Liberty Mutual Insurance Reports Third Quarter 2020 Results

BOSTON, Mass., November 5, 2020 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $397 million and $596 million for the three and nine months ended September 30, 2020, versus net income attributable to LMHC of $272 million and $1.338 billion for the same periods in 2019, respectively.

"Despite elevated catastrophe losses, net income for the third quarter was $397 million, a 46% increase from the prior year quarter," said Liberty Mutual Chairman and Chief Executive Officer David H. Long. "Results benefited from strong investment income as valuations in our partnership portfolio, booked on a quarter lag, rebounded from March lows. Catastrophe losses of nearly $1 billion, which doubled from the prior year quarter, were driven by an increased frequency of events across the U.S., including Hurricane Laura and the wildfires on the west coast. We are grateful for the efforts of our claims personnel to support our impacted customers, especially during these challenging times, and for the continued resiliency of all our employees globally during the pandemic.

"Net written premium grew 3.7% to $10.7 billion in the quarter reflecting a 16% increase in renewal rate within Global Risk Solutions and a higher policy count in Global Retail Markets U.S. Personal Lines. Within Global Risk Solutions, the rate increases continued to flow through to the bottom line as evidenced by a 97.1% core combined ratio, which is 1.9 points lower than last year. Going forward, rate increases will continue to be critical as economic conditions pressure returns in our longer tailed business."

Third Quarter Highlights

- Net written premium ("NWP") for the three months ended September 30, 2020 was $10.710 billion, an increase of $385 million or 3.7% over the same period in 2019.

- Pre-tax operating (loss) income before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended September 30, 2020 was ($158) million, versus $123 million for the same period in 2019.

- Partnerships, LLC and other equity method income for the three months ended September 30, 2020 was $467 million, an increase of $305 million or 188.3% over the same period in 2019.

- Net realized gains for the three months ended September 30, 2020 were $219 million, an increase of $138 million or 170.4% over the same period in 2019.

- Unit linked life insurance for the three months ended September 30, 2020 was ($22) million, a decrease of $10 million or 83.3% from the same period in 2019.

- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended September 30, 2020 were $5 million, an increase of $1 million or 25.0% over the same period in 2019.

- Restructuring costs for the three months ended September 30, 2020 were $28 million, an increase of $25 million over the same period in 2019.

- Loss on extinguishment of debt for the three months ended September 30, 2020 was zero, no change from the same period in 2019.

- Discontinued operations, net of tax, for the three months ended September 30, 2020 were ($6) million, versus zero for the same period in 2019.

- Consolidated net income for the three months ended September 30, 2020 was $397 million, an increase of $125 million or 46.0% over the same period in 2019.

- Net income attributable to non-controlling interest for the three months ended September 30, 2020 was zero, no change from the same period in 2019.

- Net income attributable to LMHC for the three months ended September 30, 2020 was $397 million, an increase of $125 million or 46.0% over the same period in 2019.

- Net income attributable to LMHC excluding unrealized impact[1] for the three months ended September 30, 2020 was $356 million, an increase of $68 million or 23.6% over the same period in 2019.

- Cash flow provided by continuing operations for the three months ended September 30, 2020 was $2.788 billion, an increase of $1.294 billion or 86.6% over the same period in 2019.

- The consolidated combined ratio before catastrophes[2], COVID-19[3], net incurred losses attributable to prior years[4] and current accident year re-estimation[5] for the three months ended September 30, 2020 was 93.6%, a decrease of 1.3 points from the same period in 2019. Including the impact of catastrophes, COVID-19, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio[6] for the three months ended September 30, 2020 was 104.0%, an increase of 1.5 points over the same period in 2019.

Year-to-date Highlights

- NWP for the nine months ended September 30, 2020 was $30.529 billion, an increase of $466 million or 1.6% over the same period in 2019.

- Pre-tax operating income before partnerships, LLC and other equity method income for the nine months ended September 30, 2020 was $220 million, a decrease of $771 million or 77.8% from the same period in 2019.

- Partnerships, LLC and other equity method income for the nine months ended September 30, 2020 was $217 million, a decrease of $339 million or 61.0% from the same period in 2019.

