S&P Global
Market Intelligence

Liberty Mutual Holding Company Inc.

Fixed Income Call

Thursday, June 5, 2025 2:30 PM GMT

Table of Contents

Call Participants

EXECUTIVES

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Julie Marie Haase
Executive VP & Chief Financial Officer

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Timothy Michael Sweeney
President, CEO & Chairman

Unknown Executive

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

ANALYSTS

Chad Stogel
Spectrum Asset Management, Inc.

Gordon M. Russo
Flaherty & Crumrine Incorporated

ATTENDEES

Unknown Attendee

Presentation

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Good morning, everyone, and welcome. Thank you for joining us for Liberty Mutual's 2025 Fixed Income Investor presentation. Whether you're here in the room with us or online, we're delighted to have you. Today, our executive team will be sharing important updates about Liberty Mutual's diverse insurance businesses as well as their outlook and future focus areas for the next few months. We hope with the slides you gain a deeper insight into how we manage risk and how we are setting ourselves up for sustained profitable growth.

In a few moments, you'll hear from Tim Sweeney, President and CEO; followed by Hamid Mirza, President of U.S. Retail Markets; Neeti Bhalla Johnson, President of Global Risk Solutions; Vlad Barbalat, Chief Investment Officer; and Julie Haase, Chief Financial Officer. People have a few minutes between for some brief Q&A and follow up at the end with additional questions that you may have. We'll start with those in the room and then pivot to anyone online who can access the Q&A via the built-in Q&A function. I will remind you at this point to reflect on the Page 3 of the presentation, which is a reminder about forward-looking statements. I'll also ask -- let you review that, sorry, thank you. We do appreciate your interest and engagement. We look forward to an open and informative dialogue. Thank you for being part of this event.

And with that, I'll hand it over to Tim to get us started. Tim?

Timothy Michael Sweeney
President, CEO & Chairman

Thanks, Rob. Thank you all that are in the room and the folks that are dialed in for joining us today. We had an investor day in Boston in 2019. And then we had a virtual Investor Day in 2023. It's my hope that folks that attended in 2019 certainly don't recognize this company. We were talking earlier about 2005 because we've been on a transformation journey with a brand-new leadership team with different ambitions for the company and just a different sense of discipline and direction.

And so in 2023, when we were together virtually, we said we're going to achieve a 95% combined ratio by 2025. We just about did that a year early. We had 95.9% combined ratio last year. We expect and I'm very confident that we'll hit the 95% this year. And that's 95% to build margin in our insurance business, to generate margin in our insurance business and then to invest it to generate capital so that we can invest in the future.

And so part of that 95% quest to get to that combined ratio was identifying $1.5 billion in expense reductions and having them in place by 2026. We are on path for that goal as well. And so we feel really, really good about the progress we've made and where we're headed. And it's -- we're kind of at this inflection point where kind of Chapter 1 was starting 3 years ago, get to that 95% combined ratio and now we look at 2030, so almost from fixing to building, right? And so we felt like we had some things under repair or in need of attention, in need of turnaround. In some cases, we felt we needed to streamline the organization a little bit. You've seen us make a few divestments to make sure that we're placing our capital where it can earn return and where it could help us advance our mission and not spreading it too thin. And thus, we've made some divestments over the last couple of years.

So this is what we look like today, 2 insurance and an investment business. Hamid's business, and he will talk about it, $28 billion U.S. Personal Lines and Small Commercial, focused exclusively on the U.S. and on personal lines and the real small commercial segment that we believe behaves like personal lines in terms of volume and flow. And then GRS, North America, Liberty International Insurance, Liberty Mutual Reinsurance and Global Surety, just really succinct, clearly aligned definition of our business. We used to have our non-U.S. business spread across business units. It is now all in GRS. So Hamid's business in USRM is solely focused on the U.S. and all of our international operations are in GRS. And then, of course, Liberty Mutual Investments, a little over $110 billion of invested assets under Vlad's leadership, really upgrading our talent, really upgrading our ability to be successful in alternative assets in direct credit -- private credit and direct lending.

So we feel really good about the definition of our businesses. We've been a company maybe over the last 10 or 15 years that has reorganized a lot, pencils down. This is our go-forward structure. And as we think about 2030 and what we're going to build toward, it's this foundation, I mentioned divestments. We divested our retail business in LatAm and Western Europe. We divested recently Thailand and Vietnam. We like our footprint now. We like our product set. We like our geographic footprint. No current plans to divest anything else. We intend to build on what we have today. And then I'll let you read the key highlights on the right yourself, but the only thing I'd call your attention to is one of the most diversified P&C insurers. And we do really have spread of risk like most others don't.

We're uniquely roughly 50% commercial, 50% personal lines. Most of our peers, our competitors lean strongly one way or the other. And so we like the fact that we're in 28 countries. We're still primarily North America, but what we view as growth opportunities outside the U.S. Very, very purpose-driven as we pivot to profitability and insisting on profitability to generate capital for the future success of our policyholders and of us as a company and our employees, very, very purpose-driven. And we continue to talk extensively internally about the fact that we exist to help people embrace today and confidently pursue tomorrow. If you think about the earthquakes in Morocco in 2023, where we used our [parametric] product to get liquidity and relief to those folks really quickly.

If you look at the LA wildfires that just happened recently, we had over 600 of our customers lose their homes, and we were there quite quickly to get them sorted to pay claims really quickly. Baltimore Bridge last year, we had a piece of that. And so we do talk quite a bit about, yes, we want financial success, but the reason we exist for our policyholders, particularly as a mutual company, is to make sure that we're there for them. The other thing we talk about internally quite a bit is integrity and then profit and then growth. And we are living that today. You will have noticed that we have intentionally allowed our growth to be reasonably flat in the last couple of years because we didn't want Band-Aids or quick fixes on establishing kind of a permanent and sustainable profitability in the mid-90s. We now intend to pitch a tent in the mid-90s combined ratio and live there and start to pivot to growth in the right places, being very cycle aware in the GRS business, a lot of growth opportunity, now the market conditions are quite good in U.S. retail markets, particularly for personal lines to get growing again. But the mantra is integrity first and then profit and then growth.

We focused mostly in the last couple of years on integrity, of course, and then profit. And now we're looking to pivot to growth in the right places at the right profitability. And then, of course, win with purpose together. And so sometimes, we get the question as a mutual, why do you want to earn market returns. And I would say if you want to attract the best talent, you need to win. And you're not going to get the best people to meet the needs of our policyholders if you're kind of stumbling along, as I would argue, some mutuals do, losing money on the underwriting of insurance and relying entirely on your investment portfolio float to earn return. Ultimately as investments in technology and other capabilities become more and more important and as the market goes faster and faster, and we need to keep up and make the investments. If you're not earning target returns and generating the capital to support growth and to invest in those capabilities, you risk over time becoming irrelevant, and our goal is not to be irrelevant, obviously. So our near-term priorities. Maintain sustained top quartile profitable growth, maintains kind of the wrong word there for the growth piece. While we are not top quartile growth, we aim to get there. If you think of a by 2x2, we want to be in the top right, which is better than peer combined ratio and growth. We feel really good that we're in the mid-90s in a solid place on profitability and then we want to get growing again. Be a best place to work after taking $1.5 billion out of our expense base and having reductions in force in the low several thousands, you see your employee engagement, as you all can appreciate, go down. It's back now. And as we start to talk about 2030 and where we're headed, we're seeing great improvement in employee engagement and the fact that they're seeing us win and they want us to win. And so that's pretty exciting.

And then the most trusted global insurance brand that has to do with making sure we're generating the capital to keep our promises, that has to do with deepening our broker and agent relationships within Hamid and Neeti's businesses, we're spending an awful lot of time on. And most importantly, it has to do with consistency of appetite and not getting into a profitability or capital position we have to get in and get out. And so if we're going to be trusted by our customers, clients and brokers, we have to have a consistent appetite. We've got to make sure that we have the capital to commit and make our promises, and we've got to make sure that we are investing in new capabilities, not just for current risks that our policyholders face, but for new risks that are coming. Julie is going to talk about the numbers, but I'll just flash this up real quick, which is a 10-year average combined ratio of 101% and we set out, as I said in 2023, when I spoke to this group virtually, we were going to hit a 95% by 2025.

As I said, hurricane season is still ahead of us. I'm not going to predict anything, but we feel really, really confident in our ability to achieve the 95%. And then as I said, to maintain mid-90s combined ratio. And you see even more importantly, the underlying combined ratio coming down nicely, which takes the catastrophe and prior year noise out. So our fundamental quality of earnings and level of earnings is very, very robust. You see really strong growth in our investment income. Vlad will talk about that in a couple of minutes [Audio Gap] a bit more asset risk. If we have more capital. It's more asset risk, but less capital risk. And so Vlad will talk about that. And then our GAAP equity growing nicely from $22 billion, roughly the time that we had our last investor call to $31 billion at the end of last year. And so a real strong capital growth over the last couple of years. It's kind of -- some of that's the unwinding of unrealized, but it's kind of amazing how fast you can grow capital if you just earn 5 points of margin on insurance and then invest the float and then create that capital to grow with confidence, to underwrite with confidence on the insurance side of the house.

So we feel well positioned. I'll go quickly here and not repeat myself, but all 3 businesses did hit their profit plans last year, even though catastrophes were a bit elevated. As we look at the end of this year, we will have the strongest balance sheet in our century-long history. And as I said, we expect to hit the 95% combined this year and then sustain it. Great confidence in this team. Four years ago, no one on this slide was in their current role. So this is a completely revamped leadership team that comes from outside of Liberty, that has been with Liberty for decades as I have, some come from insurance, some came from outside of insurance. And so we feel really good about if you're going to really transform a company and you're really going to take a 100-year-old company who has a mutual and say, we're going to behave and aspire to different things. It's really important to have a diverse with regard to back -- to life experience and work experience to take us in a new direction. And so this is a terrific team, and you'll hear from many of them today.

So as you look to the future, I'm not going to drain this, Hamid will talk about U.S. retail markets and Neeti, Global Risk Solutions and of course, Vlad on the investment business, but pretty simple calculus here, and we feel like we're uniquely positioned to do it. Profitably growing diversified resilient insurance businesses with a best-in-class investment business, and importantly, a mutual structure that we don't allow to be an excuse for being a little bit lazy on financial discipline, on capital discipline, a neutral structure that if we can earn 5 points of margin on insurance and compound it in our investment portfolio and retain that capital with a long-term view to invest it strategically when we're ready, that is a massive to us competitive advantage that we have underutilized in the past. Our publicly traded peers, they're doing share buybacks, they're paying dividends, they're getting pressure when they have excess capital. None of those things apply to us.

So if we can sustainably generate 5 points of margin on insurance, compound it in the investment group, build capital, we will then deploy it where, when and how we see fit without any external pressure. And so we're just trying to create that discipline inside the house. And so Hamid and Neeti will talk about the 2 business units. I will say that Liberty-wide down in the lower right there: Data, technology modernization and GenAI, we are putting more and more resource into technology. We feel good that we are in a leadership position in terms of the adoption of GenAI and our future plans to do so. We're making great progress with our mainframe modernization so that our infrastructure can support those new technologies. And so we will talk about technology in future discussions with you folks, but we feel really good about our progress.

I think folks mostly know about what we face in this industry, geopolitical and regulatory uncertainty. Biggest thing for Hamid's business is tariffs. We price our product 12 months in advance. Our cost of goods sold include lumber from Canada and auto parts from Mexico, for instance. And so it's a little bit more difficult at the moment with on again, off again tariffs to price some of our products. And Neeti's business, the disruption in international trade and credit markets is a challenge for us as well. But negotiate -- excuse me, navigating that just fine, stay the course and keep your eyes open and pay attention, I guess, is a kind of rallying cry. Elevated cat exposures, our new norm is $100 billion a year in insured catastrophe losses. We see more climate signal, I would say, in flood and wildfire and hurricane, a little bit less climate signal at the moment and severe convective storms in the middle part of the country where we see most of the increases in monetary insured losses in the middle part of the country for those storms being monetary inflation, legal system abuse, which is finally getting some attention in D.C. I don't know if anyone has been paying attention to what Senator Tillis has been up to with the reconciliation bill.

