a modest allocation increase over the last 5 years to growth assets, our term for private partnerships, public equity and high-yield credit.

We have been executing a strategy to wind down natural resource allocations over time with significant progress achieved in 2021. Private equity and real estate growth have largely been driven by market appreciation and scaling up as a result of our commitments to attractive opportunities made during the pandemic dislocation. Public equity is lower in 2022 given the relative attractiveness of fixed income and higher allocations to high-yield credit under current market conditions.

Like others in the industry, we have seen some retrenchment in 2022 driven by rate increases. However, throughout 2022, we were well positioned for market volatility by actively managing risk, building higher cash levels and targeting high-quality fixed income sectors.

In the fourth quarter, we increased our allocation to cash. As bond markets stabilized, we made new purchases with an open quality bias to increase the portfolio's resilience given the difficult macro backdrop by reducing exposure to single B rated assets and increasing exposure to single A rated and above.

These portfolio shifts resulted in a 3.46% portfolio yield for year end compared to a 3.05% on September 30, driven by a 5.4% average purchase yield in the fourth quarter. Due to our active portfolio management approach, our portfolio duration remains at our liability-aware target. Investment income will continue to benefit, going forward, as we invest at higher rates, and we expect to recover our realized losses as our bond portfolio polls to par.

We believe that the key to success with our partnership strategies is a combination of strong strategic relationships, diversification, management of our sector focus on the margin and patients.

While valuations have come down, our private strategies have served us well over the long term, and we believe downturns can be attractive entry points. We have been at this for a long time, having started our private equity practice in 1980s, and the quality of our relationships is a clear advantage. We will continue to deploy into private assets and alternative credit to capture liquidity and complexity premium.

This past quarter, Liberty's partnerships were in line with expectations, given current market dynamics. While we see risks skewed to the downside in the current environment and are tactically underweight public equities, we have increased the breadth and depth of our capabilities across private assets over the last few years, and we remain committed to this longer-term strategy.

In 2022, [Monson] private equity investments broadly followed public market declines but strong returns in other private asset classes like private real estate, private credit and private infrastructure have more than offset these marks, resulting in positive results for both the quarter and the year.

This diversification across strategies, sectors and capital structure drives value despite market volatility, as demonstrated in the fourth quarter results. We remain confident in these private asset classes and expect to actively deploy capital through the cycle because market dislocations create an attractive entry point.

Liberty's goal to become the most trusted global insurance brand will require us to be an environmental, social and governance role model, an exemplary global corporate citizen known for our risk expertise. The investments team has a role to play in this work.

We take a holistic approach to incorporate material ESG factors into our investment process because we think that this can enhance our ability to meet Liberty Mutual's long-term investment objectives while also shaping how we will win with purpose together.

Simply put, the LMI ESG strategy is about making smarter, holistic investment decisions. As investors, we find that ESG performance often reflect broader business practices and can lead to valuable insights that otherwise would not be captured as part of the traditional investment analysis. By expanding the information set available to the LMI team and our daily investment decision-making, we look to sharpen our understanding of the investments under consideration.

For example, our ESG integration approach in fixed income starts with a research analyst ESG assessment of a given issuer relative to its peers, which then informs portfolio management and trading decisions.

In evaluating private investments, such as private equity and real estate deals, we have added an ESG due diligence questionnaire and scorecard as part of our deal process. We are deeply committed to collaboration across the LMI platform and to true ESG integration.

Our ESG initiative is specifically designed to provide strategic clarity through a formal cross-functional ESG governance structure while also reflecting diverse perspectives of LMI professionals. This approach has enabled us to generate strong buying across the organization and effectively drive our ESG strategy forward.

Let me close by discussing our outlook. It is important to start by emphasizing that we do not know the future. If there is one lesson we should all learn from these past few years, that is the one. 2022 was a truly unique year. High inflation, zero COVID policies in China, the ending of pandemic restrictions in the West and a massive land war in Europe are just some of the challenges we encountered. We also faced a substantial economic adjustment last year, and the macro uncertainty remains with us.

Looking forward, we expect ongoing economic adjustments in 2023. The U.S. economy slowed modestly last year, and we saw the heavy impact of higher interest rates play out in the capital markets. This year, we may experience a more substantial slowdown in the real economy as the drag from higher interest rates continues for longer.

I would be remiss not to touch on current events. First, let me start by saying we have no direct exposure to Silicon Valley Bank, Silvergate or Signature Bank in the portfolio. While this may be an isolated event, given the policy actions taken to protect depositors, the risks of an economic slowdown have risen.

Concerns over our financial stability and tighter credit availability as banks may be less willing to lend going forward, will impact the macro environment. On the margin, we are more cautious than earlier in the year. We continue to favor credit over equity on an asset class level with an [open] quality credit bias.

