

Liberty Mutual Holding Company Inc.

FQ2 2025 Earnings Call Transcripts

Thursday, August 7, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates**

Estimates data is not available for this transcript hence the table is not generated.

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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

Vlad Yakov Barbalat

Executive VP & Chief Investment Officer

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Second Quarter 2025 Earnings Call. [Operator Instructions] Please note, this event is being recorded. To begin liberty Mutual's presentation is Robert Pietsch, Executive Director, Investor Relations and Capital Markets. Mr. Pietsch?

Robert Pietsch

Executive Director of Investor Relations & Capital Markets

Good morning, and welcome to Liberty Mutual's Second Quarter 2025 Earnings Call. Hopefully, you have seen the earnings release and financial statements posted on our website. Speaking on today's call will be Tim Sweeney, Chairman and Chief Executive Officer; Hamid Mirza, President, U.S. Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; Vlad Barbalat, Chief Investment Officer; and Julie Haase, Chief Financial Officer.

They'll provide an overview of our results and discuss current market trends, followed by a question-and-answer session. Also participating on today's call is Damon Hart, Chief Legal Officer and Secretary. As a reminder, today's discussions may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results and other developments.

Actual results may differ materially from those expressed or implied. Please refer to our website for a complete discussion of the risk factors related to this presentation and the company. The company does not intend and does not undertake any obligation to update these forward-looking statements, which speak only as of today's date.

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

Timothy Michael Sweeney

President, CEO & Chairman

Thanks, Rob, and good morning, everyone. I'd like to begin by noting that in 2025, we've seen the devastating impact of climate-driven disasters wildfires, floods, hailstorms and tornadoes, affecting lives and communities across the U.S. These events highlight the critical role insurance plays in helping individuals and businesses recover and rebuild. Insurance is not just a financial product, but also an essential element of resilience. Its value, however, depends on accessibility.

At Liberty Mutual, we're committed to ensuring protection remains available as risks evolve. We are investing in advanced solutions, strengthening partnerships and building sustainable models to meet current and future challenges with confidence and purpose.

Turning to our financial results for the second quarter. Consolidated net income attributable to LMHC rose to \$1.8 billion, marking a \$1.1 billion improvement compared to the prior year. This strong performance reflects our ongoing disciplined underwriting across both U.S. retail markets and Global Risk Solutions, positioning us well to achieve the full year 2025 profit target we set for ourselves just over 2 years ago.

Pretax operating income for the quarter was \$2.1 billion, driven by lower personal lines claims frequency and targeted underwriting actions that address loss trends and book mix within our U.S. retail markets as well as improved loss experience tied to risk selection and portfolio shifts in Global Risk Solutions.

Higher fixed income returns and strong performance from limited partnerships also contributed positively to this result. Pretax catastrophe losses for the quarter totaled \$808 million substantially lower than the prior year, reflecting a reduction in severe weather events in U.S. retail markets.

On top line, net written premium for the quarter dipped slightly from prior year to \$11.2 billion. We continue to pursue growth strategically focused only on products, geographies and distribution channels where we can effectively generate target returns. The combined ratio for the quarter improved significantly to 87.2%, a 12.4 point reduction from the prior year, reflecting the same drivers behind our pretax operating income improvement. The underlying combined ratio came in at 82.1% for the quarter, backed by improved frequency trends in personal lines and better loss experience in our Global Risk Solutions business.

Moving to investment results. Net investment income for the quarter was \$1.4 billion, an increase of \$46 million over the prior year. This improvement primarily reflects strong net income from our fixed income portfolio as a result of higher book yields in a larger

asset base compared to last year. Net realized losses totaled \$123 million versus \$162 million in the second quarter of 2024, mainly driven by targeted fixed maturity sales designed to secure higher reinvestment yields.

Looking ahead, while the industry landscape presents clear challenges, we are well prepared to address them. Competition in Personal Lines is intensifying, the ultimate impact of tariff-related cost impacts remains uncertain, and our industry continues to be burdened by rampant abuse within the legal system. Nevertheless, our results through the first half of the year are strong. The strategic actions we've undertaken over recent quarters, including disciplined underwriting, targeted pricing adjustments and selective growth initiatives are clearly delivering positive outcomes.

Our robust balance sheet, coupled with improved underwriting profitability positions us well to navigate an evolving market landscape and we remain steadfast in our commitment to delivering sustained profitable growth while meeting the needs of our policyholders.

With that, I'll turn the call over to Hamid for a discussion of U.S. retail markets results.

