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S&P Global Market Intelligence Estimates**

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Call Participants

EXECUTIVES

Christopher Locke Peirce
Executive VP & CFO

Hamid Talal Mirza
Executive VP, President of US Retail Markets & Director

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

Robert Pietsch

Timothy Michael Sweeney
President, CEO & Director

Vlad Yakov Barbalat
Chief Investment Officer, Executive VP, President of Liberty Mutual Investments & Director

ANALYSTS

Chris Santos

Jeffrey Bernstein

Joshua Esterov
CreditSights, Inc.

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Presentation

Operator

Good morning, ladies and gentlemen and welcome to the Liberty Mutual Fourth Quarter and Full Year 2023 Earnings Conference Call. While this call is available online at the URL included in the Liberty Mutual Insurance press release, analysts should participate by phone in order to ask a question. [Operator Instructions] Please note, this call is being recorded.

To begin Liberty Mutual's presentation is Robert Pietsch, Director of Capital Markets. Mr. Pietsch?

Robert Pietsch

Good morning and welcome to Liberty Mutual's Fourth Quarter and Full Year 2023 Earnings Call. Hopefully, you have seen the earnings release and financial statements posted on our website. Speaking on today's call will be Tim Sweeney, President and Chief Executive Officer; Hamid Mirza, President, U.S. Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; Vlad Barbalat, Chief Investment Officer and Chris Peirce, Chief Financial Officer. They will provide an overview of our results and discuss current market trends, followed by a question-and-answer session. Also participating on today's call is Damon Hart, Chief Legal Officer and Secretary.

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. The company does not intend and does not undertake any obligation to update these forward-looking statements, which speak only as of today's date.

I will now turn the call over to Tim for his opening remarks.

Timothy Michael Sweeney
President, CEO & Director

Thanks, Rob and good morning, everyone. I am pleased to report on our ongoing progress toward our enterprise financial targets during the quarter, as we navigate a challenging personal lines environment in a revolving commercial and specialty market. We made solid progress toward our 95% combined ratio target through rate increases, disciplined top line management and significant expense reductions. We have also strengthened our capital position with the sale of our retail operations in Western Europe and Latin America. Both top and bottom line results improved in the quarter over prior year, which demonstrates that our strategic initiatives are taking hold and positioning us to achieve our 95% combined ratio target in 2025.

Net income attributable to LMHC in the quarter improved over prior year to $654 million, driven by improved underlying results and lower catastrophe events, partially offset by unfavorable prior year development and lower limited partnership returns. Pretax operating income for the quarter was $1.1 billion, driven by higher net investment income and improved underwriting, as reflected in strong results within Global Risk Solutions and targeted underwriting actions to slow new business in U.S. retail markets.

Catastrophe activity was modest for the quarter at $233 million, driven by a few minor wind and hail storms across the U.S., and we also recorded net unfavorable prior year development of $150 million. Net investment income in the quarter increased to $780 million due to more favorable reinvestment rates. However, the improvement was dampened by lower, but still positive results in limited partnerships. Lower returns in our limited partnerships portfolio were driven by decreases in real estate, offset by strong returns in private infrastructure and private credit. Realized losses in the quarter came in at $271 million, an increase of $223 million compared to 2022, resulting from active monitoring of our fixed maturity portfolio, as we target higher yields, credit quality and duration of securities.

Turning to top line. We grew net written premiums by 5.4% in the quarter to $11.3 billion. This growth was driven by our Global Risk Solutions business, which achieved an overall rate increase of 11.9% in the quarter, but was partially offset by a targeted decrease in policies in force within USRM. Our near-term focus remains on profitability rather than growth as we execute our strategy of delivering target returns across our businesses and investing in areas that we believe will drive long-term value.

Vlad, Neeti and Hamid will provide more detail on their business unit progress within their respective discussions of quarterly results. The combined ratio for the quarter was 95.1%, 2.3 points lower than prior year results, reflecting the PTOI drivers I previously

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mentioned. This was our lowest quarterly combined ratio in 8 years, demonstrating the substantial progress we've made toward our target profitability goals.