In closing, let me touch on a few key takeaways. Our mission is fully aligned, and we are an integral part of Liberty's strategy, and performance has been strong. While we are committed to private assets, we are also committed to maintaining the flexibility needed to manage risk and respond tactically to markets. Our private portfolio is well established. We've been at this for a long time. And it is both well diversified and evolving, especially as we move into private credit.

Lastly, let me reiterate that we are not in the business of forecasting the future, but we are in the business of being prepared for whatever may come, and we are, in fact, prepared. This mindset is at the core of how we think about portfolio construction and about our business and our team more generally. I remain optimistic, given how well Liberty has adapted and prepared for the challenges ahead.

With that, I will now turn it over to Chris to close out our presentation this morning.

Christopher Locke Peirce
Executive VP & CFO

Thanks, Vlad, and good morning, everyone. Thank you for joining us to hear about our enterprise strategy and ambition. I will cover a handful of financial topics to close out the presentation.

At a high level, we utilize a mutual holding company structure, providing our operating subsidiaries with greater financial flexibility while preserving mutuality. This structure allows us to manage the company with a focus on long-term capital generation and financial strength, better aligning with the interest of our policyholders and creditors rather than short-term interest of shareholders.

As many of you are aware, we issued senior and subordinated debt out of Liberty Mutual Group, Inc., a stockholding company that principally does business through its wholly owned insurance subsidiaries. These subsidiaries combined have the ability to pay approximately $2.2 billion in dividends to LMGI without regulatory approval this year.

Liberty Corporate Services, a service company, which is not regulated, provides additional cash flows to the holding companies and is expected to generate $650 million of pretax income in 2023, more than enough to cover the company's interest expense.

In total, available cash flows to the holding company represents 6.5x 2023 estimated interest expense. At year end, Liberty's total capital base, excluding accumulated other comprehensive loss, was $40.6 billion, growing almost 35% over the past 5 years with a 26.0% debt to total capitalization, excluding accumulated other comprehensive loss.

Our leverage targets are consistent with the rating agencies' expectations and management's own comfort level for the business. We have a long history of organic capital generation. And our focus is on maintaining capital adequacy from a regulatory, economic and rating agency perspective.

With respect to ratings, we are comfortable with our current level of financial strength rating from each agency. These ratings provide our operations with necessary access to all of the risks within our appetite. All of our ratings have been affirmed within the last 12 months, despite the macroeconomic pressures facing the industry, demonstrating the overall strength of our credit profile.

One thing the agency has consistently acknowledge is our robust liquidity position. Our goal is to maintain balance sheet liquidity at all times to meet our obligations even under stressed conditions. To ensure we achieve this goal, we regularly stress test our liquidity position, comparing stressed liability cash outflows over different time horizons to available cash on hand, scheduled asset maturities and expected operating cash flow.

We also have ample access to additional sources of liquidity through a $1 billion unguaranteed revolving credit facility, which we recently renewed through early 2027, and nearly $8 billion of borrowing capacity through various FHLB memberships.

Overall, we are very happy with our mix of capital and well-staggered debt maturity profile. Over the past decade, we have opportunistically grown our hybrid capital base, diversified our funding markets and prudently extended duration. While we will continue to opportunistically manage our capital profile, we are comfortable with our current composition.

In the past 12 months, we came to the market with 2 separate offerings, both in response to market volatility amidst an uncertain backdrop, with the primary objective of prefunding our upcoming senior note maturities in 2023 and in 2024.

We feel our mix of both structure and currency is appropriate for our organization, and future decisions will be made in the context of the market environment and company objectives. Debt is our primary source of external capital, and we will continue to actively and opportunistically manage our outstanding portfolio.

Our general approach has been to refinance maturities and raise additional capital, commensurate with our growth plans and in line with our leverage targets. Again, we're satisfied with our current leverage.

I'll spend a couple of minutes on how we manage risk at Liberty Mutual through our enterprise risk management program and our reserving function. We view risk management as a core competency and a pillar of enterprise strategy, but we also continuously look to make program improvements and enhance our capabilities.

The objective of our ERM program is to help Liberty create, optimize and protect enterprise value. Risk culture starts from the top and emanates through Liberty's risk governance structure. The structure we have in place enables two-way communication to create robust dialogue as risks develop and evolve.

Chaired by one of our independent directors, the Board Risk Committee has oversight over the ERM program. The ERM Executive Committee, chaired by the CEO, has the responsibility for defining organization-wide ERM roles and responsibilities, establishing accountability, guiding the ERM implementation process and monitoring ERM effectiveness.