- Net realized gains for the nine months ended September 30, 2020 were $375 million, a decrease of $18 million or 4.6% from the same period in 2019.

- Unit linked life insurance for the nine months ended September 30, 2020 was $21 million, versus ($89) million for the same period in 2019.

- Ironshore acquisition and integration costs for the nine months ended September 30, 2020 were $16 million, no change from the same period in 2019.

1 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.

2 Catastrophes are defined as a natural catastrophe, civil unrest, or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Includes Global Risk Solutions estimated loss activity directly related to COVID-19.

4 Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to catastrophes, prior year catastrophe reinstatement premium, and prior year commission expense) including earned premium attributable to prior years.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2019.

6 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and installment charges to earned premium; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off. Restructuring and Ironshore acquisition and integration costs are not included in the combined ratio.

- Restructuring costs for the nine months ended September 30, 2020 were $30 million, an increase of $24 million over the same period in 2019.

- Loss on extinguishment of debt for the nine months ended September 30, 2020 was zero, versus $49 million for the same period in 2019.

- Discontinued operations, net of tax, for the nine months ended September 30, 2020 were ($19) million, a decrease of $31 million or 62.0% from the same period in 2019.

- Consolidated net income for the nine months ended September 30, 2020 was $598 million, a decrease of $740 million or 55.3% from the same period in 2019.

- Net income attributable to non-controlling interest for the nine months ended September 30, 2020 was $2 million, versus zero for the same period in 2019.

- Net income attributable to LMHC for the nine months ended September 30, 2020 was $596 million, a decrease of $742 million or 55.5% from the same period in 2019.

- Net income attributable to LMHC excluding unrealized impact for the nine months ended September 30, 2020 was $648 million, a decrease of $497 million or 43.4% from the same period in 2019.

- Cash flow provided by continuing operations for the nine months ended September 30, 2020 was $4.906 billion, an increase of $1.867 billion or 61.4% over the same period in 2019.

- The consolidated combined ratio before catastrophes, COVID-19, and net incurred losses attributable to prior years for the nine months ended September 30, 2020 was 91.8%, a decrease of 2.6 points from the same period in 2019. Including the impact of catastrophes, COVID-19, and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2020 was 101.8%, an increase of 1.8 points over the same period in 2019.

Financial Condition as of September 30, 2020

- Total debt excluding unamortized discount and debt issuance costs was $9.258 billion as of September 30, 2020, an increase of $587 million or 6.8% over December 31, 2019.

- Total equity was $25.129 billion as of September 30, 2020, an increase of $1.510 billion or 6.4% over December 31, 2019.

Subsequent Events

The Company has offered eligible employees an early retirement option. The Company estimates the cost of irrevocable acceptances of this special termination benefit to be approximately $570 million, which will be recognized in the fourth quarter.

Management has assessed material subsequent events through November 4, 2020, the date the financial statements were available to be issued.

Consolidated Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2020**	**Revised 2019[8]**	**Change**	**2020**	**Revised 2019[8]**	**Change**
Revenues	$11,371	$10,839	4.9%	$32,000	$32,295	(0.9%)
PTOI before catastrophes, COVID-19, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$871	$790	10.3%	$3,093	$2,544	21.6%
Catastrophes[1]	(980)	(428)	129.0	(2,164)	(1,201)	80.2
COVID-19[2]	-	-	-	(565)	-	NM
Net incurred losses attributable to prior years:						
- Asbestos and environmental[3]	2	-	NM	2	(3)	NM
- All other[4]	(51)	(109)	(53.2)	(146)	(349)	(58.2)
Current accident year re-estimation[5]	-	(130)	(100.0)	-	-	-
Pre-tax operating (loss) income before partnerships, LLC and other equity method income	(158)	123	NM	220	991	(77.8)
Partnerships, LLC and other equity method income[6]	467	162	188.3	217	556	(61.0)
Pre-tax operating income	309	285	8.4	437	1,547	(71.8)
Net realized gains	219	81	170.4	375	393	(4.6)
Unit linked life insurance	(22)	(12)	83.3	21	(89)	NM
Ironshore acquisition & integration costs	(5)	(4)	25.0	(16)	(16)	-
Restructuring costs	(28)	(3)	NM	(30)	(6)	NM
Loss on extinguishment of debt	-	-	-	-	(49)	(100.0)
Pre-tax income	473	347	36.3	787	1,780	(55.8)
Income tax expense	70	75	(6.7)	170	392	(56.6)
Consolidated net income from continuing operations	403	272	48.2	617	1,388	(55.5)
Discontinued operations, net of tax	(6)	-	NM	(19)	(50)	(62.0)
Consolidated net income	397	272	46.0	598	1,338	(55.3)
Less: Net income attributable to non-controlling interest	-	-	-	2	-	NM
Net income attributable to LMHC	397	272	46.0	596	1,338	(55.5)
Net income attributable to LMHC excluding unrealized impact[7]	$356	$288	23.6%	$648	$1,145	(43.4%)
Cash flow provided by continuing operations	$2,788	$1,494	86.6%	$4,906	$3,039	61.4%