On an underlying basis, our combined ratio improved 4.7 points to 91.1%, benefiting from disciplined underwriting across both insurance businesses. Looking ahead to 2024, I am confident that our strong earnings momentum will position us for sustainable success in the future. Our insurance and investment teams have and continue to navigate significant market and geopolitical volatility. Our underwriting capabilities continue to expand as we proactively assess and respond to current and emerging risks, including climate change and legal system abuse. We remain committed to our enterprise profitability targets of 95% combined ratio for the group, with a 92% in GRS and 95% in USRM by the end of 2025. I look forward to the upcoming year as we continue to march toward those targets.

And now I'll turn the call over to Hamid for a discussion of U.S. retail markets results.

Hamid Talal Mirza
Executive VP, President of US Retail Markets & Director

Thanks, Tim. Many of the challenging macroeconomic trends observed in 2022 carried over into 2023 and adversely impacted our performance, especially during the first half of the year. Moreover, historically severe catastrophe activity in Q2 and Q3 resulted in additional challenges to our profitability. Despite these headwinds, we observed significant improvement in our financial performance as the year progressed, especially in Q4 where the weather was more benign and where our rate actions and targeted underwriting started to more fully materialize in our results.

As we head into 2024, we have taken the aggressive necessary actions to put ourselves on the right trajectory to achieving our overall profit targets. Starting off with profitability. USRM had pretax operating income in the quarter of $666 million, an increase of $509 million over the same period in 2022. The total combined ratio in the quarter was 93%, down 6.6 points from the prior year quarter. These improvements were primarily driven by lower Q4 catastrophe losses and improved non-catastrophe loss trends in both personal and business lines. Partially offsetting these benefits was some prior year reserve strengthening in response to lengthening development patterns and elevated legal system abuse.

Underlying pretax operating income in the quarter was $1.1 billion, an increase of $568 million over the same period in 2022. The underlying combined ratio was 87.3%, a 7.4 point improvement compared to prior year quarter, driven by favorable non-catastrophe frequency trends, moderating severity compared to prior year and a 2.3 point expense ratio improvement as a result of our continued emphasis on expense management.

Although loss trends have moderated overall, but there are a few moving pieces here. Used car prices have decreased with total loss claim severity trends improving, while repair costs continue to increase, driven by auto repair wages, placing pressure on repairable claim severities. Collision and property damage severity trends were mid to low single digits, which is an improvement relative to 2022. Bodily injury severity remains elevated in Q4 with annual trends in the high single digits for U.S. personal lines. Distracted driving and fatality rates remained above pre-pandemic levels, along with elevated attorney involvement in claims and continued legal system abuse, which is placing pressure on trends.

While mileage continues to increase closely to pre-pandemic levels, collision frequency decreased significantly in Q4 driven in part by our underwriting actions and the favorable winter weather in the quarter. From a personal property perspective, the annual pure premium trends are in the high single digits driven by favorable frequency in Q4. While severity remains elevated from increasing labor costs, this is partially offset by declining material costs.

For U.S. business lines, order frequency continues to rebound towards pre-COVID levels, while severity trends remain elevated. Continued litigation and legal system abuse are putting upward pressure on auto and general liability severities. And finally, commenting on top line performance. USRM net written premium in the quarter was $7.1 billion, a decrease of $143 million or 2% from prior year. The decrease in top line over prior year primarily reflects the targeted underwriting actions taken throughout 2023 to reduce policy growth, as we prioritize restoring profitability in the near term.

Overall, 2023 was a challenging year driven by persistent pressure on loss trends and near record levels of severe storm catastrophe activity. Despite these challenges, our Q4 financial results reflect the positive impact of our continued rate actions and strategic policy in-force reductions in profit challenged geographies. Heading into 2024, USRM is well positioned to build upon the profitability improvements that we saw in Q4 and to continue the trajectory towards achieving our target returns through disciplined underwriting and a continued emphasis on expense management.

With that, I'll turn it over to Neeti to share GRS results.

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

Thank you, Hamid. 2023 was a transformative year for GRS, as we continue to make significant progress towards our goals of delivering sustainable underwriting profitability and risk expertise in service of our clients and distribution partners in a rapidly evolving market. We also welcomed Asia retail markets into the business and are excited about bringing our global suite of capabilities, collective expertise, relationships and scale as Liberty Mutual's global business across personal, commercial and specialty lines.