The ERM Operating Committee, chaired by me, is responsible for reviewing current and projected exposures, modeling and stress testing results for risks, which could materially adversely impact the company.

Subsidiary committees provide a balance between depth and breadth in our risk governance structure. Corporate ERM leads the coordination of ERM efforts across the organization in close partnership with the risk management professionals, who sit within our strategic business units.

Adjacent to enterprise risk management is our reserving discipline. Detailed quarterly reserve reviews are performed by our business unit actuaries, where we have local expertise. In recent years, we've meaningfully built out our corporate actuarial group to enhance our overall reserving process. The corporate group provides independent review and oversight of the business unit reserving process.

On a quarterly cadence, each group presents their actuarial opinion to the Liberty Mutual Group Reserving Committee, comprising the CEO and senior business leaders, who are ultimately responsible for making reserving decisions in our financial statements.

Shared insights from claims, product and legal create transparency and alignment to inform more robust actuarial opinions. We believe this approach provides us with appropriate checks and balances to ensure our reserves adequately reflect industry trends. In addition to quarterly reserve reviews, we conduct a comprehensive ground-up asbestos and environmental reserve study annually.

Going back a couple of years, we took decisive action to strengthen certain casualty lines of business, reflecting higher loss costs from social inflation and other trends, much of which is covered by the adverse development covers we have in place.

Excluding A&E, reserves overall have developed favorably in each of the past 2 calendar years. Coming into 2023, we feel really good about our balance sheet, and the enhancements to our reserving process have us well positioned to navigate loss trend uncertainty, going forward.

Risk management is heavily integrated with our annual and longer-term business planning process. Our risk appetite reflects our philosophy for risk taking, given business strategy, financial objectives and capital resources. This is true at the enterprise and business unit level.

Tolerances and form exposure plans and exposures relative to tolerances are regularly monitored and reported on through the ERM governance structure. We are diligent about managing within tolerance spans and take proactive actions in the event a breach is anticipated.

Integration with the planning process ensures we function within risk appetite and that we hold sufficient capital to meet our obligations even under stressed conditions.

We use various tools to aid in risk assessment. And our capabilities are robust, but continue to evolve to meet evolving business needs and a changing environment.

The company utilizes a mix of vendor and internally developed models for key perils such as natural catastrophe, credit and market risk. These risk models are often customized to capture our unique exposures, experience and expertise, something we call the Liberty view of risk. We believe that these investments in modeling capabilities provide us with a competitive advantage.

In addition to risk-specific models, we also utilize a stochastic economic capital model to provide a perspective across risks. This perspective supplements the regulatory and rating agency views. Our economic capital model supports our capital attribution process, which informs risk taking and required returns in our planning process. We continue to explore additional ways to integrate insights from our economic capital model into our decision-making process.

Additionally, Liberty proactively mitigates risk using various risk controls as appropriate. One tool that we use to mitigate against insurance risk is reinsurance. We will be covering our reinsurance philosophy in the next section. All external purchasing is centralized through a dedicated team within corporate finance.

This approach harvest synergies between business units when we interact with the market, allowing the company to leverage its overall scale and risk appetite. We have long-standing relationships with our core panel of reinsurers, whom we view as key partners for managing risk through the cycle.

The property reinsurance market hardened considerably, leading up to the 1/1 renewals, and attachment points broadly increased throughout the industry. These relationships help us navigate exactly this kind of environment to obtain desired coverage.

Of course, we manage concentration risk among the panel to ensure appropriate diversification and regularly review credit exposures through the ERM Credit Risk Committee. We utilize a variety of vehicles, including excess of loss, quota share and alternative capital, to obtain the coverage we seek.

Our reinsurance program is not designed to manage earnings volatility. The main objective of our program is to protect our balance sheet and manage net tolerances which, in turn, helps us maintain our ratings and remain focused on long-term capital generation.

On an occurrence basis, property tail losses from hurricane and earthquake events in North America are the greatest threat to our balance sheet. Our program in North America provides more than $3 billion of coverage, attaching at $1 billion of retained loss for these perils occurring in the U.S., Canada and the Caribbean.

We obtained approximately the same amount of total limit this year, despite challenging market conditions, with retention increasing $500 million, reflecting the inclusion of state auto exposures and the tightening of terms and conditions from reinsurers. We also purchased coverage for international property exposure and domestic [tower] covering workers' compensation.

In addition to a variety of treaty and facultative programs covering other lines of business, primarily written in GRS, these programs are designed to protect against outsized losses from natural catastrophes occurring outside of North America and other large industry loss events, where we have material exposures. Some of the major lines covered under these treaties include aviation, cyber and casualty lines.