So we're somewhat encouraged by that. And then finally, on cat exposures, it's land use and building codes, right? And so we're not going to fully solve that problem just as an insurance industry, and so we need to engage with the public sector on not building new exposures where we know there's going to be cat risk. And again, back to our purpose and mission as a company, we feel strongly about trying to inform the public sector as the things that with our data they can do to address the bigger problem. Evolving investment landscape, growth of private, growth of direct, Vlad will talk about that. Continuing broker consolidation and leverage with regard to commissions and primarily in Neeti's business, the growth of MGAs and Neeti will chat about that. AI, GenAI, you hear about that from every company, I feel pretty good that we're on top of it and making good progress.

And then legal system abuse, which is a tort tax of $4,000 to $5,000 per year per household in the U.S. I was on Capitol Hill 2 weeks ago, 3 weeks ago, and we are getting attention because I was there 2 years ago. And when I said legal system abuse or even social inflation, most folks in Capitol Hill didn't know what I was talking about, and they all do now. And as I said, if you've been watching the news, what's going on in D.C. at the moment, we've got some pretty good Republican support to try to get something done to start off with equal taxation for the folks that are funding the litigation, but also looking at foreign money and foreign sovereign wealth funds coming in and finally, disclosure rules. And so some glimmers of hope that we can have some real reform in that regard. And I will close there and hand it off to Hamid. This is just a summary of what you've already heard from me, say, over the last couple of weeks. But maybe I'd ask if there's any quick questions. We're going to take plenty of questions at the end. But if there's anything that I've said that you want to chat about before I hand it to Hamid. Otherwise, we'll have all the time you want for questions toward the end.

Unknown Attendee

I'll be happy to ask a question. You mentioned AI, and you mentioned everybody's talking about it. Are there any kind of tangible examples that you can provide in either of the business lines on where you're kind of deploying that and how that's helped the business kind of going forward and how you're thinking about it going forward?

Timothy Michael Sweeney
President, CEO & Chairman

Yes. I would say there are a lot of obvious ones. So engineering in our IT group and just creating much more productivity in app dev, for instance, fraud detection in claims, underwriting, particularly in lines of business where you need to collect information from various places, claim segmentation. So all across the business, there are places that we are using and seeing benefit from AI. And I think we are quickly moving past summarization, which is kind of the thing that people can cling onto to looking at process, to preparing for agentic AI where we will literally have digital employees, probably a little bit more out there. But we're very front-footed on it. Roughly half of our employees are regularly using GenAI, our instance of it that we have provided to them. I want it to be 100%, and we have use cases probably about 10 to 12 initiatives in flight right now in some of those areas that I mentioned. Hamid?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Perfect. All right. Good morning, everyone. Excited to share a bit with you about the retail markets business. And the way that I'd frame it is we are trying to build the best -- or we're trying to build the leading capabilities for -- on multiline side for both Personal Lines and Small Commercial to serve individuals and small businesses. And so we're very focused, as an example, on serving package customers on Personal Lines, again, with multiple product needs on the Small Commercial side. And I think I just want to share a bit of belief about the future. I think Tim has already alluded to a whole bunch of this. But really, I think post-COVID and pre-COVID just the environment we operate in is fundamentally different.

And so if you -- just 4 things that I'm highlighting here, the first is just the cost of insurance is up a lot. And I think that there are many things that go into it. We talked a little bit about legal system abuse. The inflationary environment that we've gone through, the fact that cats are high. I think all of that has led to the cost of insurance going up. And so we are very focused on things to mitigate that. Tim mentioned the $1.5 billion in expense savings. We think this is like really important for us to deliver the right value to our customers. We're also super focused on sophistication in our pricing and underwriting and out-segmenting others in being able to deliver to our customers. So that is just going to be a really important thing for us as the cost just has gone up for our customers.

The second thing I mentioned is that we are becoming more and more and more of a local business. So if you kind of think about capabilities and try to deploy them countrywide without local expertise, you're going to fail. And so really, we are very thoughtfully building our portfolio across all lines state by state. Even within states, we're very careful about our geographic distribution, and I'll talk a little bit about this. This is key to winning as an example in the homeowners business.

The third thing is just external shocks, like pretty much you look back at every single year, and there's some kind of an external shock. And as Tim mentioned, in our business, we have to look forward, think about what the prospective trends would be and then take rate that takes a really long time to earn. So in a world with more external shocks, we just have to be nimbler. And I think I'll talk about a couple of examples here.

One is that we have transformed our exclusive agency channel, which was really one of our historically biggest channel into an independent agency. And that just provides us a substantial amount of flexibility to move and to write business in the right places and so on and so forth that I think is a big advantage for us. And then the second thing is I'll talk about OneBrand. We're really trying to simplify ourselves, brand -- the idea that we go to market right now with multiple brands. We're going to, in 2026, start to go to market on the retail side, just as Liberty Mutual, and I'll talk a bit about that. But really an example of the way in which we're trying to simplify ourselves to just be able to move faster and deal with these external shocks a bit better.

And then finally, I'll say scale is going to be important. It's historically been important. It's -- as an example, if you are going to do well in the homeowners business, you do have to leverage, then you have to understand how you're going to thrive in a world with more catastrophes. You have to be able to use the best cutting-edge weather and climate models out there that are available, but you also have to use your own internal data. And this is where scale matters. It's like access to homeowners data that you have helps you outcompete in the world. So these are basically our foundational beliefs about where the world is headed, and we're trying to transform ourselves as Tim was saying fixing first, building now but we really feel like we're making progress across all 4 of these.

I'll just go through each of the lines really quick, homeowners, auto and then small commercial. The thing I just want to punctuate on homeowners is that what we are really trying to do is build a great portfolio, a portfolio that can withstand the volatility that comes with catastrophes. And I think in order to do that, we're furthering our science on each of the perils, as Tim mentioned, some perils that are being affected by climate, we think others that are not. But it's really important for us to underwrite well, to have discipline, to be geographically distributed in a way that we can absorb severe storms or hurricanes and a variety of other things that are happening. We're very focused on the idea as big events happen that we take through underwriting discipline, take less than our market share in terms of the losses that happen for that event. And we've historically proven that to be the case, and that's what we're focused on being able to do it. This is one of the key things you have to be able to do to win in the homeowners business.

On auto, I'll just mention, we're very focused on the standard and preferred segments. This is to be able to win in the package segment. And I think the thing that is increasingly true in auto, and you will have heard of this from others too, is that vehicles are changing and driving patterns are changing faster than they have historically. And so in a world like that, you have to be able to deliver your product to market, the sophistication that you deploy market by market by market, and it's actually operationally pretty complex to do state by state, but we have to get faster at being able to deploy our new products in market, and that speed really helps you win or lose. And so we're very focused on making sure that our delivery engine that goes from product all the way to technology is as efficient as possible and we can every 12 to 18 months deploy new sophistication into the marketplace.

And then small commercial, Tim mentioned a bit about legal system abuse, really, with the escalation in legal system abuse over the past few years, we took a step back and said, hey, we want to look at our Small Commercial business and make sure that we do a strategic review all the way through to make sure that it's set up for success now and into the future. And as a part of that strategic review, we looked across everything lines and how we want -- which lines do we want to be more concentrated in geographies, industries, et cetera. And I think it's been a helpful review.

And a couple of things that I'll highlight on the right side, which is the 5 areas we're focused on is that we are right now deploying new sophistication, new products in market pretty much across all of our lines. And so auto, workers' comp, pretty much everything, new products are rolling out. We're leveraging some of our capabilities on the personal line side to be able to deploy that sophistication and that delivery engine on the small commercial side.

We're trying to improve our pricing sophistication, have less underwriting touch, make the coding experience a bit faster and just make it easier for our agents to do business with us. And then we're also focused on digitizing the transactions that agents have to do when they sell our products. This is just a part of becoming easier to do business with our agents. So feeling good about our reorientation on Small Commercial and that we think we're ready to really combat a world with legal system abuse on the Small Commercial side.

From there, let me maybe -- let me go from lines to distribution. And we really think we've historically had really strong broad distribution capabilities, and I'll speak a little bit about how we're set up on the distribution side.

But really, I'll start with independent agents. We are one of the biggest writers in the independent agent channel. Historically, we are -- there are some external surveys that get done and we get rated as the champion of agents more often than anybody else in the marketplace. We are focused on depth with our independent agent relationships. And we're really, I think, the biggest homeowners writer in the independent agency channel. And so that is just an area of strength for us, and we're focused on making sure that we continue to be really good in that space. And then let me move over to Comparion and I'll -- I talked a bit about this. This is our historical exclusive agency channel that we have really transformed into one of the biggest independent agencies currently focused on personal lines and really well set up for success. We really think it will earn margins just like other leading independent agents there.

So really, in terms of breadth, we have direct as well, and we are -- have some of the leading marketing and media buying capabilities that we bring to bear on the direct side. So really full breadth of distribution capability and really excited about our transformation in the exclusive agency to Comparion, which we've done over the past few years. And I mentioned earlier the idea of moving to OneBrand. We really go to market today on the independent agency side, on the personal lines business as Safeco. It's a really beloved brand in the independent agency channel. So it's a big decision for us to retire this brand and move to Liberty Mutual starting in 2026. But really our thought process very much is we are putting a lot of weight behind the Liberty Mutual brand in terms of marketing spend. Aided awareness for Liberty Mutual is just multiples higher and so we want to bring the benefit of that brand and that spend to our independent agents.

And so despite the fact that there will be some agents who really love the Safeco brand, I think they are really coming around to the idea of moving to Liberty Mutual, and it's being really well received. And it will simplify our go-to-market because we will not have the many different products across many different brands that we currently have in our ecosystem. So excited about this change in 2026.

And that was really quick fire view of beliefs about the future and how we're tackling each of the lines and what we think we bring to bear on the distribution side. But happy to take any quick questions now. And as Tim said, we'll have time for questions later as well.

Unknown Attendee

I have a question. How do you try to gather your thoughts that scale obviously is going to be very important from a cost perspective, from a data perspective, but also having that regional knowledge, that localized knowledge, how do you bring those 2 components together?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Yes. I think the nuance on the scale side is that scale, if you built it the right way, is a big deal win. But if you've written the wrong business or you've grown geographically the wrong way, it will punish you because you will get hit by storms, you will have high loss ratios. And so I think a lot of what we've been doing as we've gone through this last 3-year period is we actually descaled ourselves a little bit because we want to build the right portfolio and I think we are getting to the point where we have the right distribution across states within states where we want to start growing everything proportionately. And so we've gone through a bit of a painful process and so it's this a little bit -- it's like, I would say, the regional knowledge and the local knowledge and doing it the right way is more important.

And then if you do that, and you have the discipline and go through some of the painful things that you have to do in order to build the right portfolio, then I think scale is just a massive tailwind. And that is the phase that I think we're entering now where we feel like we've earned the right to build the scale moving forward.

Unknown Attendee

And you can do that all organically. You don't feel like you need to do any sort of M&A to gain that knowledge or...

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I absolutely feel like we have the product distribution capabilities to do things organically. And I think inorganic is not something that's unattractive, but not really something that we're considering.

Unknown Attendee

Okay. In terms of product, on the independent agency versus the Comparion channels, is it the same product? Like how would I differentiate what goes into which? And what does the product look like when it's more exclusive versus independent?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Absolutely. So that's a great question. So basically, on the direct side, we have a much more streamlined product and it has its own relativity, its own factors. And on the agency side, we have a product that really allows agents to do consultative selling. So it has multiple bundles built into it. And it's got its own rating factors. It's own data, its own experience. And so we actually maintain the 2 sets of different products on the direct and the independent agency side. Our exclusive agency channel historically sold the Liberty Mutual brand product, but we've transitioned it to Safeco as it turned into an independent agency. Just like any other independent agent, it's selling the Safeco products right now, but they have their own unique sort of data and relativities and everything, and we update those products separately.

Unknown Attendee

As you think about capital deployment going forward in U.S. retail lines, where are you looking? Are you looking to deepen geographic exposures in certain regions, in certain markets? Are you just looking for general policy growth? What's the market doing? Where are you guys looking to be nimble in these markets?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Yes. I mean it's a different story by line and channel, frankly, but let me maybe focus on lines. I think on the auto side, it's a very soft market right now. I think what really happened in 2024 is frequency dropped significantly. And then at the same time, inflationary pressure abated. And so you'll see that lots of carriers are dropping rates and increasing marketing spend and a variety of things like that. I think the risk in the marketplace is that frequency can return. And as Tim mentioned earlier, there's tariffs on the horizon. And we feel like we prudently manage through that where we can sustainably profitably grow through the cycle. So on the auto side, we are just trying to manage through the soft market to get to the other side. I think we do think there's some potential tariff impact that will happen next year. And I think we'll hopefully benefit from that because we prudently manage through the soft market.