Today, I will cover 3 topics; market trends and how we're responding; our performance in the fourth quarter and full year as we make progress towards our targets and I know casualties on everyone's minds, so I will take a few minutes to address what we're seeing and doing there.

Let me start with market trends. This is one of the most dynamic markets in recent history, characterized by different geographies and lines of businesses at varying points in the insurance and reinsurance cycle, high and shifting loss trends and frankly, a wide band of uncertainty around these loss trends when viewed through a forward lens.

While monetary inflation at the macro level is moderating, escalating legal system abuse, higher-than-average worldwide cat losses, continued tight labor markets, increased geopolitical risk, tightened shifting supply chains and rising medical inflation all continue to contribute to high loss trends and high uncertainty. As of December 31, our loss cost trend was mid-single digits with North America trends running hotter than those internationally, but both remaining elevated from historical norms.

We remain optimistic as in the aggregate across our diversified books of businesses, pricing change increases, which reflect both renewal rate change and exposure trends continue to exceed loss cost trend. The aggregate pricing change increase, excluding sharing economy was 8.2% in the quarter and 10.4% for the full year. We are seeing an uptick in rate changes for some casualty lines at the end of the year for North America, while property rates moderated in Q4, albeit holding at high levels across the portfolio.

Like others, we are seeing some financial lines such as D&O, E&O and cyber achieving rate below trend. As I've shared before, we are not relying on rate alone to deliver consistent underwriting profitability. We continue to implement needed actions, including an intense focus on risk segmentation and selection, de-risking the portfolio where needed. We are focused on retaining our best accounts and aggressively driving remediation where necessary by reviewing structure, including terms and conditions to ensure that we remain firmly on the path to deliver target profitability.

Retention for Q4 was 84.4% with full year retention of 83.1%, which was about 3 points lower than the prior year. The combination of these actions contributed to GRS' overall net written premium of $4.3 billion in the quarter, an increase of 17% over the prior period and $16.8 billion for the full year, an increase of 3% over the prior year.

In addition to increased pricing changes, other factors impacting premium include higher premium due to an adjustment in the prior year, relating to our casualty quota share and XOL treaties that did not recur in 2023, higher premium in global surety from an intercompany transfer in the current period and increased volume in international and higher reinstatement premium in Liberty Mutual Reinsurance primarily related to prior year cat events, all partially offset by conscious derisking in profit-challenged books, as I mentioned before.

Underlying pretax operating income was $459 million in the quarter, an increase of $49 million over the same period in 2022. The underlying combined ratio for the quarter was 93.7%, increasing 0.3 points from the prior period. Underlying pretax operating income was $2.1 billion for the year, an increase of $127 million over prior year. The underlying combined ratio for the year was 92.3%, reflecting a 0.1 point improvement from the prior year.

While the total combined ratio for the quarter increased 4.7 points to 93.9%, for the full year combined ratio was 95.3%, an improvement of 3.7 points. The increase in the quarter was driven by higher current year cat activity, primarily from the favorable impact of hurricane Ian estimations in 2022 that did not recur and currently a strengthening primarily in liability lines, partially offset favorable prior year releases.

For the full year, PTOI was about $1.66 billion, an increase of $666 million over prior year, primarily due to favorable cat activity and more favorable prior year development. These results represent significant improvement from our historical averages and we're very proud of them.

Let me now take a few minutes to talk about U.S. casualty. In the best of times, casualty rarely surprises to the upside and it's fair to say that legal system abuse trends are amplifying the downside risks and adding complexity in some unprecedented ways to

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the industry's operating environment in this line. We don't anticipate these challenges abating in the foreseeable future and have heightened our focus and responsiveness, recognizing trends earlier and reacting faster.

From a pricing standpoint, it's critical that casualty pricing keep pace with loss cost trends. It's encouraging to see auto and excess casualty rate change accelerating further in Q4. For the full year, casualty rate change ex-sharing economy is about 10%, in line with elevated trend after accounting for the benefit of inflation-driven exposure growth. While committed to achieving rate adequacy and expect pricing momentum to continue in 2024, we also continue to execute necessary underwriting actions, including rebalancing risk concentrations, non-renewing or non-enrolling risks that fall short of expectations and reducing limits were most exposed to nuclear verdicts.