As many of you will remember, and as I alluded to earlier, we have 3 adverse development covers, providing protection against unfavorable development on certain long tail lines for accident years 2018 and prior, mainly general liability, workers' comp, commercial auto liability and A&E.

We're very happy to have this economic protection, and it is appropriately reflected in our credit profile. Additional detail around the ADCs, including remaining available limits, can be found in our quarterly disclosures.

Our risk management program continues to evolve, as I mentioned. Strategic reinsurance purchasing is a key component and will continue to evolve as well to meet the needs of the organization.

To wrap, we're committed to achieving a target 95% all-in combined ratio on a consolidated basis. In order to achieve this, GRM will target 95% and GRS will target 92%. We believe a 95% combined ratio will translate to consistent double-digit returns, generating enterprise value for us to deliver on our promises and serve our purpose, helping people embrace today and confidently pursue tomorrow.
Thank you, and we're happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Jeffrey Bernstein of Stonebridge Advisors.

Jeffrey Bernstein

Regarding the various combined goals that you laid out, both overall and within the different divisions, when do you think you might achieve those goals? And as a second question, you had highlighted EM has a long-term trend for certainly the industry and perhaps for Liberty Mutual. Does that mean that Liberty Mutual seek to grow in that area?

Timothy Michael Sweeney
President, CEO & Director

This is Tim. The line in the sand for our 95% combined ratio is 2025. We expect to take 2 to 3 points out of our combined ratio from last year by the end of this year, and then we will continue. So 95% for GRM, 92% for GRS, 95% for the enterprise [Audio Gap] in 2025 and full stop.

With regard to emerging markets, we do view the U.S. market as a mature market, both on the commercial and personal line side. And so diversification and spread of risk is a key strength of ours. And we will continue to look for opportunities to get somewhat outsized growth, where we can earn target returns.

The one fact that I can't get past and that we can't get past is, if you look out 2 decades to the year 2040, the Asian market, Asia Pac will be 40% of the global P&C market. We've got a pretty good footprint in Asia. We've got good capabilities that we can export from other markets. So I'm not looking to vastly increase our current footprint. We're pretty happy with our footprint.

Many of our competitors are in more than 100 countries, we're in 29 countries. And give or take care here and there, that feels about right for us. So I don't think you'll see lots of geographic expansion.

But we do view diversification both by product, by distribution channel and by geography, as a key competitive advantage that brings more stability to our earnings, and we do see particularly attractive opportunities in Asia Pac.

Operator

[Operator Instructions] And our next question will come from Andrew Schiappa of Amundi.

Andrew Schiappa

Thank you guys a lot for the time today in the call. Just a couple of questions on my end, some of the pony on -- or piggyback on what was just asked.

But as I think about capital allocation and potential M&A., as you mentioned emerging markets, it sounds like there's a lot of export opportunity from products you already have? Or are you considering external growth?

I'm just kind of curious the sizing deals like we've already seen you do in Malaysia? Or are there other specific abilities or properties that you'd look at and want to acquire?

Timothy Michael Sweeney
President, CEO & Director

Yes, this is Tim again. I would say, we think we have most of the product set, most of the geographic footprint, most of the distribution that we need.

If you look at an acquisition like I Insure several years ago, that brought us a lot of new product capabilities, expanded E&S capabilities, et cetera. If you look at the acquisitions we did last year, we think U.S. Personal Lines and Small Commercial is ultimately going to be a scale game.

So we are building scale there because we intend to win in our home market. The same with our AMGeneral acquisition in Malaysia, making us a top 3 carrier over there to make sure that we have -- where we're going to decide to play, it's essential that we have scale.

So as I sit here today with regard to inorganic growth, I would say a few things. First, no big burning appetite for any acquisitions over the next 18 to 24 months. I'm not suggesting that if something attractive and opportunistic come up, we wouldn't take a look at it. But we are so hyper focused on profitability, so hyper-focused on that 95% combined ratio that I'm kind of, unless it's a particularly attractive opportunity, reluctant to distract the organization away from that central mission by acquisition.

So there are places that we think we need some more scale. There are places that we don't think we have a path to scale, and we will address those over time as well. We think we have primarily the product set that we need to be successful in the markets that we participate in. And so I don't see us needing acquisitions for additional geographic expansion because we're comfortable with the footprint.

I think we have the product capabilities we need. And as you say, those can be exported. And over time, we'll just look to either pull capital out of places that we don't have a path to the scale we need to deliver target returns or make some targeted acquisitions to build scale in markets that we're committed to, where we know we can be successful.

Andrew Schiappa

And then just one back on the combined ratio targets that you alluded to. How are you thinking about the current investment environment helping you achieve those? I think you laid out with personal lines, it's a scale game. Should we think of the bigger lever being the expense ratio there?