Hamid Talal Mirza

Executive VP & President of US Retail Markets

Thank you, Tim. We've delivered a profitable first half of the year for USRM. Despite heavy catastrophe activity in the first quarter, we are well positioned to achieve our full year goal of a 95% combined ratio. USRM achieved a pretax operating income of \$1.4 billion for the quarter, marking a significant \$1.2 billion increase year-over-year. The combined ratio was 85.2%, down 17 points from the same quarter in the prior year, driven by profit actions, favorable non-catastrophe frequency trends and lower cat losses.

Diving into our lines of business, we experienced underwriting profitability across all 3 primary segments. I'll start with Personal Auto, where favorable trends in the quarter were primarily driven by continued favorable physical damage frequency trends and broadly flat physical damage severity trends. Auto liability loss trends continue to moderate with trends in the high single digits.

From a personal property non-catastrophe perspective, 2025 Q2 loss trend results are favorable, primarily due to the continued frequency benefit. While overall inflationary pressures have moderated, labor cost pressure persists and severity remains volatile, but elevated with trends in the low double digits.

For U.S. small commercial, severity trends on the liability lines remain elevated due to continued pressures from legal system abuse though with some early signs of moderation and with offsetting benefit on frequency trends. On property, no frequency across all coverages and perils have helped offset severity pressures due to increased volumes of large fire losses.

As we monitor the evolving tariff environment, we recognize the potential for upward pressure on claim severity, particularly in auto and property lines where imported parts and materials play a role. While it's still early to quantify the full impact, our teams are proactively modeling various scenarios and incorporating these assumptions into our pricing strategies. Thanks to our disciplined underwriting and strong data analytics infrastructure, we're well positioned to adjust rates where appropriate and maintain profitability, all while continuing to deliver value to our customers.

Turning to our top line performance. USRM's net written premium for the quarter was \$6.9 billion, a decrease of \$506 million or 6.8% compared to the prior year. This reduction was driven by strategic rate, underwriting and new business actions executed in prior years that have impacted growth. We remain fully focused on driving profitable growth across lines, states and segments. Since the end of 2024, we have continued to ramp up marketing spend, particularly in targeted geographies to be more focused and aggressive.

While negatively impacting our expense ratio, this approach has led to nearly double the Personal Lines new business volume produced in the prior year quarter. Alongside increased marketing, we've taken negative rate actions to boost conversion, increased book transfer volume and further loosen underwriting restrictions by targeted line and state combinations.

As our renewal rate moderates and the effects of state mix and customer actions take hold, we are beginning to see encouraging momentum in lead line retention over the past quarter. Additionally, we've observed sequential growth in policies in force in nearly half of our states. Looking ahead, we expect this targeted state-by-state growth to continue through year-end.

Finally, within our small commercial book, we have been launching new product offerings this year, and we'll continue to do so throughout the remainder of the year. These state-by-state rollouts across auto, BOP, workers' compensation and umbrella are expected to improve our competitiveness and overall book mix while reengaging our agents.

Overall, the second quarter continued the strong profit momentum we've built over recent quarters. Underwriting prudence and lower loss frequency trends have been instrumental in driving strong financial results. We are energized by the momentum we're seeing and remain focused on accelerating new business growth, strengthening retention and delivering on target profitability.

Now I'll turn it over to Neeti to share GRS results.

Neeti Bhalla Johnson

Executive VP & President of Global Risk Solutions

Thank you, Hamid. At the midpoint of 2025, our financial results reflect the disciplined execution of our multiyear strategy, rooted in underwriting excellence and a steadfast focus on building businesses that deliver sustainable long-term performance all the while creating exceptional value for our clients and distribution partners.

Our operating environment continues to present a mix of opportunities and challenges. And while we're better positioned than ever to navigate this heightened external complexity and uncertainty, we're also seeing mounting pressures across the industry. Our rapidly softening market in key lines and regions is occurring against the backdrop of persistent legal system abuse, 7 consecutive years of \$100 billion plus in global insured cat losses and continued geopolitical and economic uncertainty.

No doubt, the industry's resilience and discipline will be tested. For us, these headwinds reinforce our conviction. Success in this environment demands disciplined risk awareness, focus and agility. Through June, loss cost trends remained in the mid-single digits with the U.S. experiencing more pronounced increases than the international markets.

Legal system abuse continues to drive a disproportionate share of these pressures, particularly in U.S. casualty lines. We are also closely monitoring potential impacts for evolving U.S. tariff policy and broader macroeconomic conditions. While we haven't seen material effects yet, we are prepared to act decisively as conditions change. Across most geographies and lines, pricing increases have continued to decelerate even as loss cost uncertainty remains elevated.

Excluding the sharing economy segment, overall pricing was up 0.9% for the quarter and 1.6% year-to-date. However, we see meaningful softening in property, most notably in U.S. shared and layered market. And in specialty lines, particularly in cyber and D&O, where competition has remained intense.