From a reserving standpoint, we believe our casualty reserves for accident year 2019 and prior are reasonable and adequate. Nevertheless, due to the above factors, we are monitoring these very closely. Over the past 2 quarters, we performed detailed reviews of commercial auto and primary GL reserves. Our ultimate loss indications for accident year 2019 and prior were stable. However, we did increase ultimate losses for accident year 2021 and later due to increased severity trends for general liability and increased litigation rates and frequency for commercial auto. It's worth noting that in the past quarter, we took ultimate loss reductions for COVID reserves on our casualty business, alongside workers' compensation and professional liability reductions due to favorable actual versus expected loss experience.

We feel confident that our disciplined approach to reserve adequacy, risk assessment and pricing will continue to improve our underlying profitability in this challenging line over time. In conclusion, while our transformation is far from complete, we are pleased by the progress we've made. We will continue to push underwriting discipline and risk expertise first and foremost, while also focusing on expense discipline and managing volatility as we work to close the gap in our total combined ratio to our target.

And now, I'll turn the call over to Vlad to discuss investment results.

Vlad Yakov Barbalat
Chief Investment Officer, Executive VP, President of Liberty Mutual Investments & Director

Thank you, Neeti. Investment results continue to reflect the dynamic, but stabilizing macroeconomic environment. The portfolio generated $780 million of net investment income in the fourth quarter, an increase of $29 million from the same period in 2022. This increase is primarily due to higher investment yields, with positive but comparatively reduced valuations within our limited partnership investments, which generated $8 million of income in Q4 of 2023 compared to $148 million in Q4 of 2022.

Economic risks have become more balanced as inflation has cooled faster than expected, even as growth remained strong. This facilitated the Fed pivot in Q4 and treasury yields fell, credit spreads tightened and public equity valuations rose on expectations that the Fed will begin to ease policy in the coming months. Overall, the bulk of the data continues to point to a gradual cooling ahead and the tight monetary policy suggest a higher than average risk of a sharper downturn.

However, the economy's resilience to date has made it more plausible that growth continues around its current pace in the near-term. That said, financial markets are priced for an even more benign outcome and there are risks that these expectations will fall short. Fixed income volatility was managed well through the quarter as we continue to trade tactically, actively manage risk and targeted high-quality sectors, with sales activity focused on reducing exposure to more cyclical industries with weakening fundamentals.

Yields rose to multi-decade highs through October, providing attractive fixed income opportunities, especially in high-quality assets. Portfolio yield was 4.2% to end the quarter compared to 4.1% on September 30th, driven by a 6.4% average purchase yield. Capital deployment focused on improving overall book yield and the quality of the portfolio, while also repositioning to increase the portfolio's resilience.

Due to our active management approach, portfolio duration remains at our liability aware target. Declining interest rates drove this quarter's unrealized gains on the fixed income portfolio of $3 billion following the prior quarter's losses. While significantly improved, our net unrealized loss position ended the quarter at $3.8 billion and the active management of the portfolio resulted in $142 million of fixed maturity realized losses, as we look to lock in higher yields, increase credit quality and manage duration.

Unrealized losses remain rate-driven and realized losses due to credit impairments have been immaterial, reflecting the high-quality nature of the portfolio. Private markets continue to lag public equity markets, largely due to the performance of 7 mega-cap technology stocks. While small cap indices like the Russell 2000 are still nearly 20% below their 2021 peaks. Our limited partnerships results have remained resilient, contributing $8 million of net investment income in Q4 and $99 million for the year.

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Q4 results were driven by strong returns in private infrastructure and private credit, offset by decreases in real estate. These results represent the power of diversification, an increasingly important part of our portfolio mandate managed across strategies, sectors and the entire capital stack.

As a reminder, these investments are reported on a 1 quarter lag. Declines in real estate valuations were driven by industry-wide declines in commercial real estate and downward pressure on equity valuations due to the rising cost of debt. While these recent declines are notable, this asset class has proven successful over time and has provided strong overall results for the company.