1 Catastrophes are defined as a natural catastrophe, civil unrest, or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Includes Global Risk Solutions estimated loss activity directly related to COVID-19.

3 Asbestos and environmental is gross of the related adverse development reinsurance (the "NICO Reinsurance Transaction", which is described further in Reinsurance).

4 Net of earned premium and reinstatement premium attributable to prior years of $114 million and $218 million for the three and nine months ended September 30, 2020, and $4 million and ($5) million for the same periods in 2019.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2019.

6 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.

7 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.

8 2019 amounts were restated due to a pension accounting policy change, which is described further in Critical Accounting Estimates.

NM = Not Meaningful

Financial Information: The Company's financial results, management's discussion and analysis of operating results and financial condition, accompanying financial statements and other supplemental financial information for the three and nine months ended September 30, 2020 are available on the Company's Investor Relations website at www.libertymutualgroup.com/investors.

About Liberty Mutual Insurance

At Liberty Mutual, we believe progress happens when people feel secure. By providing protection for the unexpected and delivering it with care, we help people embrace today and confidently pursue tomorrow.

In business since 1912, and headquartered in Boston, today we are the sixth largest global property and casualty insurer based on 2019 gross written premium. We also rank 77th on the Fortune 100 list of largest corporations in the U.S. based on 2019 revenue. As of December 31, 2019, we had $43.2 billion in annual consolidated revenue.

We employ over 45,000 people in 29 countries and economies around the world. We offer a wide range of insurance products and services, including personal automobile, homeowners, specialty lines, reinsurance, commercial multiple-peril, workers compensation, commercial automobile, general liability, surety, and commercial property.

For more information, visit www.libertymutualinsurance.com.

Risks and Uncertainties

The extent to which the coronavirus impacts our future results will depend on developments which are highly uncertain and cannot be predicted, including litigation developments, legislative or regulatory actions and intervention, the length and severity of the coronavirus (including of second waves) and the actions of government actors to contain the coronavirus or treat its impact, among others. Possible effects on our business and operations include:

- disruptions to business operations resulting from working from home or from closures of our corporate or sales offices and the offices of our agents and brokers and quarantines of employees, customers, agents, brokers and suppliers in areas affected by the outbreak;
- disruptions to business operations resulting from travel restrictions and reduced consumer spending on new homes or new automobiles which could reduce demand for insurance;
- disruptions to business operations resulting from our customers having lower payrolls and revenues which could have an impact on insurance revenue;
- increased claims related to trade credit, general liability, workers compensation, and event cancellation coverage, among others;
- executive or legislative mandates or court decisions expanding property insurance policy coverage to cover business interruptions resulting from COVID-19 notwithstanding any exclusions set forth in such policies or conditions precedent generally required for liability under such policies; and
- disruption of the financial markets resulting in reductions in the value of our investment portfolio.

A significant rise in the number of COVID-19 infections, infections in a wide range of countries and regions, or a prolongation of the outbreak, could create an adverse economic effect on the Company.

Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the future financial and business performance of the Company. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results, investment market fluctuations, or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

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