As mentioned before, as we observe increasing litigation frequency and elevated loss trends across the U.S. casualty market, we are responding appropriately. Auto, umbrella and excess lines demonstrated strong rate increases throughout the quarter, reaching mid-double digits, while primary general liability rate change remained steady in the quarter at mid-single digit.

However, excess in umbrella rate in our estimation is not keeping pace with loss trends due to the amplified effects of legal system abuse, including longer loss development periods and primary coverages.

In addition to pricing actions, therefore, we are also adjusting our risk appetite. Our growth will be disciplined and focused on places delivering appropriate risk-adjusted returns with decisive measures underway in portfolio segments where returns fall short. Above all else, we are committed to supporting our clients as the risk environment evolves.

We are deeply engaged on the topic of legal system abuse, leveraging our expertise to inform and educate our clients on their specific risks, a system and risk management and advocate for tort reform. We are also partnering closely with our broker partners and trade associations to advocate for meaningful tort reform as long-term change is required.

Now turning to the numbers. In Q2, GRS delivered an underlying combined ratio of 88.7%, a 0.7 point improvement year-over-year. Underlying pretax operating income reached \$866 million, up \$48 million from Q2 of last year. The combined ratio improvement primarily reflects favorable current year loss experience and benefits from refined risk selection and portfolio mix.

Some offsetting factors were the impact of foreign exchange and higher employee-related costs, which reflect our continued investment in talent and capabilities. Including catastrophes and prior year incurred development, the total combined ratio improved by 6.2 points to 88.8%. Catastrophe results were favorable, reflecting a lower frequency of events and continued improvements in exposure management.

Net written premium for the quarter was \$4.3 billion, an increase of \$228 million over the prior period. This growth reflects favorable new business with higher submissions of higher quality across all our segments, increased volume in surety and lower ceded premiums from reinsurance placement timing, partially offset by lower rate exposure reductions in workers' compensation and ongoing casualty portfolio shaping measures.

While at the aggregate, pricing is below loss cost trends, given our diversified portfolio, we continue to find pockets of adequately priced growth opportunities where we have a clear right to win. That said, we will remain expertise in underwriting led first and foremost.

In a time of heightened complexity and evolving risk, we are building a business with the strength, talent and confidence to deliver consistent long-term results while developing risk-aware leadership to allow us to create value across different points of the insurance reinsurance cycle. I am proud of the progress we've made and confident in our ability to continue delivering for our clients, our partners and our people.

Now I'll turn it over to Vlad to share LMI results.

Vlad Yakov Barbalat
Executive VP & Chief Investment Officer

Thank you, Neeti. Investment results remained strong in the second quarter, supported by favorable income across both public and private strategies. Our portfolio generated \$1.37 billion of net investment income for the quarter bringing year-to-date income to \$2.69 billion, a 17% increase over the first half of 2024. The performance reflects continued discipline and portfolio management, elevated all-in yields and the resilience of our private equity platform. This was a quarter of intense macro uncertainty. Consumer and business sentiment rapidly deteriorated after the tariff announcements on April 2 and only partially recovered as tariffs were reduced and delayed. Hiring and consumer spending have slowed and tariffs are starting to push up consumer prices, but impacts have been modest and economic data has been resilient so far.

Growth is expected to slow and inflation to increase further over the next several months as the effects of tariffs continue to filter through the economy. The Fed has continued to be patient as it awaits clarity on how large those effects are likely to be as well as the extent and the impact of additional trade, immigration and fiscal policies. Due to the ever-evolving architecture of capital markets, our investment platform is organized under the umbrella of 3 core businesses: global liquid markets, global credit markets and global alternative markets, which align with our go-to-market strategy. This structure allows us to invest across capital structures and asset classes, driving portfolio evolution and operational scale.

Across public markets, credit spreads continue to tighten, reducing relative value opportunities across traditional sectors. We remain disciplined in our deployment, emphasizing high-quality sector rotation and high conviction risk selection while steadily adding carry amid a favorable rate environment that continue to offer attractive all-in yields. Portfolio yield in public fixed income was 4.4% to end the quarter, in line with Q1 anchored by a 4.9% average purchase yield.

Duration modestly increased during the quarter, reflecting confidence in our positioning as front-end rates and spread compression drove a \$609 million improvement in our unrealized fixed income position, closing the quarter at \$1.2 billion.

Tactical use of cash throughout the quarter supported both private capital deployment and risk positioning in public markets. Our approach remains grounded in liquidity preservation and risk-adjusted yield enhancement to the portfolio.