Our investment results highlight the benefits of active portfolio management and diversification across industries, sectors and strategies. Our portfolio, both public and private boasts a well-established foundation. We maintain a strong emphasis on prudent underwriting practices and our ability to effectively manage potential risks. The confidence in our strategy and capabilities remain unwavering and we believe that our investments in talent and technology will continue to empower us in seizing opportunities amid market fluctuations. Above all, we remain steadfast in our dedication to creating capital for our enterprise.

And now I'll turn it over to Chris to discuss the full year's results.

Christopher Locke Peirce
Executive VP & CFO

Thanks, Vlad, and good morning, everyone. We reported a net income attributable to LMHC of $213 million for 2023 compared to net income of $414 million in 2022. Pretax catastrophe losses of $4.7 billion drove the decrease in net income, contributing 10.3 points to the total combined ratio of 102.7%, up 0.7 points over the prior year. The elevated catastrophe losses were driven by heightened severe convective storm activity that occurred primarily in March and June.

On an underlying basis, the combined ratio for the year was 93.4%, a 1.7 point improvement from 2022. This was driven by underlying loss ratio improvement in both business units. As Hamid and Neeti mentioned, U.S. retail markets experienced improved frequency and severity trends and saw rate actions materialize in the fourth quarter, while Global Risk Solutions saw improvements from increased rate and volume.

Turning to top line. We intentionally delivered modest growth in the year as we focused on improving underwriting profitability. Net written premium was $46.5 billion, an increase of $1.1 billion or 2.5% over the same period in 2022. This was driven by strong REIT increases across many lines, partially offset by targeted actions taken to reduce new business growth and shrink exposure to address persistent severity and frequency trends, especially in U.S. retail markets.

The pretax operating income before limited partnerships income for the year was $622 million, an increase from pretax operating income of $324 million in 2022. Excluding the impact of catastrophes and prior year development, our underlying PTOI increased $1.6 billion from prior year to $4.9 billion, primarily due to the earned impact of rate actions taken in U.S. retail markets and our continued focus to drive down expenses. Net investment income, excluding limited partnerships, was $2.9 billion in 2023, up 43% from $2 billion in the prior year.

Overall investment results were positively impacted by higher reinvestment rates throughout the year as the portfolio turned over. Total net investment income was $3 billion in the year, up 9% from $2.7 billion in the prior year due to higher investment yields with positive, but comparatively reduced valuations within our limited partnership investments, which generated $89 million this year compared to $704 million in 2022.

Net realized losses year-to-date were $296 million, a $356 million improvement over the same period in 2022, driven by the non-recurrence of equity unrealized losses from the market decline in 2022 and targeted fixed maturity sales in order to capture higher purchase yields.

Cash flow provided by continuing operations was $3.6 billion, down $2 billion from 2022, reflecting unfavorable paid loss activity and premium collections. We ended the second quarter with financial leverage of 25%. This level is well within the requirements for our ratings. GAAP equity as of December 31 was $25.1 billion, an increase of $2.9 billion over the prior year-end, driven by $2.2 billion in unrealized gains on fixed maturities, favorable FX of $567 million and $213 million of net income.

Statutory surplus was $27.7 billion at the end of December, up from $26.7 billion at the end of 2022, primarily driven by $700 million of statutory net income. On February 2, Moody's affirmed our financial strength rating at A2 and affirmed our outlook at stable. On February 28, S&P affirmed our financial strength rating at A and revised our outlook stable. Related to the previously announced disposition of certain operations in Latin America and Western Europe, all 3 transactions, [Andy's], Brazil and Western Europe have now closed. Brazil closed in the fourth quarter of 2023 and Western Europe and Andy's closed in the first quarter of this year.

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The aggregate impact of the transactions is accretive by approximately $1.1 billion to GAAP equity. Our fourth quarter results are evidence of our resilience in navigating through a challenging year.
With that, this concludes our prepared remarks and we're happy to take your questions.

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Question and Answer

Operator

[Operator Instructions] The first question today is from Jeff Bernstein with Stonebridge.

Jeffrey Bernstein

A couple of questions. The strive for 95% in '25, is that -- just to be clear, that's for the full year 2025 unadjusted combined will be 95% or better?

Timothy Michael Sweeney
President, CEO & Director

Yes. This is Tim. I like a little jingle, I might use it, strive for 95% in '25. Yes, 95% combined ratio, all in, it will be 95% for USRM and 92% for GRS, just playing a simple full combined ratio.