On the Homeowner side, it's a tougher market, and there's fewer carriers really open writing everywhere. We think we're one of the few that are and really looking to lean into that and build on that advantage. And part of what I said earlier about trying to win in the package segment, that's really where our advantage is. We want to write customers who have significant insurance needs, and we think we're well set up for that.

On the Small Commercial side, I think as we update our products, it moves us closer to our target market, and we're just leaning into growth in the right way, but only where we are ready as our new products are launching. So we feel like we're kind of set up for growth across the board in the right places, wherever we have the right to be able to do that.

Unknown Attendee

And kind of following on that, how should I think about your target customer? Is it the same? You're selling a packaged product predominantly. So are you looking at the same customer base in auto as you are in home. Are you skewing higher net worth at all? I've heard of some E&S product entering the home market? Are you guys looking at that?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Yes. We are focused on the standard and preferred market and so not high net worth. So standard and preferred market on the auto side coincides really well with homeowners. And so really, we're looking to win in the segment of customers that have homeowners, condo, et cetera, and need auto as well. So we think we're set up well to win in that space.

Unknown Attendee

Is it small commercial, rather micro commercial where you can tie in the personal and the, call it, the business up?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

It's basically -- it's a combination of business that can literally just pass through or needs a little bit of touch underwriting absolutely.

Chad Stogel
Spectrum Asset Management, Inc.

So that's packaged in with -- so first off policy could end up somebody's small business?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

There is overlap in some customers, but the idea on when I say multiline customers on Small Commercial, we're not just looking to sell auto. We're not just looking -- where we want to serve businesses that have multiple product needs, and we think we're well set up to win in the Small Commercial side.

Chad Stogel
Spectrum Asset Management, Inc.

I know you are providing umbrella and all that as well. So just to follow on. You had mentioned that the climate is more of a driver of some of the wildfire, hurricane, but SCS is more of a localized inflation and social inflation dynamic. Can you elaborate at all? I mean, from my understanding, some of the fire and large wind events and flood events are also tied to population build, coastal, coastal properties that are very expensive. And then layer on social inflation. But can you provide some color on the distinction between why SCS is more [one] versus the other?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think let's just take hurricane. I think the -- just look at the experience last year and the types of hurricanes that are happening are just changing. The speed at which they sort of go from cat 1 to cat 4 or 3 or something is just dramatically different, like warm waters are just changing the game. And so...

Timothy Michael Sweeney
President, CEO & Chairman

Not more hurricanes, but more Category 3 -- so stronger hurricanes, and that's got climate signal.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Absolutely. And so we have to then be disciplined about where we are writing in order to basically be able to have the right portfolio. I think on the Small Commercial side, we don't really see more convective storms that are happening because of any climate signal, we haven't been able to discern any. We do think, to your point, homes are being built in places where they weren't before. And I think there's hail hitting more properties out there that just didn't exist before and more places that have storms like Texas, et cetera, are just getting more and more population moving over to them.

So I think there's like different dynamics that are affecting the different perils, where we think like things like hurricane clearly having some effect already, but we don't really see any of that signal on the severe storm side.

Chad Stogel
Spectrum Asset Management, Inc.

On the severe storm side, just following up on that, is it fair to say that in spite of the rapid [Audio Gap] properly and everybody means that's...

Timothy Michael Sweeney
President, CEO & Chairman

Parsing and this is false precision, but 10% signal and severe convective storm from climate, right. As we try to build up what's driving the increased dollar losses, more concentrated in time tornadoes, but not more tornadoes. In other words, we're seeing the same volume of tornadoes they're just coming in a more concentrated way. Bigger hailstones that aren't leading to higher severity of claims. So I'll be silly about, it turns out a baseball sized piece of hail does the same damage as the softball piece of hail. So we're not seeing -- we're seeing bigger hail that we -- that has climate signal, but it's not leading to any premium impact for us. And so that's kind of the level at which we're passing. The only broader topic, I would say why we're confident in leaning into package and homeowners, we think we're one of the best homeowners providers in the U.S. on any 5-year rolling basis as we put our own financial plans together and then look at our actual cat losses, we nail it, 5-year rolling.

Every year, we're wrong, either up or down, but we keep ourselves honest and we just look retrospectively on a 5-year rolling basis and we are quite, quite close to expected cat loss payments made versus what the actuals were on a 5-year roll basis. And so we continue to track that. And ultimately, in some states and there's one prominent one at the moment where we cannot underwrite and price to match the risk, we'll stop writing there or we'll pull back writing there. And we want to do that, right? And so there have been 2 million homeowners nonrenewals in the last 5 years. So 2 million home -- not by us, but by the industry. And that's typically because of rate suppression where we can't charge the right risk. And we spend an awful lot of money to acquire a personal lines customer. Why would you ever want to not keep them forever and meet their needs and help them embrace today and confidently pursue tomorrow, all the rest about our mission and our purpose. But we will not allow ourselves to be made to destroy capital. And I'm not going to destroy capital in one state that should be there to support customers in other states.

Unknown Attendee

I mean is this really an urban wildlife interface, which is really what -- but it feels like anecdotally, the storms heading even newer areas in a much more severe way globally, not just in the U.S. Price is one lever, but it feels at what point does it become just a Band-Aid, right? At some point, there has to be a structural change in the markets, public private partnerships, interactions with the municipalities for building codes that were ignored in North Carolina, had the floods happen. I mean these were predicted. Paradise, California was predicted in 2008, and yet it occurred exactly the same way and they rebuilt on exactly the same spot.

As investors kind of putting capital to work through you all, how do we think about that? Because at some point, the question becomes you can't pull out of everywhere. And it feels like the storms are hitting more and more spots that it didn't hit before as strongly as they are. So are there other -- and this is not Liberty Mutual issue. I think I've bogged Rob on this multiple times. At what point does it become an industry-wide point not just for D.C., but more broadly nationwide, right?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think we would love to have the types of partnerships that improve building codes and the kinds of homes that are built, that would be a big help. I think what I'd say right now as we look across the U.S. is that while affordability, which I think you're referring to is an issue. It's not really an issue everywhere. It's an issue in a few markets. And the issue is sometimes driven by weather. So there's a couple of states where I just think there's a ton of weather. And -- but we don't see the cost escalating dramatically. I think the biggest concerns happen where you have just the -- like basically, the rate suppression happening and then insurance companies are really having to pull out because they can offer insurance. There's only like, I'd say, Florida and California that are those types of markets out there.

I think every other place, if you sort of look at Oklahoma, it's just basically got tremendous amounts of severe storm activity, but it's a very healthy market. And I think that what will likely happen over time is that us and others are going to evolve the insurance product to offer more types of price points to customers so that they can choose, they can opt into what kind of insurance they want to have. So I do think the market will evolve. I think partnerships that help us with building codes and building in the right areas. I think that will be a really big help in us keeping affordability in the right place.

Timothy Michael Sweeney
President, CEO & Chairman

It's price to reflect risk, and that's a regulatory issue. It's land use, it's building code and it's customer education, right? So you look at the California wildfires tragedy there. $100 for mesh on your vents and your chimney, 5-foot protection zone from your house. You're betting $400 for the final piece of your wood fence that touches the house to be metal. You can do those types of things and substantially reduce your risk and folks don't want to do that or don't -- just don't do it. And they're paying $2,500 for homeowners insurance, don't do those things, lose their coverage, then go to the FAIR plan and pay $6,500 or $7,500 for less coverage and then say, okay, I want to go back to the private market, and I'll do those things now. And so how do we kind of reverse that cycle, right? And so it's...

Unknown Attendee

Are you seeing that kind of reversal that the awareness is rising that this needs to happen?

Timothy Michael Sweeney
President, CEO & Chairman

I think, but it's just a bit slow. It's...

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Yes. Unfortunately, needing a crisis to have it happen.

Timothy Michael Sweeney
President, CEO & Chairman

Yes. And to get -- and when you're relying upon public solutions like land use and building codes, I mean, Hurricane Ian would have cost Florida $2 billion more if they didn't have really good and well-enforced building codes in Florida, right? And so -- and if you look at metal roofs versus other roofs and all that kind of thing and how they perform in a place like Florida, you see the power of strong building codes. And it's -- as Hamid said, it's probably only about 7 or so states that have affordability or availability kind of real acute problem right now. California doesn't have a homeowners' affordability problem. The share of household income in California spent on homeowners insurance is lower than the national average. It's an availability problem because of an environmental situation where we're not allowed to underwrite and price the way that you need to, to reflect the risk. And so that's an availability problem, not an affordability one.

Unknown Attendee

I wanted to ask you a question on your California cat model, you mentioned you have good catastrophe models. And I wanted to know what's the difference between maybe what you have versus what the industry has, what the reinsurers have? And is it the kind of information that you just mentioned about having metal right next to the house. You have that kind of deep dive into your cat model for your policies?

Timothy Michael Sweeney
President, CEO & Chairman

I would start by saying our cat model is proprietary, but then I'll let Hamid answer.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Are you talking about wildfires?

Unknown Attendee

As an example, because you pulled out or you lowered the amount of business you're going to take in California before this past year. So was that driven by your view of the industry, 30,000 feet? Was that driven by, oh, look at this cat model in combination, we got it...

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think if you talk specifically to California, I think there's challenges with [103]. And I think if you take that out of the equation, it's like California. It actually would become quite an attractive market. Just like any other marketplace, we have to have local expertise. And really what that like the model that you're talking about is just our local expertise in California that we're bringing to bear, just like we would in a different place. And so California is just a big market and we have built over time significant expertise of understanding the way the winds work, where wildfires are likely to occur, et cetera, et cetera. But that's not -- like it's not like we're not doing that in other places as well. I think the biggest challenge is just our ability to charge the right price for the risk.

Unknown Attendee

So had you not lowered your intake of business there this past year, I think it cost you almost $2 billion. What would that number have been if you just kept business as usual?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think as far as the fires are concerned, one of the fires happened, as you said, in an area that we don't have open for business. We wouldn't have that been open for business irrespective of what we've done over the past 3 years. The other area is not a wildfire area, and it's the winds that brought the fires over. So yes, we would have probably had a little bit more business there, but it wouldn't have been that substantial. And I think the reality is that, as Tim mentioned, there isn't an affordability challenge. It's very much an availability challenge because of other reasons.

Unknown Attendee

When you talk about those models, and maybe it's too early to know, you see on the news, cuts at NOAA, National Weather Service stuff like that. Does that concern you? Or how does that feed into your models? How are you thinking about it? How are you engaging on that level? Or is that just kind of overblown in the press?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think it's just -- it's going to create some challenges for the industry in that they're going to need to emerge some private sources of those -- of that data. I think that there are companies that provide models to the industry. I think those companies are going to have some challenges. But then we also have our own internal experience data that we will always be able to leverage. So I do think there will be some disruption because of that. I think companies that are basically built to build like hurricane models and various other things are going to have to find new sources if data gets disrupted. So I think this will be a little bit of an impact, but it's not overcomeable at all.

Unknown Attendee

I just -- I think about it too on a forecasting or alert basis if that's disrupted and does that impact severity? Or do you have any thoughts that, that may impact severity, people don't move or you don't have enough head time to get out?

Timothy Michael Sweeney
President, CEO & Chairman

My -- having been in D.C. a couple a few weeks ago, my working assumption, to be honest with you, is that these things are going to get kicked around. They're going to be talked about in the press, but that ultimately, there's an appreciation that the climate, the weather data is that NOAA provides is important, number one. So I would start to death as a political [indiscernible]. I actually think ultimately, we'll have NOAA data. The other thing I would say is there's a lot of energy against FEMA's BRIC program, the community resilience program. The sense I get is there's -- what they say in public and what they -- there's an acknowledgment that the resilience investment is important.

There's just a sense from the party in control at the moment that it needs to be more incentive-based and more if we give you the grant and if you want more, you can have to demonstrate to us that you've done the highest and best use of that to actually have an impact on weather events in the future. And so I think both of those -- again, my sense, as I sit here now, is that both of those things are getting all kicked around and thrown around in the press and that they will probably ultimately settle to a place of reasonableness in my current sense.

Unknown Attendee

Do you feel that the insurance industry has a role to play in the signaling mechanism for all of this that, obviously, certain states that you had this artificial suppression of price, and therefore, it incentivized people to not do the things you talked about, not for one to build in places that were risky, but if they're going to build in risky places, you've got to take these building code actions. And the insurance industry, if they could price it right, would it prevent that?