Turning to private markets. Private equity generated \$288 million in PTOI in the second quarter, anchored by gains in venture capital, a key factor in our outperformance versus 2024. Private credit strategies contributed \$264 million of PTOI during the quarter despite an uptick in credit loss allowances reflecting post-COVID economic factors and ongoing macro and geopolitical pressures. While distributions remain subdued, our strong relationships continue to provide access to leading opportunities, including high-profile deals and up rounds. These positive results were tempered by real estate equity which faced pressure from the higher rate environment as well as residual exposure in our legacy energy portfolio.

Despite market complexity, our diversified private platform continues to generate attractive long-term returns supported by strong sourcing, favorable capital pacing and disciplined underwriting. The first half of 2025 demonstrated the strength and adaptability of our investment strategy. Our focus remains on creating and compounding capital to support our policyholders and deliver long-term enterprise value.

As we enter the second half of the year, we're positioned to lead through uncertainty with confidence in our liquidity, underwriting and execution. Economic fundamentals are broadly supportive, though we continue to monitor policy direction and potential resulting volatility. Our capital position is the strongest it has ever been, and our flexible allocation framework allows us to remain opportunistic while preserving downside protection.

With that, I'll turn it over to Julie to walk through the financial results for the first half of the year.

Julie Marie Haase
Executive VP & Chief Financial Officer

Thanks, Vlad, and good morning, everyone. Before turning to our year-to-date results, I'd like to express my appreciation to those who joined us for our Fixed Income Investor Day in June. Your engagement and thoughtful questions contributed to a productive and

insightful dialogue. I hope our strong first half performance reinforces the strategic priorities we shared at that event and demonstrates the continued execution and momentum across our business.

Turning to our financial results. We reported net income attributable to LMHC of \$2.9 billion for the first half of the year, up from \$2.3 billion in the prior year. This increase reflects significant improvement in underwriting performance in both U.S. retail markets and Global Risk Solutions, along with strong contributions from our limited partnership portfolio.

Pretax operating income before limited partnerships for the first half was \$3.2 billion compared to \$1.8 billion in 2024. Pretax catastrophe losses remained stable at \$2.6 billion, consistent with the prior year with approximately half of the losses related to the California wildfires in January.

Favorable prior year development was driven by personal lines reserve releases in U.S. retail markets. Excluding the impact of catastrophes and prior year development, underlying pretax operating income increased by \$1 billion over the prior year, reaching \$5.4 billion.

This improvement was primarily driven by favorable frequency trends within personal lines and other underwriting actions within U.S. retail markets as well as improved risk selection and portfolio shifts in Global Risk Solutions.

Our total combined ratio for the first half of 2025 was 91.9%, improving by 5.8 points compared to prior year. On an underlying basis, the combined ratio improved by 4.2 points to 82%, driven by improved loss ratios across both business units partially offset by higher expenses from increased advertising expenditures to fuel growth.

Turning to top line performance. Net written premium totaled \$22 billion, reflecting a 1.8% decline year-over-year as we continue to manage growth deliberately to maintain disciplined underwriting profitability. Moving forward, we are shifting towards thoughtful growth in areas aligned with our strategic priorities in both business units.

Total net investment income for the first half of 2025 was \$2.7 billion, up 17% from \$2.3 billion in the prior year. This increase was driven by favorable valuations in private capital investments, resulting in limited partnership income growth from \$628 million in 2024 to \$778 million this year. Excluding limited partnerships, net investment income was \$1.9 billion year-to-date, up 14.4% from \$1.7 billion last year, primarily due to higher fixed income yields and growth in the asset base.

Net realized losses were \$193 million year-to-date, down from \$254 million in the same period last year, primarily reflecting unrealized losses in our legacy energy portfolio and fixed maturity portfolio turnover, partially offset by the gain recognized from the sale of our Thailand operation.

Cash flow provided by continuing operations was \$2.2 billion for the first half, a decrease of \$111 million from 2024 driven by unfavorable paid loss activity, partially offset by premium collections. We closed the second quarter with financial leverage of 19%, which is well within our tolerances. GAAP equity as of June 30 was \$34.9 billion, an increase of \$4.2 billion over year-end, primarily reflecting \$2.9 billion of net income, \$1.1 billion in unrealized gains on fixed maturities and favorable foreign exchange movements of \$190 million.

Statutory surplus stood at \$34.9 billion at the end of June compared to \$32.2 billion at year-end, primarily driven by \$2.3 billion of statutory net income.

This concludes our prepared remarks. We are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] There are no questions in the queue. Mr. Pietsch, I'd like to turn the conference back over to you for any closing comments.

Robert Pietsch

Executive Director of Investor Relations & Capital Markets

Great. Thank you, Jason, and thank you to those who joined us. If any questions do come up, please feel free to reach out to us directly. Our contact information can be found on the Investor Relations portion of our website. Have a great day.

Operator

Thank you. And this concludes the Liberty Mutual Second Quarter 2025 Earnings Conference Call. Thank you for participating.

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