I know that 2022 and to some of the other years, loss ratio improvement needs to come through. But I'm just trying to think of long term, where some of your expense ratios, loss ratios need to get to? Kind of what are the various levers you have to pull [from] those?

Timothy Michael Sweeney
President, CEO & Director

Sure. Thanks for the question. So first, I would say, given the volatility and the dynamic investment environment that Vlad described and that you're all well aware of, I'm not looking to have our combined ratio targets be a moving target, so to speak.

So obviously, we set the targets kind of by business unit and by line, based upon capital intensity of the line, the duration of the liabilities on the line and an expected NII crediting rate and new money rate as we price our products. And so the market is going to shift up. It's going to shift down, yields are going to change. We're steadfast on the 95% combined ratio overall and the 92% for GRS and 95% for GRM.

If you step way back to your second question on loss ratio versus expense ratio, if you look at our -- combined ratio last year, right around at 101, which also happens to be about our 5-year average combined ratio, 101, and you look at our target of 95%, if we benchmark ourselves not to the industry average, but to our peer set of the competitors that we respect the most. About -- of the 6 points of combined ratio improvement, about 5 points is loss ratio, as you say, and one point is expense ratio.

And if you array our expenses versus our expense ratio versus our peer group, we're about in the middle of the pack. Now, I don't relish being in the middle of the pack. As competition intensifies, we need to be more price competitive, which means we need to control what we can control, and we can control driving down the expense ratio.

So 30,000 feet to 6-point improvement is roughly 5 points of loss ratio, 1 point of expense ratio. We're not going to remain content that kind of peer group average expense ratio, and we've already got a program underway where we're quantifying efficiencies that we can find across the organization to drive that expense ratio lower.

Operator

The next question comes from [Alex Tran of Loomis Sayles].

Unknown Analyst

I have a couple of questions on the investment portfolio. I guess, looking at Slide 36, your limited partnership investment seems to be growing steadily over the last several years. Just in terms of where do you see the size of that going? Is there a limit on the allocation for that investment?

Christopher Locke Peirce
Executive VP & CFO

Thanks for the question. As I mentioned in my remarks, the size of the portfolio has largely grown in that time frame as a function of valuations. We remain committed to the asset class and continue to invest through the cycle. But the vast majority of what you see there is driven by valuation.

Unknown Analyst

Okay. And then, can you provide some color on your CRE exposure just in terms of size, type and in terms of just what you're seeing in asset quality-wise?

Christopher Locke Peirce
Executive VP & CFO

Sure. We've been concerned about commercial real estate, in general, for quite some time, given the macro volatility and the rising rate environment. So that is reflected in our portfolio. We've generally stayed away, where possible, from exposures involving CREs.

So when we think about some of the -- in the context of the current focus of the market on regional banks and their exposure to commercial real estate, we remain quite light in our exposure in that sector to regional banks in general, but specifically those that are heavy in terms of CRE exposure on their balance sheets.

Unknown Analyst

Great. And then, I'm not sure if you mentioned this, but do you have exposure to structured securities or CLOs, anything like that?

Christopher Locke Peirce
Executive VP & CFO

Sure. Structured finance is absolutely part of our portfolio. It's something that we have quite a bit of expertise on. And so CLO is quite a broad asset class. We've been involved in it for a long, long time and continue to be involved in it now and expect to be involved in the future. The asset class in itself is not stressed in any particular way that isn't part of the general market environment.

Unknown Analyst

Is there a sizing that you can provide like in terms of the size of the CLO exposure?

Christopher Locke Peirce
Executive VP & CFO

I don't have the CLO totality at hand. But it isn't outsized or something of concern.

Unknown Analyst

Okay. And then lastly, just in terms of the management of the book, is there any outsourcing or is everything managed internally?

Christopher Locke Peirce
Executive VP & CFO

So our fixed income portfolio is managed internally. We have scale there and expertise that we've built over the years. On the private asset side, we are partner-led and that we don't call that outsourcing, but we do transact mostly with -- in partner-led transactions.

Operator

Mr. Vasilakos, it appears there are no further questions at this time. I'd like to turn the conference back over to you for any additional or closing comments.

Nik Vasilakos

I think we have a question.

Operator

There is now a follow-up from Andrew Schiappa of Amundi.

Andrew Schiappa

Sorry about that. I was a little bit late to hit the button. Can you just help me on one other thing on the investment portfolio? You referenced liability aware. Can you just provide some context about the general duration structure or duration of the liabilities, duration of the assets and kind of what buffers or guardrails you operate with there?

Vlad Barbalat

Sure. This is Vlad again. Thanks for the question. We work very closely with our colleagues on the insurance side to make sure that, as we said, we are liability aware. That means that our portfolio tries to reflect our estimation of what the duration of our insurance liabilities is.