Timothy Michael Sweeney
President, CEO & Chairman

It's a complete signal. We live the risk every single day. Others go about whatever they do. And we think 24/7 about risk and price and trajectory and trend. And so first off, we've -- everyone has to be made to bear the full cost of the decisions they're making, where they build, how they build, how they maintain and that kind of thing. And so that's ultimately the risk signal piece. The other thing I would say is because we talk about public private, but I think there's also a notion of how can the insurance industry integrate better with the banking and investment industry.

In essence, swim upstream in the process because if you think about it, the insurance industry is kind of at the bottom of the process, right? And so you've got city planners making land use decisions. You've got contractors and permitters making construction material and fortification decisions. You've got folks making mortgage decisions or development investment decisions.

And then at the end is insurance, [indiscernible] all these decisions we made up here is leading to an $8,000 a year almost insurance cost and how do we get that upstream and start to look at total cost of home ownership. And if you make some decisions up here, you actually reduce the total cost of ownership. And so I've had some conversations with folks in those other financial services sectors about how -- it's not easy, but I think we have to kind of start to figure that out as well.

Unknown Attendee

Has the industry -- as an industry association perhaps or an information institute or whoever that may be, have they engaged at that level as well because it feels like the NAIC being state-driven seems to have maybe a more diffuse impact versus, say, the Federal Reserve when it comes to the bank side, right? Banks are creating risk, you guys are absorbing risk. You're getting no credit for absorbing risk. And I find that shocking.

Timothy Michael Sweeney
President, CEO & Chairman

I would say there's increasingly conversation about it, but it's nascent. And I feel like we have an obligation to both engage the public sector on land use and whatnot and engage the financial sector on total cost of ownership. So that the signal doesn't come too late, which is what happens now. So we are the best signal of risk, but we come at the end of several decisions that have already been made, right?

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Yes. I appreciate the question so far. It's excellent dialogue. The engagement has been fantastic, but we do have a lot of content we do want to get through as well. We'll have some more time at the end. But I think with that Neeti?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Thank you. So I just wrote down actually, I thought that was a great way to say banks create risk, insurance absorbs risk, so a great dialogue. I'm really excited actually to have the opportunity to share with you all how we feel about how well positioned we are in the commercial and specialties arena to really capture outsized profitable growth. And I'll walk through sort of what that entails. Stand-alone, and I think sometimes this may get lost, stand-alone GRS, which is our commercial and specialty business, would be the eighth largest commercial and specialty business in the market.

And if you really look at it, it's in a very fragmented market, right? The largest player in commercial and specialty has roughly about a 4 -- less than 5% market share. Ours is about 2.5%, right, top 10, 28 country operations, writing risk from over 100 different countries serving 5 different client types, right, everything from middle all the way to municipalities and governments and all of that, utilizing 3 core distribution channels, retail, wholesale and portfolio solutions, 10-plus unique placement methods, right? And roughly, if you think about it, roughly half of our premium is sourced from outside the U.S. About 56% of the business unit's workforce is located outside of the U.S. It's a highly diversified portfolio across products, across service.

About 30% of our premium would be what you would think of as specialty, whether you look at it as a specialty surety credit, right? About 24-ish percent of it is property and about 15% is global casualty. And I say it that way because while that 15% of global casualty, we talk a lot about U.S. casualty, I think people forget that within that global casualty, we're roughly about 80% U.S. and it matters, and we can talk a lot about casualty, of course, but we are one of the unique players positioned to also have international casualty capabilities. We do that across insurance and reinsurance and we continue to invest in sort of how we're thinking about the diversification of the portfolio, not just top line but also bottom line. And so that's sort of the framing of who we are and the starting point, I would say our ambition has been very clear for the last 3 years when we started on this journey.

As Tim said, the ambition for us on the commercial and specialty side is to position Liberty Mutual to be the most risk-aware partner that clients and brokers trust at a time when there's a lot of uncertainty and how do you help them navigate that, which is why we very deliberately use the word risk aware because it's very much around the way we would like to then do it, the value proposition is through expertise. It's going to be through specialization. It's very much underwriting led, but it's also very much through the lens of how do we solve, how do we think about solution orientation because we can, as a mutual company, taking a long-term perspective, bringing this full capability set to bear, how do we think about that multiyear solution orientation.

If I really sort of take a step back and say, where did we start from? Because it's very exciting, and I'd love to talk to you about sort of where we want to go over the next few years. But if -- it's important to take a step back and say, what was the work that needed to happen for us to be even able to sit in this room and have that conversation about what we are going to build. We sort of began laying the foundation in 2022 to really reposition this commercial and specialty business from being viewed both internally and externally, and that's both important. It was both internally and externally, we were viewed as fragmented. We were viewed as generalists despite having sort of specialist capabilities that were not -- that were spread around and we were viewed as a volume player.

And the shift and the foundation that we started to lay in 2022 was very much around, we will win, we will live and die by leading with underwriting expertise. First and foremost, we are a risk selection business and we have to start with, therefore, that aspect of we're an underwriting organization. We began that shift very much with a focus to say three things: one, underwriting led; two, we've got to be better connected and integrated vertically and horizontally across our business; and the third is we have to lead with specialization with -- and really not play where we don't think we have the expertise to play and therefore, become very focused. So I say that to say when we really take a step back and ask ourselves, what does it take to win in this market that is pretty fragmented to begin with, the platform, right, and having the optionality of the platform, we have that. So that's clear. As I said, right, we have sort of laid that out.

The relevancy, we've got franchise businesses across the world. So we've got the relevance with brokers, with clients. Cycle management and underwriting discipline was the foundation we needed to lay to bring it all together and then really sort of start to bring together the integrated operating model around that, and that is the foundation that we've laid. So that's the basis from which I'd love to sort of start. I'm not sure if this is working, maybe just guide. So I'll just -- we'll see if I can move it because I wasn't -- well, that's fine. We can just move it. So this is sort of this foundational story here that you can see. The path to underwriting discipline is shown in the results, but there is a lot more work that has happened underneath and I'll show you some of that. If you look at it in 2021, we had a combined ratio of 102.5%. The 5-year average combined ratio from 2017 to 2021 was 108%, and we're on target to deliver a 92% combined.

If you looked at the business like-for-like, i.e., the portfolio we came into '21 with to the portfolio today, the only difference being we absorbed the Asian retail market business about 2 years ago when we clarified the business units between U.S. Personal Lines, Small

Commercial and then GRS really having all the international and global operations. So like-for-like, we are on track to have delivered actually about 10 points of combined ratio improvement over the last 3 years. The other thing that we've spent a lot of time on is really sort of saying how do we think about this top line diversification, which you see on the net written premium, but how do we also then start to focus on bottom line diversification. And you can see that we've moved from a position of underwriting loss to delivering over $1 billion of underwriting profitability.

A big part of that is also actually, frankly, the way we've focused on capital efficiency and balance sheet and volatility management. And that's been a big, big component of really looking at, one, a more strategic use of risk financing as opposed to just you buy annual reinsurance to protect the tail, really thinking very deliberately about volatility management through that lens. It's also very much through how we think about the cat budget, but also how do we start to structure because price at the end of the day in our business is almost toward the end, it's really around the structure of the business. So you had asked the question around severe convective storms earlier. We have one of the largest public entity portfolios in the U.S., for example. And we went to market over the last couple of years really very clearly having a clear SCS strategy where we moved our deductibles, where we really sort of took a number of different actions that, as you can see, reduced our SCS AAL quite significantly.

So disciplined underwriting, capital, very much focused on capital efficiency and volatility, very much sort of leading with an integrated operating model and very much about a strategic focus which starts first and foremost with do we have the right talent? Tim mentioned earlier that you want to be profitable and you want to have strong underwriting insurance businesses. Why? Because the best talent wants to come where you're winning, where you're delivering that profitable, sustainable growth. So to give you a sense of the transformation over the last 3 years, 83% of my leadership team is new or new to role. 90% of our senior leadership, think of that as the top 100, 120 people across GRS are new or new to role. Within our middle market business alone, which I'll talk a little bit more about, we've attracted over 100, about 110 underwriters from some of our top competitors just in the past 2 years.

We have really gone about systematically saying, how do you shift from a volume-driven culture to an underwriting-focused culture? How do we become very clear about a high-performance culture aspiration? We involved over 500 of our own people to essentially say how do you lay out that cultural aspiration and how do you start to drive the behaviors. And as you can see, I mentioned the middle market side, but we have attracted over 800 external underwriter hires in GRS just over the last 3 years. So this is very much a systematic move towards building that underwriting led organization that's about technical expertise, that's about specialization, that's about growing in the right way. So I just -- I thought this was -- this to me was really, really important because it starts with having the right talent that has not only the technical ability, but then also has the distribution relationships and we'll come to that.

I share all that to essentially say, if you really think about it and Tim touched on a lot of this in terms of the nature of risk evolving, but the most important thing that, I guess, I would say on this is simply we see a tremendous amount of opportunity. So if you think about the commercial and specialty market set to grow, projected to grow at about 5%, but within that overall industry, you have some very specialized areas that clients need growing in a different way. Cyber is one of them. Infrastructure, if you think about sort of broadly the amount of infrastructure growth across the need for construction, surety, SDI type products. So we -- and specialty products, whether it's on the E&S side, right, and how we think about that. We see an enormous opportunity for us to really start to focus and identify where we truly have a right to win given all the work that we have done so far.

So going forward, I would share that essentially, we're looking to play where we will win with specialization and vertical integration. So think of those as places specialty specifically, E&S within that. We're looking to really reposition our middle market strategy and we're 2 years into that, and we're starting to see fruits of early labor there, and I'll touch on that and that's very much in the U.S., and it's very much around the lens of really leaning into some specialty products around financial lines, cyber and infrastructure. Very focused on scaling underwriting margin through operating leverage, as you can imagine. And [Audio Gap] is comprised of businesses that were acquired through multiple acquisitions over the years. A lot of those acquisitions were not integrated, as you can imagine.

So we're dealing with a large tech debt and data debt sort of situation, but there is an enormous opportunity for us to tackle that, modernize our base and really sort of create the operating leverage. That's one component of it. The other area is our distribution relationships. If you really think about middle market, it wasn't until 2009 and I think some people forget this. It wasn't until 2009 that Liberty exited direct middle market and went into a distribution broker and agent-led model. So in some ways, you could argue we're babies in the overall kind of distribution space on the middle market side. And it wasn't actually until 2018 when Ironshore was acquired in 2017. It wasn't until 2018 that we actually built a field organization.

And why that matters? And then by the way, it wasn't until 3 years ago, 2 years ago in 2022 that we actually fully integrated Ironshore and dedicated Ironshore as our wholesale brand, very clearly dedicated to that channel and really have built a unified distribution field workforce that is now going to the U.S. market as one. And so I share all that to say a lot of people are attracted by the opportunity in middle market, right? It's a growing opportunity. Middle market customers are demanding different services and products. I would say we are uniquely positioned to capture our fair share of that market growth because we have the products, we have the capabilities.

We are known for our service. We have some of the best risk control claim service orientation. We are better organized than we've ever been. And we're leading with underwriting excellence, which I want to talk to you actually in terms of the middle market strategy specifically to bring to life essentially the orientation of how we're leading with specialization.

So if I show you sort of a few things here, there's an entirely new underwriting infrastructure across middle market. So to give you a sense, our middle market business is currently about $2 billion defined as really anything that isn't the small commercial side. So all the way up to where we think of Fortune 3000 clients really becoming the large client side of it. That -- we currently have about a 2.5-ish market share. We're top 5 players. So again, a very fragmented market. The broker and agents would tell you they need a real alternative in the market. And so there is a clear market positioning opportunity. And what we have done, though was while we had all the pieces, we didn't have an underwriting ecosystem that really enabled us to deliver consistent risk appetite, and therefore, really go to market with that consistency, we were more of a generalist player, as I said.

So what we have done over the last 2 years, as I said, 110 new underwriters coming into the system, a complete new leadership team, what we've really built now is an underwriting ecosystem where it starts very much with how do you drive consistent execution across the country? How do you lead with industry specialization because in middle market, you have to be industry-oriented and it's very much about a regional play. We were mostly a national player. This is very much -- very similar to what Hamid was saying, you have to get granular. It's a local ground game. And that is the way we are going to play it. And that's why driving that consistency across the country matters.

So we have this in place now. We have been running the playbook for the better part of over a year. We're starting to see early results. Our submission volume is up over 30% year-over-year. We are -- our hit ratio is very much in line with where we'd like it to be, and we're moving towards actually where 70% of our new business is being written in the areas where we want to grow because we've defined very clearly, like I said, these industry verticals, so take life sciences, take technology, take financial institutions. These were things we were not doing quite in that integrated way before.