Jeffrey Bernstein

And just for full disclosure, that was actually a slogan for the New York Island is in the '80s to strive for 5 cups, I didn't get it, but they tried.

Timothy Michael Sweeney
President, CEO & Director

Sadly, I'm a Brewin's fan, sorry.

Jeffrey Bernstein

So in terms -- Chris, you mentioned that $1.1 billion in additional GAAP equity for the 3 transactions, I think you said 2, 1 closed in '23, the other 2 in '24. So if that's what you said is the whole $1.1 billion, how much GAAP equity do we get in '24?

Christopher Locke Peirce
Executive VP & CFO

Yes, Jeff. So the $1.1 billion is the total for all 3 tranches of the transaction. The majority of that $1.1 million will come in Q1 of '24. So probably in rough numbers, maybe $850 million of it will be reflected in Q1 of '24. So a relatively small amount of it is in the '23 financials.

Jeffrey Bernstein

And so thinking about capital, you had announced that you are calling your EUR 500 million deal in May of this year. You mentioned this additional capital retention from these transactions. What is your target leverage? Where do you think you'll end '24 in terms of leverage?

Christopher Locke Peirce
Executive VP & CFO

Yes, so I'm not going to give a projection of where we'll end '24. What I'd say is -- and we've consistently said that we've been comfortable at our sort of 25% level, give or take and nothing is really changed on that. So these transactions, the disposals are clearly capital accretive. But we are -- we don't have any plans that we would disclose to sort of change our historical leverage ratios or our approach to the market. Our debt, including hybrids is going to remain an important part of our capital structure, but we're also intensely focused on organically generating capital through our 95% underwriting target.

Jeffrey Bernstein

And in terms of hybrids, I was just thinking that given how well you -- how well-known you are nationally, would you consider doing a $25 structure hybrid?

Christopher Locke Peirce
Executive VP & CFO

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We're not going to comment on any specific transactions. I would just reiterate that we do view the hybrid space is important than our capital stack and we'll continue to actively look for opportunities there, but certainly no comments on specific plans.

Operator

The next question is from Chris Santos with Morgan Stanley.

Chris Santos

Can you just talk about the use of proceeds from all the sales that you've had in the past year?

Timothy Michael Sweeney
President, CEO & Director

This is Tim. Chris already talked about the favorable capital impact of those transactions. My broad answer to you would be, we have no plans to kind of redeploy the capital. We think it's a prudent time given the volatility in the marketplace and uncertainty to carry some buffer to our ratings. And so I think historically, we have redeployed capital quite quickly and we have no such plans at the moment. We, as you know, made the Ironshore acquisition some years ago, which solidified our position in specialty. We made the State Auto acquisition a couple of years ago, which solidified our #2 position in the independent agent channel. As I look across the portfolio, I don't see any big gaps in our product portfolio and I don't see any -- I'm quite comfortable with our geographic footprint globally, if you will.

And so I would say that over the next 12 to 18 months, no specific plans at the moment, but more likely to be a seller than a buyer when it comes to M&A transactions. Hopefully, that answered your question?

Operator

[Operator Instructions] The next question is from Joshua Esterov with CreditSights.

Joshua Esterov
CreditSights, Inc.

Thanks for taking the question from a double fan driving for any relevance. But anyway, cognizant that you probably don't want to give an exact combined ratio breakdown between auto and home in the recent past. But directionally, can you just help me understand how much of the retail improvement maybe was from each of the auto and home components? And then related to that, where are your heads out with regards to the time frame for restoring target margin in auto? I think previously, you had mentioned kind of somewhere in the early 2025 time frame. I just wanted to confirm that's still relevant. So if you could help me on that, I would appreciate it.

Hamid Talal Mirza
Executive VP, President of US Retail Markets & Director

This is Hamid from U.S. Retail markets. Basically, when you look at our auto and home performance, home really got impacted by catastrophes in 2023. So our home performance relative to '22 was just a bit worse, but we expect quite a significant improvement in 2024 to above below 100% combined. And then for auto, we were pretty stable 22% to 23%. And in auto, we expect to make really significant improvement, getting pretty close to our target combined ratios in 2024. So that is a little bit of like our auto and home performance split.