In terms of guardrails, we haven't been -- we don't think of ourselves as an interest-rate betting organization. That is not where we focus our expertise. It is instead on the credit underwriting side. And so we generally remain in pretty tight band around that liability-aware target.

Andrew Schiappa

So just helping me conceptualize that, is that kind of managing the [KRDs] across the business line like a quarter of the year? Or is it managed more on a holistic level of -- just for argument sake, let's say, your liability profile is 4.5 years and you managed to -- with a band of like 4 to 5 years. Or should I think about it as more granular than that?

Vlad Barbalat

I think the latter description is more accurate in terms of...

Andrew Schiappa

Okay. That's helpful. And then one was, just a last follow-up, to the question before mine. But as you think overall about the portfolio, LPs, high-yield, public equities, et cetera, how do you manage the overall risk profile of that?

Obviously, you increased your cash holdings as well. I think that was referenced specifically to the macro environment, but as well to kind of the high-risk assets.

Do you think about your high-risk assets as a portion of surplus of total capital? What are kind of the guardrails in the portfolio that you use to manage that overall exposure, not just a specific investment type, but just kind of overall high-risk assets in the portfolio?

Vlad Barbalat

Sure. Before I answer this question, I just want to clarify my previous remarks, I may have mixed up the way you framed that. So we manage the portfolio on a holistic duration basis. So your example of duration of, say, 4, roughly 4 is -- was inaccurate description.

Just wanted to -- sorry. And I just want to make sure I understood your second question. Your question was, how do we think about high risk -- higher-risk assets effectively, what we describe as growth assets in the context of overall surplus?

Andrew Schiappa

Yes. growth or -- because I think you referenced in the slides to taking some illiquidity risk. And I would think of that as another form of risk in the portfolio. Just how you're -- what kind of the guardrails are on there, how you think about managing the overall portfolio?

Vlad Barbalat

Sure. So we have a very robust risk management process within LMI, as Chris described. So we have risk professionals sitting within the investment team as well as those professionals obviously direct and work very closely with our colleagues on the insurance side. We use a number of different metrics when we think about those growth assets and illiquid assets.

Those include metrics such as expected tail loss. They include additional metrics, kind of a dashboard approach, including volatility and so on. And as Chris had mentioned earlier, we think about liquidity on a holistic basis, inclusive inside the portfolio itself. That required us to potentially meet capital calls and so on. The portfolio also turns over on a duration basis, as you've described.

And so we have a consistent source of cash flow, be it from maturities or interest payments coupons effectively, on our fixed income portfolio.

Andrew Schiappa

Okay. Thank you for the additional color.

Operator

[Operator Instructions] And our next question will come from Chad Stogel of Spectrum.

Chad Stogel
Spectrum Asset Management, Inc.

On capital, the RBC ratios, in P&C, we don't often look at RBC, the way we would with the life company. But the RBC ratios are on the lower end, I think, with the mutual insurance companies, 389 in 2021. I don't think it changed all that much. And that's on an authorized control level basis, if I'm correct. So is there an optimal range there?

Christopher Locke Peirce
Executive VP & CFO

Chad, it's Chris. Yes, as we've said the last few years, our target remains 400%. So we have been modestly below that for the last couple of years. We did -- for LMIC, we did, in 2022, at 361%. The other -- our other entities are right around 400%. And in 2022, a couple of things. We did close the acquisition of State Auto and AmGen, which we obviously knew would have some downward pressure on the solvency ratios.

And then the unrealized impact in the market, although for the securities held in the domestic insurance companies largely at amortized cost for a lot of the assets and the foreign subs and the other noninsurance subsidiary, some of that mark-to-market actually comes through in RBC. So we are absolutely committed to the 400% target.

We -- it's a core part of our ERM process and discussions. And as Tim really described the focus on getting underwriting profitability where it needs to be with the 95% combined, ultimately, that will generate a lot of capital that we'll take care of that issue. But we are very focused on that, and we are committed to getting back up to the 400%.

Chad Stogel
Spectrum Asset Management, Inc.

And given your structure, is there a nonregulated liquidity pool or capital pool, I should say? In the public companies, they've got holding company cash. Is there -- I know on your slide decks, in your quarterly earnings, you provide sort of a coverage of holding company liquidity. But is there a pool of capital that sits outside of the statutory entities that you can just readily use?

Christopher Locke Peirce
Executive VP & CFO

I would mention a couple of things. One is we do -- we will hold some cash of the holding company, but generally not very, very significant amounts. We do have the $1 billion unsecured borrowing facility that's at the holding company level.