We're demonstrating, therefore, the ability to shift that portfolio also to give you a sense of the kinds of underwriting actions that have been taken in 2024 alone, we nonrenewed about 9% of the book. And of that, a big part of it was you can imagine, commercial auto exposure. So a big part of that also then becomes that hazard grade structure that we highlight on the left-hand side of this slide. It has been very much about how do you identify the hazard grades, how do you think about power units, how do you think about state strategy? And therefore, how do you start to systematically say am I getting paid for the risk? And do I understand the risk quite as explicitly?

We've also introduced actually some new quivers, would you call them arrows in the quiver, right? By the way, there are multiple quivers as you can also see on the left-hand side. But things like we weren't able to offer multinational products before on the middle market side. A very, very important thing to be able to offer middle market clients, we launched in the middle of last year, our Liberty WorldWise, a multinational product. We've already bound about $150 million of policies -- of premium in that and really attracted over 100 new customers. So I share all that and this is the middle market example because that's where we were truly sort of consistent underperformers to show you how this has been a complete rebuild. This isn't about fixing at the margins. It is absolutely about building from the ground up the right way and setting ourselves up to win.

I will just very quickly touch on specialty because, like I said, our strategy go forward is very much through the lens of specialized and get -- and lead with expertise. We already have leading franchises. We are a top 3 health care market. We're a top 3 environmental market. We are a top 1, 2 surety market. So we have the ninth largest Lloyd's Syndicate. We're already the ninth largest E&S lines carrier. The goal here now is very much to start to really bring these capabilities to bear in a very connected way in service of our large and middle market clients. So what we haven't done in the past, I'll give you one very simple example, most middle market clients buy, yes, the 5-line package, but they also buy 2 to 3 specialty lines, right, be it environmental, depending on the industry, they will have some specialty lines.

Our penetration with our own middle market client base is only about 2% to 3%. Best-in-class carriers, that penetration of specialty into middle market is about 10%. So you can just imagine, just with our existing base, that opportunity is fivefold. No carrier brings to market that ability seamlessly to deliver specialty products seamlessly into middle market, that is what we are going to do because culturally, we think we are set up to deliver that. But also now operationally, we're going to set ourselves up to deliver that. So a big focus on specialty as well and very much a focus on infrastructure because, again, we think we are uniquely positioned with the top surety global surety market in the world. We are top 3 SDI, which is for small contractors. And we have masters' builders risk, and we have the ability to essentially really deliver construction casualty as well.

So I just wanted to frame all this for you to just say we have moved from fixing. We have laid the foundation. We are very much focused on navigating the cycle. We are better positioned to navigate the cycle because it's clear that the cycle is softening, but we are no longer leading with rate and price alone. We are truly leading with risk selection. We're leading with underwriting excellence and we have very clear places where we feel we have a unique right to grow, but we will do it the right way. We're going to use that in some ways, the softer part of the cycle to invest in the capabilities so that we're best positioned as we come into that. I will, in the interest of time, essentially not touch too much on technology and AI readiness, but you'd asked the question, Andrew, before, all I would say is there's just a lot that we are doing as a company, as a business. You'd asked for some examples, I would say we're looking at D&O. We're looking at cyber.

These are products that lend themselves to essentially really helping the underwriters lean into judgment and expertise and have the AI sort of do a lot of the work around submission, triage decision augmentation, summarization, all of those things. But the game-changing thing here will be scaling those, right? And that is where the work that we need to do is very much on modernizing our workflows, modernizing our tech platform, modernizing our data. So very focused on that operating leverage. And so I will stop here, but I hope what you're hearing is focused discipline. And I hope what you're hearing is that we are finally going to take the assets that we have always had, but we've underleveraged them, but do it now the right way and really sort of position ourselves for strength in the market.

Chad Stogel
Spectrum Asset Management, Inc.

You said it's a softening part of the cycle, but what we've been hearing, I think, is that parts of the market are softening and the parts of the market are firm. So property may be softening. It tends to be more in the large case market as some of the feedback we've gotten. But in the middle market, you still have decent rate. So can you elaborate on -- is that softening something that you're seeing broadly? Or is it more of a micro segmentation?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes. It's such a good question, Chad. So I would say a few things, right? One, what you're seeing is essentially rate is dropping across pretty much every line other than casualty, and we can talk -- I'll touch on that in a minute. Shared and layered properties where you're seeing rate drop the most, I think, coming into -- coming out of the latest sort of first quarter across the board, you're seeing shared and layered rates dropping double digit at this point, right? So D&O, you're seeing the same thing, some stabilization, but deceleration. In fact, negative rates there, Cyber, you're seeing deceleration. So I'd say rate across the board other than in casualty, where you're seeing double-digit rate increases, rates coming down everywhere. The difference is, are these lines still profitable or not?

So when you start to think about rate adequacy, right, is where I would say then property is still quite rate adequate across the board, whether it's single carrier ground up or whether you think of it as shared and layered. It is profitable, but that is shifting quite rapidly, and that's why being very forward looking and being in the market and really sort of thinking about how do we allocate our capital? Because, again, we have, I think, thinking about this optionality to allocate capital all the way from retro to E&S across property. It's very important for us to have that perspective, but also be okay with not having to, if we thought. But I would say properties quite rate adequate at this point in time. The specialty products across credit whether you think surety, whether you think trade credit, whether you -- I mean, those are all quite rate adequate.

Casualty, I think we can all debate whether it's adequate or not. I think that I would argue, I guess that's why markets are made because some people would say, you are seeing rate ahead of loss cost trends and others would say you're not seeing rate keeping up with loss cost trends. Our view is across the board, primary GL, commercial auto, excess and umbrella, if you aggregate it all broadly, rate is keeping pace with loss cost trends. On the other hand, I think in excess, we're getting more rate. Commercial auto, it's about in line. Primary, we think, is getting to a place where potentially it's more rate adequate as well.

So I think you're starting to see different moves there. But overall, yes, rate is coming down. Yes, we're seeing softening in the U.S. across these different lines. I would argue, broadly, there's still adequacy, but watching that very closely. London is where we're seeing the biggest sort of shift where the move from rate adequacy to potentially on profitability could be here sooner than we think.

Chad Stogel
Spectrum Asset Management, Inc.

And comp?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Comp is broadly keeping. Comp is broadly keeping. I think there the thing to watch is very much should we have a slowdown, should there be a recession, should there be generally -- the push and pull is going to be between do you see higher medical inflation? And how do you start to see utilization rates shift?

Chad Stogel
Spectrum Asset Management, Inc.

We've seen this Medicare Advantage issue. It's a separate market. There's definitely -- are you on a comp schedule or on a major medical schedule. But it's all in the same world. So if there's one executive out there refers to an explosion and medical inflation and that hasn't happened. But it is -- there is definitely some pressure on margins.

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

At the margin, you would -- yes. And what I would say there is, I think one of the things we watch very closely, therefore, is reserve adequacy, but also I think you would all agree the industry has tended to use comp reserve releases quite a bit. And so how the comp versus casualty reserve development starts to shift is something I think we're all watching very, very closely.

Unknown Attendee

I think you still have some pretty significant back cover left, right, on the...

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

On the ADCs, yes.

Gordon M. Russo
Flaherty & Crumrine Incorporated

What type of risks are you underwriting?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes, Gordon, the -- so we -- most of our global specialty businesses are written out of Lloyd's. So think of it as aviation, marine, right? Those would be -- we have quite a few of our specialty business out of there. And then also, some of our LM Re business is written on the Lloyd's platform.

Gordon M. Russo
Flaherty & Crumrine Incorporated

Can I ask a higher-level question. You focused a lot on how this business has been changed over the last 3 to 5 years. And you focused a lot on talent and underwriting. How do you make sure you retain that talent going forward? What should we look at? Or what do you look at internally in terms of retention rates? And how do you compensate the right contributors to make sure that they stay going forward?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes. It's such a good question and one that we all talk about very consistently. One, I would say you should be asking the question, why are all these people choosing to come in the door? And the first thing I would say there is, actually, it's been -- the first year was really hard to sell the story, and now we get more calls than we have to go out and sell the story. And I think that's been really gratifying that you see high-performing talent voting with its feet to choose to come here. And the story is very much because they see. They see that Liberty has the capabilities. We've got the product set. We've got the relationships across clients and distribution. We just have never knitted together with this underwriting foundation and they want to come and be a part of that build. And so that's been exciting.

The indicators to watch and I'll tell you, sort of we spend a lot of time looking at this is a big focus for us is the attracting, the retaining and the developing. And I would say we continue to think about what's our unique employee value proposition around that. On the developing side, we're investing a lot in how do we think about training and skill building. We are thinking a lot about upskilling of talent in the context of AI and how to bring that to bear for -- to make our underwriters really have the time to be able to focus on judgment and the higher expertise work. And then on the incentive side, as you can imagine, the competition is not just other carriers. The competition is brokers, it's now MGAs. And so how we think about truly compensating that talent is something we watch very closely. We are very competitive, but it's something we want to continue to do.

The other thing I would say is our attrition rates and I'm knocking on wood very much. Our attrition rates are actually quite low relative to the industry, and I truly think that's because of our culture. We value people when people come, they feel that they are valued, they're part of the build. And so we watch that very closely. And perhaps the last thing I would say on that is the critical thing for us is going to be to continue to sort of eliminate as much bureaucracy within, right, because the MGA value prop is, hey, we'll take care of everything else. You don't have to be a part of any of this bureaucracy. You just get to run your book and run the business. We are very focused. That's why I mentioned the operating leverage part. We're very focused on essentially saying how do we make the underwriter be able to respond and be more externally oriented as much as possible. That's going to be a long journey, but it's a big part of the retention value prop.

Timothy Michael Sweeney
President, CEO & Chairman

More broadly, it's high-performance turnover, which we look at across -- among our hard performers, what's the turnover rate? We watch that like a hawk across employee engagement, where, again, another use of GenAI is summarization. So we got 14,000 comments a month from our employees. And so you can really hone in on how people are feeling, where the pain points are. As Neeti said, I think maybe it sounds a little hokey, but the culture and the mission and the purpose of the company really gets people that have come -- I've been with Liberty Mutual 32 years. So sometimes it's fish doesn't he is in water, but we bring new people in and they get a taste of our culture compared to other places that they bet it actually really does matter to be able to thread the needle of a high-performing but collaborative supportive culture, that's kind of the secret sauce.

And so what we're trying to do is maintain what's always been a terrific Liberty Mutual culture and purpose-driven culture with increasing the metabolism of the organization and we do believe we can do both. You can perform well. And if you're winning and if you're paying a variable compensation based upon that winning, you attract and retain. It's a bit of a self-sustaining thing. You just got to get going on it. We're starting to feel some of the benefit of that.

Gordon M. Russo
Flaherty & Crumrine Incorporated

In terms of accountability for underwriters, for example, given the long tail and cost of goods sold, is there a mechanism within your comp that seasons with the -- seasoning of reserves or...

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes. We're looking at our entire incentive compensation to sort of start to say how do we now -- so yes, some of it, but that is something...

Timothy Michael Sweeney
President, CEO & Chairman

I would say not enough.

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes, we're looking at very much to say how do we start to really align interests very clearly because you can -- like I said, the underwriting foundation is something that's really kind of come into play over the last 5 years. So yes, that's the direction of travel.

Unknown Attendee

It sounds like you've really turned the risk culture on its head, moving from volume to risk selection, that's a dramatic shift. With the size and change, that's a lot of change within the culture. How are you kind of being able to keep the old with this new approach? Because the new approach is obviously quite a bit different than what had been before. It's a big challenge.

Timothy Michael Sweeney
President, CEO & Chairman

Yes. I think it is a big challenge. And you go back we're talking about 2005, some years ago, we were a distribution-driven organization, right? And so this is a big change. But I think when you're within the company, you still feel the palpable collaborative culture, and we do talk about mission and purpose quite a bit. I preach nonstop as does this team, integrity first and then profit and then growth. We've always had the integrity culture and you get what you tolerate, right? And we don't tolerate anything less than that. And so the integrity piece has always been there. Over time, what we've done over the last few years is make sure that we flip the order then after integrity, it's profit and then it's growth.