The second part...

Timothy Michael Sweeney
President, CEO & Director

When do we expect the target margin in bottom?

Hamid Talal Mirza
Executive VP, President of US Retail Markets & Director

Yes, target margins, I think on a -- I won't really talk about projecting out countrywide. I'll tell you that our focus very much is on making sure that every market gets to the right profitability. Right now, more than half the country more than half the states are target profitability and really every month, more and more states are getting to the right level of profitability. And our focus is on getting there and then opening up for consumers. So really, as we go further into 2024, the vast mass majority of states will be there. There

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are a few states that we will likely still be working through and getting to the right level of profitability going into 2025. But really for the vast majority of the country, we will be green and open and serving consumers the way that we want to be serving them.

Timothy Michael Sweeney
President, CEO & Director

I would just add the kind of broader context that in the auto line of business, we feel pretty good about the trends we're seeing in physical damage severity coming down on the homeowners side. Supply chain is easing and materials are coming down, but labor is still stubbornly high. And back to the auto for a minute, we're watching BI more closely these days. I think you've probably heard us mention legal system abuse about 7 times in this call and you'll hear it 14 times next time probably. But again, without forward-looking, we are making a commitment to having USRM at a 95% combined ratio in 2025 for the full year. 80% of our USRM premium is auto and home. So there you go. And then just a clarifying -- a follow-up question from one of the ones earlier. The proceeds from the recent sales, are those currently residing at the parent company? They're not at the opco level, right?

Hamid Talal Mirza
Executive VP, President of US Retail Markets & Director

They're in various stages of -- there's a -- given the foreign nature of the transactions, there's kind of a complicated path of repatriation for those to come back. The direct or direct U.S. owner would ultimately be the Liberty Mutual Insurance company. So we're in the process of various stages of moving the proceeds back into Liberty Mutual Insurance Company. There are -- as Tim said, we're not redeploying those in M&A or anything. We do have debt maturities coming up. We called our euro hybrid. So there'll be some uses there, but generally coming back into the Liberty Mutual bank accounts over time.

Timothy Michael Sweeney
President, CEO & Director

Maybe a little bit behind your question and if I look at our RBC ratios and LMIC ended 2023 just over 360%, we've talked about 400% as our ongoing target. Ultimately, when all the proceeds make their way back in and everything settled, that would put us slightly over the 400% RBC level. So if these had closed all in December of '23, we would have ended 23% at just over 400% for LMIC.

Operator

[Operator Instructions] And the next question is a follow-up from Jeff Bernstein with Stoneridge.

Jeffrey Bernstein

Just one last thing for me. Regarding the LP income, I know it's reported on a 1 quarter lag. Anything you could tell us about actual results for the fourth quarter that you'll report next quarter?

Timothy Michael Sweeney
President, CEO & Director

No. There's no information available at this point. That's -- I think that's all I have.

Jeffrey Bernstein

And do you provide sort of a normalized LP quarterly income, what you expect it to be? Any guidance on that?

Timothy Michael Sweeney
President, CEO & Director

No, there's no attempt to normalize LP income. As you know, these are reported on a quarter lag. There is some general correlation that exist between public markets and private markets, but it's particularly dispersed right now, as I mentioned in my prepared remarks, while public markets have performed quite well, if measured by the S&P 500 or more specifically by the top components of the S&P 500. At the same time, the Russell 2000, for example, which is a broader representation of companies -- public companies across various industry sectors and geographies. That index is still down more than 20% relative to 2021 highs. So public markets are at the moment not a best predictor of LP activity. And as I also referred to in my remarks, generally speaking, there is a slowdown in activity in private markets due to financing conditions, again, highlighting the dispersion between public markets and private markets at the moment.

Operator

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I'd like to turn the conference back over to you for any additional or closing comments.

Timothy Michael Sweeney
President, CEO & Director

Great. Thank you, Gary and thank you to everyone for joining us today. As always, if there are any follow-up questions, please feel free to reach out to us directly. Our contact information can be found on the Investor Relations portion of our website at libertymutual.com. Have a great day.

Operator
Thank you. And this concludes the Liberty Mutual Fourth Quarter and Full Year 2023 Earnings Conference Call. Thank you for participating. You may now disconnect.

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