And then as we talk about our capacity for interest payments, we do have the structure with the service companies, which are various entities that provide services to the insurance operations and have market-based compensation arrangements. So that's a source of cash that runs up to the holding company.

So we will maintain some cash up there. We have the borrowing facility. We have obviously dividend capacity. And then we have the service company regular stream of payments, which currently is about -- north of $600 million a year. So we think with the combination of all that, there is very significant capacity to cover the interest needs of the holding company.

Chad Stogel
Spectrum Asset Management, Inc.

That's great. And if I could do a follow-up, and my apologies if this was answered or [happened] that you could just tell me to go back and read the transcript.

But related to the current situation with some of the banks, how are you seeing a potential D&O and E&O atmosphere? I know it's been -- there's been some softness there, and there's obviously been some concerns about prior years in those lines of business. But as it pertains to this particular situation, it's obviously evolving. But is there anything you can comment on that?

Neeti Bhalla Johnson
Executive VP, President of Global Risk Solutions & Director

Sure. I'll take that. It's Neeti. What I would say is, based on everything we know today, because as you can tell, the situation is still evolving, under the current situation, one, we don't have any direct D&O exposure to the banks that are stressed at this point in time in terms of Signature and SVB.

And we don't really, at this point, expect a material impact as we look at our first quarter results. But as you can well appreciate, it's an evolving situation. We continue to review closely our exposures and also really remain focused on monitoring the secondary and the tertiary potential impacts here.

Operator

The next question is a follow-up from [Alex Tran of Loomis Sayles].

Unknown Analyst

Had a question regarding GRS. I think you mentioned alternative capital. Can you talk a little bit about that in terms of how is that impacting your businesses? And do you have any partnerships or any involvement in that space?

Neeti Bhalla Johnson
Executive VP, President of Global Risk Solutions & Director

Yes, sure. It's Neeti. What I would say is two things. One is at a macro level, our belief is that the insurance industry as a whole needs to attract more capital, given the growing protection gap. And so my comment in the opening remarks was specific to really our belief that we need to continue to attract capital, whether it's on the property side of things, whether it's thinking through casualty trends and how we think about continuing to provide coverage there.

On a micro level, what I would say at this point is there are no sort of specific things that we have in mind today. There are no additional sources of alternative capital. Reinsurance capital clearly remains an important lever for us to think about as we think about gross to net strategy over time.

But we are spending a lot of time really thinking about the potential for partnerships as we think about these growing product sets, especially around things like cyber and climate transition.

Unknown Analyst

And then another one on just your property cat exposure. Just given the frequency of the property cat losses over the last several years, just your thoughts on how you're positioning risk to that property cabin? And also, are you reducing or leading into with the pricing environment?

James Michael MacPhee
Executive VP, President of Global Retail Markets & Director

Yes. This is Jim. I can take that question. So yes, cat management, obviously, a huge focus for us with the big U.S. Personal Lines book. And there, we focus on three things, and one is managing our concentrations. We have models that measure our concentration on a monthly basis to understand sort of where we're writing, where our ratings are, where we're adding new writings.

As we are bringing the state auto book into the overall book, it's largely in the center of the country, so less hurricane exposure for us. But even there, we're looking at our aggregate concentration and taking renewal action where we think we need to on the book. So definitely, management concentration is very important to us.

Second thing we focus on is really making sure we're always advancing our science peril by peril, so that we can have best-in-class segmentation in terms of the pricing we offer for catastrophe coverage and the underwriting, like sort of the risk we will accept and not accept.

And then the third thing, to your point, we focus on is just making sure we're getting paid in aggregate for the catastrophe exposure we are taking on. And given the recent increases we've seen in both the frequency and severity of catastrophe losses, given the inflationary environment and the impact that's had on property losses, we are increasing our cat loads to make sure we're -- that they are aligned with our current view of risk.

Neeti Bhalla Johnson
Executive VP, President of Global Risk Solutions & Director

And maybe the only thing I would add from the assumed reinsurance book is, as you said, following 6 years of really above-average cat loss experience in the insurance industry, you saw the actions that the reinsurance market took to start to address that. I'll say two things.

One, we have both less risk and better risk and better paid risk in our cat reinsurance portfolio on the assumed side. whether that's through increased retentions, narrower terms and conditions and just better risk through the increased focus on well-modeled cat risk and focusing the perils that are covered.

And then secondly, I would say that we -- I mentioned the product boards as part of GRS' operating model within the office of underwriting. We have a global property head and a global property board that really is focused on looking at better -- continue to really increase our ability to deploy capital more optimally and more dynamically across both the assumed reinsurance and the portfolio of property insurance across the Global Risk Solutions business as well.