Because when you are a mutual, you can get a little confused. Why do we need to make money and that kind of thing? And the reality is it's to remain relevant. And if you truly believe in your mission and your purpose and the products and solutions in an ever-changing risk environment, you need to generate profitability. And so that's been a big change. And now that we're starting to get our traction and we've got incentive plans that hit all of our employees based upon our performance in any given calendar year. And as we're starting to generate strong financial results, people are being rewarded and that to self-sustains. And so culture changes maybe 10% a year, so you don't flip a culture fully.

But over time, if you are consistent and simple and repetitive in your messaging to the organization, if the leadership team is joined up as we are and you're providing consistent message, if you're holding people accountable, if you're reminding of the mission and vision and purpose of the company and if you're then starting to create momentum in terms of your financial results that people are all getting rewarded for, the secret sauce that emerges, right?

Unknown Attendee

Change is happening here very quickly as you are saying, but also changes happening broadly? How would you describe with distribution and the consolidation that's happening there, is the -- are you feeling any impacts? Is that an opportunity? Or is it a risk?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes. So you're spot on, Travis, in terms of the shifts on the broker side are significant. There's the consolidation trend. There's the facilitization trend, right? There's the move into MGAs. There's the trend, the power of the wholesale channel. So there's a whole series of broker shifts that are happening. We tend to view all of these as you have to continue to think of it as how do you position yourself, both on the offense and on the defense. And what I mean by that is there are more opportunities in our view than there are risks, but you have to start by first being very clear about what is your value proposition? And where is it that you can -- you have a right to win and position yourself as a relevant player. That's why I said if you focus on the 3 key things, there's optionality and having the right platform, it's having relevance and positioning with the brokers and the clients.

And then there is the aspect around underwriting and cycle management. So on the broker side, I'd say three things. One, the trend towards facilitization portfolio solutions, if you want to think of it that way, there's more -- whether it's delegated authority, whether it's -- we've been in that business in London. We've been in the facilitization business for a long time. We were actually one of the first participants on the client ACT treaty that Aon had back in the day. So we know how to engage their brokers view us as a partner there. The key for us there is to be is to be very clear about, again, from a portfolio perspective, how much of our portfolio do we want to have in portfolio solutions versus open market, right? Because some of this becomes business coming out of the open market.

So that's -- it's just intentionality required there. But we have the capabilities outside of the U.S. We're going to build them in the U.S. in a more consistent way because that facilitization trend is coming to the U.S. quite rapidly. On the consolidation front, we actually think it presents an opportunity for us. We -- like I said, we have the breadth of product. We have the positioning and now we have very clear places where we want to engage in a different way. And so take the infrastructure value proposition, very few other players will be able to come with that value prop to the brokers. And brokers are very interested. At the end of the day, our interests are aligned.

We want to do what's best for our clients. And Liberty's service orientation, which really, when I say service, it's risk control, it's claims, and it's the fact that we have the ability to offer bundled and unbundled because we are one of the few carriers that has an in-house TPA, Helmsman, right? We really can really sort of show up in a differentiated way. So I would argue at the margin more opportunity, but it's on us to organize ourselves the right way.

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Maybe in the interest of time, sorry. Vlad has got a cool story to tell. We want to give time for Julie and Vlad here. We will forego any questions at this point until the end, so we can let them get through their materials. Really do appreciate it.

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

How much time do we have. So maybe I'll try to be...

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

We can certainly go a little longer than we had scheduled. We got to meet each other a bit probably in the session too.

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

I'll try to be brief because I think the audience will appreciate some of the things I have to say anyway. So I would just like to start maybe actually with quickly what is our ambition at LMI because it is pretty bold and it is to be a best-in-class investment firm. And you may ask me, in what class? And I would say, period, we want to be a best-in-class investment firm. And the reason we can make such a statement and put forward such a bold ambition is I would roughly say because of things happening internally. You just heard a lot of that. But if I was to simplify, it was about 3.5 years ago where Tim simply said we're going to have underwriting profitability period. And that's where we are today. And that is an absolute game-changing enabler of what this company's trajectory can be. And I'll describe how that fits into our economic model.

The second part is what was also referred to earlier, which is the world around us is changing quite dramatically in terms of capital markets. And I do like to say that for my age, I've had a fair share of crises, and I'm good, I don't need any more. But I am pretty fortunate, and I think most of my colleagues would say, to be where I am and doing what I do at a time where capital markets are truly rewiring themselves and rearchitecting themselves. That doesn't happen very often. That happens even less often than crises do. And that's where we are today. And so combining those two things together, we have an opportunity to align our capital base in a manner that's going to be in service of the way the financial system is architecting itself and use our capital in that -- deploying that capital to create jobs, to fund infrastructure, to really transform what our insurance premiums into investable capital and deploy it back into the economy, into the real economy, achieve investment returns, create the capital, make our balance sheet stronger [Audio Gap] or a public insurer, you do not follow this model.

There's a break there, right? You are going to be asked by your shareholders very rightfully so, as you guys would know. Actually, please return some capital to me via buybacks or via dividend. And by the way, why would you build a best-in-class investment business? I'd just go buy a KKR and Apollo stock or whatever else. And that would make a lot of sense. But that's not our situation. In fact, our engine is all encompassing. It does allow us to build a best-in-class investment firm, which is going to power the capital creation for Liberty Mutual, which then allows us again to be a bigger, more powerful force in writing, insurance, protecting while we take that transform it and make it a real force in the real economy good for growth. So that's the background. And I think it's very, very important to capture that difference that exists within Liberty Mutual Group and some of our peers.

And if the model sounds a little bit like what has been accomplished by one individual and only one individual. Well, we're not trying at all to say that we are anything like Warren Buffett because what he has accomplished is a contract with his investors where they simply ask them to compound the book and not return capital. Nobody, to my knowledge, has ever had that kind of contract with their shareholders. Our model basically captures that same dynamic, not because we're nearly as good as Warren Buffett, but it just is. And so all that allows us to build this fortress balance sheet in service of our policyholders and to allow our company to invest into the right infrastructure, into AI, which is then going to better the customer experience and so on and so on. And that's our substantial advantage relative to many peers.

Just looking quickly through the slides, what have we done so far in terms of the portfolio? Well, it's been a pretty consistent story of capital creation, which is pretty diversified. And so of course, you'll see the spike in 2021, that's not surprising. That is the deluge of money printing that has resulted in substantial activities, M&A activity, strategic activity, which has allowed private equity portfolios to monetize lots of investments. That, of course, has now become a bit of a backlog. And so when I look out into the future and I think about what kind of capital we can create, I get quite excited. And no, it's not just because base rates are higher. That is certainly a tailwind as opposed to a headwind but that's just a component of what we're looking to do.

Because if you follow that flywheel, both our asset base is going to likely expand and our capital is going to grow. And so that allows us to continuously evolve our business, our franchise in favor of investments that are going to deliver higher return. That generally means credit investments that are more bespoke, that are direct, that are not fund-led. And similarly, on the equity front, there are going to be instances where while we do not choose to operate companies, we will not build a private equity boutique inside Liberty Mutual. We do engage in very bespoke transactions that allow us to capture direct economics, not fund economics that are likely what our history has been or likely what many investors in our shoes do, simply write big checks to big players. We don't want to do the beta, which would be the Blackstone, KKR funds, et cetera, et cetera. We're looking for really bespoke things. We're looking to build businesses with emerging managers, doing it together and have done that quite successfully over the last couple of years.

The other thing I'll just touch on. So very quickly in terms of capital creation, $18 billion of pretax income since 2020, we certainly have aspirations to grow those numbers dramatically over the next couple of years, again, on the back of this dynamic I've described. The portfolio is always seeking diversification. We're always ensuring that we have flexibility. That means robust flexibility doesn't mean liquidity because liquidity can take on different forms at different times. We thought our portfolio is always liquid. But in 2022, that liquidity would come at a cost because bond prices were lower, insurance business was tough. And so moving the portfolio became more costly even though it was liquid. So having an incredibly robust risk methodology in a risk organization has always been essential, even more essential as we head into the future.

Quickly taking a look just at where we are today. You see some of that rhetoric expressed in the visual. So a number of different ways to look at it. We call growth equity assets, which is the top -- I guess that's [teal] category. And you see that slowly expanding and then growth in non-IG credit. So that can be everything what is widely labeled, I'm sure to your annoyance as well as private credit. I'd like to describe it as just credit. Credit expressed differently at the different channels. And that includes asset-backed finance, which we have grown quite dramatically. It includes direct lending business and it includes a capital solutions business where we are able to do pretty bespoke things in a very quick manner. More broadly, the way we've organized ourselves allows us to speak for the entire capital stack when there is a solution and also find synergies between different businesses.

So here's an example. Our private equity business has phenomenal relationships, both in terms of the GPs and in terms of the portfolio companies that are in some of these portfolios. Our direct lending business now is variable connected with that franchise because when financing is needed, rather than go outside of delivery ecosystem, we can sometimes just come in and say, "Hey, we'll provide the financing for that." And so our direct lending business has benefited quite a bit from the private equity business. They're cross incentivized. They're good questions on incentives. Their culture is such that we collaborate. We don't have silos. And so these things allow us to really grow our business in a very differentiated way.

And by the way, externally, that is very different. And so in the marketplace, our franchise and our brand in our ability to be quick, our ability to say no quickly when we're not interested and to execute on transactions in a fast manner is an absolute differentiator. In terms of the portfolio, again, I would say what you'll likely see in the outer years is shifting away from traditional IG, traditional kind of safe assets defined safe by the fact that they are public market assets. Again, I think I'm talking to people who know that the label private doesn't mean more risky, just as written about in that manner. And so one example I'd like to cite Apollo's Intel deal recently. It was a groundbreaking deal in terms of its size. It was a private deal with an otherwise issuer who goes through the capital markets and issues in the public markets. It is no more risky to own an Intel bond via the Apollo origination mechanism than it is to own an Intel bond that's [CUSIP], but that's a private deal.

And so we continue to transact in the private credit ecosystem. We are not oblivious to the liquidity dynamics or the complexities that are around these transactions but we view them as, first of all, things that we can absolutely digest and thrive with, get paid for, and it's a complement to the total of our business. I feel like you have a question.

Chad Stogel
Spectrum Asset Management, Inc.

Just it's been a key theme in the industry. Obviously, more of a life and annuity, the leverage of the life and annuity space [indiscernible] growth of this and it's a circular thing that kind of been fueling this macro story. But I think private credit, you can define it in a million different ways, and there's a lot of stuff out there. Some of it is that direct to an investment-grade counterparty, but a lot of it is middle market lending to unrated and recent article, press articles talk about certain smaller rating firms and rating shopping and the NAIC's ability to maybe overwrite some of that now. But still, how do we get comfortable that the allocations you're making are truly those high-quality investments in infrastructure with the right terms or an intel and not a CFO of middle market loans that a smaller agency is providing an uplift on the rating?

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

Great question. So you're referring to the Egan-Jones article that was published.

Chad Stogel
Spectrum Asset Management, Inc.

I don't want to call anybody.

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

Published a couple of days ago, basically describing a -- I believe, it was a 20-person operation rating in-house, 1,700 credits. My -- as soon as I saw that article, before I even had a chance to forward it to my risk organization, I already had an incoming e-mail with basically a quick snapshot of we do not use Egan-Jones. We do our credit analysis in-house. We do our risk analysis in-house. I mean that kind of approach has always been true. You can extend it and say, S&P, for example, assigns capital charges, you could use that as a proxy for risk. We do not do that. We have a very robust risk organization that's embedded in every single one of our investment teams, every single transaction review, every single investment committee.

Our Chief Risk Officer has a broad veto and is completely independent in terms of the way his organization is organized and he can veto me. So we are extraordinarily careful and we do that through the lens of, one, the gravity of the responsibility we have, which is Liberty's capital. We understand how important it is that our -- which is, in fact, our cultural pillar, uncompromising excellence is the way we live. And two, how do you get comfortable? The same -- I would just say it's the same question I ask myself because I'm certainly not in every deal and certainly not in every transaction. It is about two things: one, setting up the right governance structure and having the right people with the right incentives, so maybe that's 3. And so we feel very good about those things. We revisit them constantly in embedding our risk professionals with an independent lens, not being in any way, shape or form, incentivized in such a way that would help them bend is an important component of that.

Unknown Attendee

Is there maybe like on top, like a macro risk element of a percentage that don't -- percentage of the portfolio that you would allow not to have an S&P, Moody's rating, Fitch rating, like just as a macro...

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

Private letter rated?

Unknown Attendee

Yes, maybe.

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

Yes. So I think those things are very rare. So certainly, we don't create a bucket that would be like a bucket of unrated things. There are instances where things can be unrated. We would have an internal understanding. And again, the way we assign risk, our risk team will do an absolutely independent analysis of anything, whether it is a pretty basic structure transaction, whether is very complex and often comes back with the conclusion that neither the investors like nor is consistent with maybe a more simplified version of a risk rating of a beta or something like that, and they make it actually more punitive and then we have back and forth. But like I said, the risk organization has a complete independent vote that is binding. That's the way I've set up the organization. So does that help?

Unknown Attendee

Yes.

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

Very quickly, I'm just trying to be conscious of time. The other thing that's really, really important is I kind of mentioned this notion of private credit, which is an all-encompassing label, which doesn't mean much. The other one is, of course, LP, LP exposure. And so LP exposure can be everything from venture, which is high octane or it could be as simple as that Intel bond that I've described. And so it's important not to associate the reported LP exposure with necessarily a risk or leverage or anything of the sort. When we talk about LPs, this is a rough snapshot of what is in that wrapper, and that's all it really is. And that, of course, is, in this case, largely credit, which is not as risky as equity and certainly not as risky as people would assign -- I think people think LPs, they think venture, something that you can't measure.

So that's the breakout. And so again, coming back about risk, the other point I would mention that Tim brought up earlier, as our asset risk grows through time, it's going to grow through two mechanisms. One is a growing just investor base, and that's because we're going to grow our insurance premiums. We're going to write at a profitable combined ratio. That's going to come back onto the balance sheet. The second part is the portfolio mix will continue to evolve. And when we take that asset risk though, through time, we're actually going to be putting less risk in the context of Liberty Mutual. And why is that? Because our equity is going to outpace the growth of the risk that we take on asset side.

And so 5 years out, 6 years out, 3 years out, you're going to have a situation where our portfolio has more assets and is taking more risk. But relative to Liberty Mutual's capacity to take risk, that will actually decline, which I think speaks to the power of the capital engine, I described. What that's saying is that our capital generation is actually going to be faster than we can deploy risk into the marketplace. So I want to make sure Julie has plenty of time, but also happy to answer any questions.

Unknown Attendee

So just one quickly. So when you're thinking about your strategic asset allocation in the context of a growing portfolio overall and growing capital, how frequently are you adjusting that? And how do you -- are you basing it off the capital? Are you -- how are you sort of thinking about it from a methodology perspective?

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

So we have mapped out in great detail what we believe to be various scenarios of path from here forward because, as you know, none of these businesses are turned on and off, in fact. They are 4, 5, in some cases, multi beyond that year businesses. And so we are going down a very particular path while observing the need for liquidity flexibility where that means our hiring plans are tied to these. We are constantly checking in and out on how those NAVs are evolving. And always, again, very important, ready to change if we so have to and we've done that before. We know how to do that. It's not pleasant. It's a substantial amount of dancing, but we know how to do it. And we have methodically mapped out everything from our investment teams, the deal flow that investment teams will be responsible for both bringing in and digesting and executing on to the net asset values that we'd like to see across different business lines by 2030 and beyond.

Chad Stogel
Spectrum Asset Management, Inc.

How much of this shift, do you sort of have like a target of where you -- as a percentage of your allocation, you want to remain public liquid fixed income? And secondly, in terms of the more private stuff, how much of this is actually doing that Intel deal versus a structuring to get credit enhancement for IG treatment?

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

Yes. So in terms of the target, I would say we have a target. That target is a function always, it's a relative target. So it's a target that is a snapshot in time based on our belief of what our balance sheet will look like in those outer years. And so if that changes, as it inevitably will, whether it changes to the right side or the left side, we will tweak based on that. So that's why it's so important to have a model effectively that allows you that flexibility. We are not committing ourselves to a pinpoint estimate because we know that our balance sheet will look different than what we probably modeled right now, but that could be in either direction. So that's why I'm not quoting you exact number.

But of course, we have targets, as I've said, all the way down to each business line, but those targets are not things we are pursuing just because only in the context of our overall risk capacity.

Chad Stogel
Spectrum Asset Management, Inc.

And then on the direct allocation versus sort of subordination usage, credit enhancement.

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

We do all of that. So if you think about what's in our portfolio, it's just about everything. And so this is part of our strength. We can go up and down the capital stack. We can react quickly. And that is also a cultural thing and a competence thing, right? So that if an inquiry comes from an investment partner to a particular person that, that person knows, hey, this is not great for me, but I'm going to bring in the rest of the team, and that is part of the -- again, part of the culture that we instill and part of our reputation externally.

Unknown Attendee

I'm just going to ask it a slightly different way. Like as I look at this, the growth equity assets and growth in non-IG credit, I'm just going to broaden that into risk asset, even though I know that's not exactly precise, roughly lines up with stack capital, if I think about it that way, surplus account kind of management, is that how you're kind of thinking of managing portfolios going forward, broadly speaking?

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

I think directionally, that's right. You can think about float, which was referenced before, and that's reserves, and we obviously have a sacred promise to our policyholders, everything we do is in service of our policyholders. But yes, you end up with -- coming back to the way I've described it, you end up with surplus, growing surplus, that's the equity piece of the balance sheet and you have reserves. Reserves will be managed in a particular way that is more constrained by regulations, by a variety of things, by liquidity and then surplus assets, of course, are different, and they are growing because we are generating capital and hence...

Unknown Attendee

It's effectively the free cash flow generation that you alluded to before that would go to buybacks or dividends at a public company effectively just get plowed back into the...

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

That's right.

Unknown Attendee

Now the only aspect of that, that I'm -- I think I'm following, but I'm not quite there. I haven't quite seen a growth in the cash and short term of the treasuries. And I think that's because your top line has been relatively static over the last couple of years. I guess, as the business grows, I should see that fluctuate kind of with the top line growth and the premium growth in the core business as you're reinvesting in that as well?

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

Absolutely, it will fluctuate. I would say, again, what I've tried to -- what we've tried to do is be very methodical about knowing exactly what we're going to do as -- because we've mapped out theoretically the cash flow, the balance sheet and what that will mean for our own deployment plans. So in an ideal world, actually, you wouldn't have much volatility there because in an ideal world, we know exactly when the cash is coming in, we'd line that up. But in practice you're right, you're going to see some...

Unknown Attendee

[E&C] company, there's catastrophes, you have to have liquidity.

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

The liquidity is always going to be there. I'm referring to the baseline volatility.

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Great. I think we should just move on to Julie now in the interest of time, and we can use the remaining time at the end for any additional question you might have.

Julie Marie Haase
Executive VP & Chief Financial Officer

All right. Well, thanks, everyone. This is our final section. So you've made it toward the end. What I wanted to do today was talk about our financial strength. You've heard from the business leaders about all the actions that we've been taking over the last few years in support of profit and we're starting to see that show up in our financials. So what I will talk with you about today is our capital composition and the strength of our balance sheet. Secondly, the discipline and rigor behind our reserves. And then thirdly, our reinsurance strategy, how we use that to protect our capital.

So we've built the strongest balance sheet in our history as a result of all of the actions we've taken. And we see that through a number of measures that you see here in the slide. First, we talked about the 95% combined ratio target, the progress that we have made towards that and that -- achieving that is in sight. And so you start to see that our own organic capital generation is growing, and Vlad talked a bit about the compounding effect of underwriting profitability in the investment portfolio coming together.

As a result of that, you do see our financial leverage has reduced from roughly 26% in 2022, down to 21.2% the end of last year. Again, a mix of our own organic capital generation as well as some rebalancing of our debt structure. I'm going to talk a little bit more about our debt and how that fits into our portfolio. The second piece, and Andrew, you just asked about liquidity. Obviously, critical in terms of being able to fulfill our obligations, we feel really great about the level of liquidity that we have, certainly, the cash on hand as well as facilities like FHLB. We have an unsecured revolving credit facility. And then last fall, we issued our inaugural PCAP, which we really like from both a capital and liquidity perspective in terms of the flexibility that it provides us.

As we think about capital adequacy, we have a number of ways that we look at that. We think about that from an internal lens. We have our own economic capital model. And then externally, whether that is our rating agencies or a regulatory view. What we're showing here is our RBC for LMIC, the lead company in our pool. And you see it has gone up substantially over the last couple of years. Again, a function of the improved profitability as well as Tim mentioned, the sale of our legacy GRM West operations in LatAm and Western Europe and some related actions there that also gave us a boost to the ratio. And then lastly, we have our ratings from 3 credit rating agencies and feel really good about that. All 3 have affirmed our ratings and outlooks in the last 12 months, and we feel good about our rating and where we are.

I turn for a moment to our mutual holding company structure. You see that depicted here on the left. The Liberty Mutual Group, Inc., which is a stockholding company is the primary issuer of our debt. And of course, it then requires ongoing dividends and other funds to be able to meet its obligations. And so when we think about the sources of those funds, it is really twofold. One, the overwhelming majority is coming from our insurance companies in their dividend capacity. In 2025, we have $3.6 billion of dividend capacity available without regulatory approval. And then on the other side, we have also what we call Liberty Corporate Services service company income that goes to Liberty Mutual Group, Inc., and that's about $745 million.

So when you combine those two, you see that the interest coverage is nearly 10x. So we feel very good about the quality and our ability to support those obligations from that holding company. We'll talk a little bit about debt. Debt has been and continues to be an important part of our capital structure. We currently have about $9.1 billion of debt outstanding, and we're happy with the composition, whether you look at that across maturity, across structure, across currency. Of course, we are expecting to generate our own capital through the cycle from our net income, but it's always going to be important that we have the flexibility to access capital markets and we want to do that, whether it's opportunistically for something that we see as well as having sufficient capacity in a stress situation to make sure that we still have the ability to issue after a moderate stress event and still receive full rating agency credit. So we're always monitoring that.

As I mentioned earlier, we had our PCAP issuance last year. And we really do like the financial flexibility that gives us around liquidity, around capital management. And even as we think about refinancing, it gives us a little bit more flexibility around the timing of that, not to have to carry, in some case, additional interest costs. We like that structure. And then at the bottom, as you look at the maturity profile and timing, the next substantial maturity is the EUR 750 million senior note coming due next year. And then in the U.S., the next material maturity is $1 billion of senior notes in 2029.

I'll talk for a moment about reserves, and we know that the loss LAE reserves on our balance sheet is a huge portion of our obligations over time. So it's really important that we have the right processes in place that we have the right understanding to make sure we have a strong balance sheet. So we've talked a lot today about the pricing, the underwriting, the rebuilding, all of the things that we've done in the last couple of years to really focus on profitability. I would say, paired with that is a mindset that we will reserve prudently, that we will be hyper aware of the trends in the market that we are seeing and that we are seeing in our own book and committing that we're going to recognize good news slowly and not take that too soon. With that, we have robust reserving practices in place, pairing local business knowledge with our actuaries, our underwriters, our claims teams with independent oversight and governance around all of that.

And so when you look at the slide here, what we've done is shown our statutory loss and [ALAE] ratio and split it into 2 buckets, the older accident years 2015 to 2018 and our newer accident years 2019 to '23. And when you look at the older accident years, you see that they have developed unfavorably on average by about 1.9 points. And certainly, we have not been immune from the industry trends. This is largely casualty-driven, that was the largest piece of that deterioration. 2019 in the years following, we really did take decisive action in terms of reflecting those costs -- those updated costs and also making sure that we would reflect the higher costs going forward from legal system abuse and from broader trends in the market. When you look at the more recent accident years, you see the flip in that we've actually developed favorably by 1.6 points over this time period.

And so we believe, again, back to that reserving philosophy of let's be prudent, let's be hyper aware of what's going on in the market and trends and let's recognize good news slowly, there's been enough time to see that, that has been serving us well. And so overall, we feel very good about the strength of our reserves and the prudence that is reflected in them. One example is about $760 million in Q4 that we booked around emerging mass torts. We talked about that on the last analyst call, that is us being proactive, that is us being market aware and making sure that we feel really confident about the strength of our reserves.

So the last piece I'll touch on is really our reinsurance program. When I think about really the primary objectives of our reinsurance program, it is to protect our capital and earnings. It is making sure that we can manage to our risk tolerances and it's making sure that we can preserve our credit rating. We have a number of reinsurance programs in place, the one I'll highlight here is really around our North America property cat program. We issued this depiction earlier in the year. So I thought I'd just spend a couple of minutes talking about it. This program covers $2.8 billion in excess of $1 billion retention and we do have one reinstatement associated with that. The initial $1.5 billion of this limit is available on an all-perils basis. And you can see that majority is from traditional reinsurance, probably also have our Mystic Re cat bonds as part of that.