Christopher Locke Peirce
Executive VP & CFO

And I'll let -- this is Chris. I'd bring together what Jim and Neeti both described. At the group level, we've held our property cat tolerance basically flat for the last several years. And with exposures growing just through inflation, that means we've effectively reduced policy count in both sides of the business to reflect our capital position and our view of profitability.

So as Neeti referenced, smaller but better book of business, so we think better quality. And at this point, not ready to actually increase the overall property exposure we have across the enterprise.

Operator

The next question is a follow-up from Andrew Schiappa of Amundi.

Andrew Schiappa

So on GRM, I had two questions. One was the 80-20 personal lines kind of business line split, I think there was reference to kind of growing the business line portion of that. And I'm just curious, what are the levers of growth there? What's the -- what can you leverage from the personal lines side, either through the distribution channels?

Or is there really not a whole lot of leverage that you can get from personal lines to kind of grow that business line side? I'm just kind of trying to figure out where the growth in that business is coming from or is targeted to come from.

James Michael MacPhee
Executive VP, President of Global Retail Markets & Director

So I can take that question. This is Jim again. In terms of business lines, I think you do make a good point about leveraging capabilities from personal lines.

In business lines, it's not acquisition as much as it is sort of the detailed data analytics and digital approach that personal lines carriers are just further along in, in terms of just having rich databases where we can understand have really deep insights about the quality of the book, both at new business and renewal business, our underwriters with better decision support as they go about their daily work and have pricing programs that have extensive segmentation.

So in terms of the capabilities from personal lines that you can deploy in business lines, it's more about just increasing segmentation and leveraging that across the value stream. In terms of acquisition, the vast majority of small commercial business is written through independent agents. We are a leader amongst independent agents in both business lines and personal lines in the U.S. State Auto actually adds to that.

When we talk about scale, it's scale specifically within the independent agency channel and with our partners there. And we have very high agent satisfaction. We are constantly working to improve the tools and the way we interact with our agents. So we have access to the marketplace in terms of being able to write the volume. For us, it's about developing our capabilities. Tim talked about focusing on our core commercial lines underwriting capabilities, and that's what we've been focused on in GRM.

Andrew Schiappa

Okay. Great. And then just one follow-up one on the personal line side. As I think about -- two things, just how you've seen the inflationary environment evolve over 1Q? But also, as you've been looking to push price, have you gotten any relief or softening of some of the stances of certain state regulators that had really been opposed to allowing appropriate rate to be pushed through?

And if not, is -- should I think about those as being the areas in which you would look to nonrenew business? Or is it a different dynamic going on or for some of the nonrenewal thought processes?

James Michael MacPhee
Executive VP, President of Global Retail Markets & Director

Yes. So your first question there on inflation, that is the big question in terms of what will happen with inflation. We're coming off '22 where there was just incredible inflation disproportionately targeted towards the cost drivers of personal lines carriers. And we do expect that loss trends will moderate from those levels, but they'll remain high, and they will remain above long-term levels that we've experienced in the past.

And I just think if you look at the macroeconomic environment in general, we have to anticipate, I would say, a higher level of uncertainty and then plan for that, make sure we're watching the environment very closely and take action. So we'll have our rate plan, and then we'll be watching what's happening with loss costs underlying that and taking action to address any areas where we see deterioration beyond our expectations.

In terms of being able to get [rate] through to combat loss trend, we've been largely successful there. I would say that we have had states where they have been sort of holding us back on rate or had been holding us back on rate. And most of those states have recognize just the severity of the situation and the potential for availability issues if they don't move [rate] through.

And I would say, we've been very successful in almost every state in terms of getting the rate we need. And if we need more rate, we'll go back and get more rate. The one state that is starting to move faster but still not moving as fast as it could, is California. We have rate filings pending at the department there.

In terms of the actions we take, you're spot on in that. All of the new business growth actions and renewal business actions we take are state-by-state, based on their current performance and when we expect them to reach target return.

So in a state where their current performance is not at target and we expect it to take a while before we can get them to target perhaps because of concerns being able to get rate, we would really significantly restrict new business sales, and we would look at our nonrenewal rate there. So we are matching our actions to the view we have state by state by line of when we'll get to target profitability.

Operator

[Operator Instructions] Mr. Vasilakos, it appears there are no further questions at this time. I'd like to turn the conference back over to you for any additional or closing comments.

Nik Vasilakos

I appreciate all the questions from folks today. It was great. I would say, I want to thank you for taking the time to listen to us speak about Liberty Mutual, the strategy and the vision for the company. We hope today was insightful for you and that you are as excited as we are about the prospects of the company. Thank you.

Operator
Thank you. And this concludes the Liberty Mutual Investor Event. Thank you for participating, and you may now disconnect.