New to this year is our aggregate treaty that we reinstituted after a few years of not having that. This treaty covers $500 million in excess of a $2.4 billion aggregate retention with $100 million per event deductible. So think about the cumulative risk of a number of catastrophes occurring in the year, this gives us coverage for that, and we like the coverage that we've paired with our traditional tower. I won't talk about some of our other programs, but just know we have cover across all of our key risks, whether it's global, whether it's casualty lines, whether it's other forms as well. And so we feel this is a really comprehensive program in terms of protecting the balance sheet.

So I will wrap us there. I hope that today, both what I've shared here as well as what my colleagues have shared around the actions we've taken over the last couple of years give you confidence in the progress that we've made in the strength of our balance sheet and where we are today. And hopefully, you also sense some enthusiasm that we all share for the future. And these are not onetime items, these are sustainable, repeatable. We are really building new ways of working that we feel very good about setting us up for the future.

Question and Answer

Unknown Attendee

I have a question about -- from a service company, I remember -- maybe I'm misremembering, but wasn't there a time when there was a potential to spin...

Julie Marie Haase
Executive VP & Chief Financial Officer

Years ago, we had a business unit that was largely independent agency, Personal Lines and Small Commercial. What we called LMAC, and that was potentially going to be IPOed. We pulled that.

Unknown Attendee

We moved away from...

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Because it wasn't getting the pricing that we expected and not something I would relook at.

Unknown Attendee

I think one of the, I think, selling points just from, let's say, offset to the mutual cat raise equity, is the cash flow that you get from this nonregulated entity, which has always been, I think, a big strength. But I think I don't really know what's in there. It's a pretty substantial amount of cash flow that is up there. But could you talk a little bit about what is that? And what's -- just how...

Julie Marie Haase
Executive VP & Chief Financial Officer

We have some, I'll call them, noninsurance businesses where things like claims administration, things like some of our -- now our independent agency business, some other pockets where we set up that are true kind of noninsurance businesses that send a fee revenue to the holding company. And so they are part of our organization, the broader Liberty Mutual Group, but they are not -- technically not regulated by insurance companies because they're not insurance companies per se. They support and our integrated partners to our insurance businesses because they are distinct and separate. We're able to funnel the money up to the holding company.

Unknown Attendee

Is any of that investments related within?

Julie Marie Haase
Executive VP & Chief Financial Officer

I don't think so, yes. No.

Unknown Attendee

You do have some preferreds, right, that are intracompany where the dividends are coming through here, about $80 million or so.

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Yes, that's outside of that service company income. But yes, that's just kind of a recurring fee that we set up particularly for the support of interest coverage.

Timothy Michael Sweeney
President, CEO & Chairman

But if you think about -- Hamid talked about Comparion a little bit, which is the transition from our exclusive agents to our wholly-owned independent agency, that's going to generate over time really nice capital-light profitability coming through, right? It's just why

PEs have all been going after brokers because there's a bit of an annuity component to it, and we see similar kind of non-vol cap-light earnings stream coming from comparative.

Unknown Executive

The TPA business that Neeti mentioned is also part of that as well. So these are fee-producing businesses within the ecosystem.

Unknown Attendee

And the fees have effectively doubled. It used to be around $400 million and change a year. It's now almost $800 million.

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. We are always taking a look at what -- how do we optimize that. The shift to Comparion was something that allowed us to enhance that as well.

Unknown Attendee

Could you talk about -- you mentioned this 95% combined ratio. I'm assuming there is implied cat load. So what's your catastrophe budget this year? Because it seems like you already got hit kind of hard like everybody else?

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. We don't disclose the specifics of our cat load, but I would say, one, right now, we are over because of the California wildfires relative to our expectations. We certainly wouldn't have expected that in January. But as we stand today, we still feel good about the underlying fundamentals of our business of the non-cat loss ratio of the expense efficiency that we have generated. And so we still feel good about having that 95% in sight. And then I just harken back to Tim's comment about catastrophe load, we understand that over a multiyear period, we're very good at reflecting that into our plans, into our pricing. Any single year will be volatile, plus or minus on that. This year, you would expect maybe a little over, but we still feel good about the broader 95% trajectory.

Timothy Michael Sweeney
President, CEO & Chairman

May, which just concluded, which is typically our highest cat month of the year, was reasonably light. And so April wasn't too bad either. And so severe storm season has been favorable the past couple of months and not fully offsetting the punch in the nose we got in January with the wildfires, but...

Unknown Executive

We're still less than Allstate.

Chad Stogel
Spectrum Asset Management, Inc.

May is your lightest cat month -- is your heaviest cat month in spite of wind season.

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. Yes. Severe convective storm is the largest of a peril than it tends to be in this Q2 time frame.

Chad Stogel
Spectrum Asset Management, Inc.

That's on a net basis or the way...

Julie Marie Haase
Executive VP & Chief Financial Officer

Both. Yes, both.

Chad Stogel

Spectrum Asset Management, Inc.

Even on a gross basis, you don't have as much exposure to.

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

It would show up. So the different business units would carry slightly differently. But at the aggregate, this is the power of diversification. So for us, on the commercial and specialty side, we're going into some of our heaviest season. On the personal line side, you're coming out of it. That's the power of diversification, right?

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Yes, the coastal exposure piece...

Timothy Michael Sweeney
President, CEO & Chairman

The hurricane impact on us relative to severe convective.

Unknown Attendee

How would you -- I was just asking about your optimal capital structure and just your ratings aspirations. Are you -- I know you got the stable ratings, but is that where you are comfortable? Or is there any particular place you'd like to land as you are in the build strategy?

Julie Marie Haase
Executive VP & Chief Financial Officer

Sure. Yes, I'd say we're comfortable with our ratings. It gives us the ability to access the insurance markets that we want as well as from a credit perspective, having access to capital markets. So we feel good about where we are. Of course, we are in a mode of continuing to build our own capital generation as well. And so we'll keep an open dialogue with the rating agencies on our progress. We may revisit periodically, but no burning need, and we feel good about where we are.

Unknown Attendee

On your RBC, the target is 400% and you are at 488%. What happens in 2025?

Julie Marie Haase
Executive VP & Chief Financial Officer

Stay tuned. No, I would say 400% remains our target. And so we'll look at options. We'll see how this year plays out. We'll look at what is the optimal play there. So...

Unknown Attendee

This is when it's good not to be a public company because I mean what are you going to do with that capital?

Unknown Attendee

What are you going to do with that capital? Like inorganic opportunities, places where you aren't. You've disposed off a couple of businesses, which I think you alluded to kind of pop some of these numbers up and your leverage is relatively low. Are there -- is there a white space where you want to be? Or is it organic growth that you think you've done a lot of blocking and tackling already?

Timothy Michael Sweeney
President, CEO & Chairman

First stop, support organic growth. Second stop for capital would be tech, right? It's semantics, whether it's earnings or capital, but if you know what I mean. And third would be, at some point, inorganic, but I think we, historically, Liberty have had a bit of a habit of as soon as we had a little excess capital to kind of burn a hole in our pocket. I have no such urge, right? And so we like our current product set. As we've said, we like our current geographic footprint. There are some gaps as we think about 2030 and where we want to go in terms of where we want to invest and inorganic could be a part of that.

But let's put it this way, I'm not going to Julie and saying get your folks on the hunt for M&A candidates. We don't intend to be opportunistic about it, like something is for sale. And so we're going to go do it. We're going to be patient, see our strategy evolve, see our execution evolve. But I would say organic growth for us technology and then inorganic would be how I think about it.

Unknown Attendee

And you like the long-term 50-50 kind of split between the 2 businesses, commercial and personal?

Timothy Michael Sweeney
President, CEO & Chairman

Yes. At 30,000 feet, I think and like I said, you look at almost any of our peers, and it's 100-0 or it's 90-10 or maybe 70-30 one way or the other. And so we like being roughly 50-50. As we generate excess capital, it frankly gives us more options as to where to deploy, right? So yes, so 50-50 feels about right to me.

Unknown Attendee

You did do a brilliant 2-ish acquisition, but self-funded. Mutual piece with the State Auto.

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. And that was somewhat unique in that there was a component of a mutual merger with that piece. There was a piece of the stock.

Unknown Attendee

We're seeing that. Well done.

Unknown Executive

Capital efficient, they say.

Unknown Attendee

I was just looking at the footnote on the dividends there and State Auto didn't pay a dividend? I mean, is it expected that they pay one going forward? How is that structured? Should I read anything into that?

Unknown Executive

No, no, I think we can follow up offline with you on that, but nothing to read in.

Unknown Attendee

Bulk of that is fee business, right?

Unknown Executive

State Auto was the acquisition, but that is an insurance company. That's not...

Unknown Attendee

I thought that they were mainly [warrant] fees and some other stuff more [indiscernible] oriented.

Unknown Executive

No, no, no. That's Personal Lines and Small Commercial. It's an insurance company.

Chad Stogel
Spectrum Asset Management, Inc.

How much of your book is MGA -- how much of the underwriting is done through MGAs? You were talking about the different...

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Yes. Outside of the U.S., so you'd say primarily in London, call it roughly about 30-ish percent in that part of the business. Overall, less than say, somewhere in the 10-ish percent range.

Chad Stogel
Spectrum Asset Management, Inc.

And obviously, a long-standing narrative is you don't want to give away the pen, right? So how do you defend that when you work with these partners?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

I would say, there are many forms of giving away the pen. I think generally delegated authority gets painted with it's giving away the pen. I think it starts very much with why do you want to do it, right? Are you trying to get into a particular expertise sort of asset class that you -- so we have very clear governance and operational rules around that. I'm short cutting it in the interest of time, but I would say not -- that isn't something we worry about. Again, we've taken our lumps over the years. So we've learned sort of how to really be [indiscernible].

Chad Stogel
Spectrum Asset Management, Inc.

And then -- how are we doing on time?

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Get one more in.

Chad Stogel
Spectrum Asset Management, Inc.

This is my last one.

Unknown Attendee

I don't always have one.

Chad Stogel
Spectrum Asset Management, Inc.

And then on the reserves, you showed the development on the more recent accident years versus the prior. But how do you gain that confidence with the more recent accident years because these trends are not giving up, obviously, back in certain areas, but those picks are higher. How is '21 to today looking? And also these emerging mass [indiscernible] torts like [indiscernible] we're starting to see the personal injury side prop up, I think it's going to take decades, but some really big numbers...

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. I mentioned earlier, we do have the robust reserving processes. So over the course of the year, we will look at all of our reserves, and we'll stagger that through. We'll do deep dives. Well, like I said, we are bringing in claims expertise. What are we seeing in patterns? We're bringing in the underwriters, what are they seeing? And so -- and then obviously, we're listening and trying to understand externally what others are seeing is just another piece of color. And so you're right, there's always going to be uncertainty.

We feel good about the process we have in place to be able to make the best estimates and be prudent about our selections there. Some of that emerging mass tort was getting at what you are referencing, right? And I think we're on the earlier side of recognizing that relative to maybe the industry at large. And so again, there's a lot of uncertainty out there. We know there will be emerging risk. Let's recognize that and that gives us the ability to then absorb as things emerge.

Timothy Michael Sweeney
President, CEO & Chairman

I would say, Chad, we feel very good about our -- in aggregate, our current reserve position. And we plan to live in the world of favorable rather than unfavorable. So we used to be eternal optimists until we weren't. And so a little bit more of a jaded eye to how we think about the tail on some of the stuff. And so the goal is really to not have meaningful or frequent unfavorable development, which had become a bit of a habit of ours in the past.

Chad Stogel
Spectrum Asset Management, Inc.

I think there's a large reinsurer that finally is trying to take that approach as well and historically is down the middle.

Timothy Michael Sweeney
President, CEO & Chairman

P&C insurance isn't [indiscernible] optimists.

Unknown Attendee

When did you say you took the mass tort reserve? I think you said $640 million?

Julie Marie Haase
Executive VP & Chief Financial Officer

$760 million in Q4 of last year.

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

All right. Well, thank you all. I really do appreciate the engagement. Great discussion. Really enjoyed it. Thanks a lot.

Unknown Executive

And thanks to folks that tuned in.

Robert Pietsch
Executive Director of Investor Relations & Capital Markets

Yes. I appreciate it. I hope it was beneficial to you all. And as always, we're available any time via our Investor Relations website. So feel free to reach out. Thank you.

Unknown Executive
Thanks for coming in and spending the time with us. Appreciate it.