S&P Global
Market Intelligence

Liberty Mutual Holding Company Inc.

FQ4 2021 Earnings Call Transcripts

Thursday, February 24, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates**

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

Table of Contents

Call Participants

EXECUTIVES

Christopher Locke Peirce
Executive VP & CFO

Damon Hart
Executive VP & Chief Legal Officer

David Henry Long
Chairman & CEO

Edward Jose Pena
Senior VP & Treasurer

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

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

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

Unknown Executive

ANALYSTS

Andrew Schiappa

Chad Stogel
Spectrum Asset Management, Inc.

Gordon M. Russo
Flaherty & Crumrine Incorporated

Jeffrey Bernstein
Insight Investment Management Limited

Scott Frost
State Street Global Advisors, Inc.

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Insurance Conference Call on its Fourth Quarter and Full Year 2021 Financial Results. Well, this call is available online at the URL included in the Liberty Mutual Insurance press release, and listeners should participate by phone in order to ask a question.

To begin Liberty Mutual's presentation is Ed Pena, Executive Vice President and Treasurer. Mr. Pena, you may begin.

Edward Jose Pena
Senior VP & Treasurer

Good morning, and welcome to Liberty Mutual's Fourth Quarter 2021 Earnings Call. Hopefully, you've seen the earnings release and financial statements posted on our website. Speaking today will be David Long, Chairman and Chief Executive Officer; Tim Sweeney, President; and Chris Peirce, Chief Financial Officer. We'll provide an overview of our results in the quarter and the year and discuss current market trends. Also participating on today's call or Damon Hart, Chief Legal Officer; Jim MacPhee, President, Global Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; and Vlad Barbalat, Chief Investment Officer.

Also, as a reminder, today's discussions may contain forward-looking statements that represent the company's belief concerning future operations, strategy, financial results, and other developments. Actual results may differ materially from those expressed or implied. Please refer to our website for 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. Before I turn over to our management team, I want to make a quick comment regarding 2 pending transactions. Given the ongoing regulatory approval processes, we are not in position at this time to provide any additional information or respond to any questions regarding the proposed acquisitions of State Auto and AmGeneral. We plan on providing timely public notifications once the transactions have closed. Thank you in advance for your consideration.

I will now turn the call over to David for its opening remarks.

David Henry Long
Chairman & CEO

Thanks Ed, and good morning, everybody. Strong results in the fourth quarter capped off a record ending year for Liberty Mutual. Net income attributable to Liberty Mutual holding company for the quarter was $722 million, up $560 million year over year, bringing full-year earnings to $3.1 billion, a significant achievement that would not have been possible without the hard work and dedication of our people. 2021 was an exciting year for the business as we made the significant progress towards our goals and strengthened our global franchise. We're encouraged by market tailwinds and commercial lines and or low recent headwinds in personal auto are impacting our results, we feel we're well positioned to address these challenges and profitably grow our business over time.

Pre-Tax operating income before partnerships, LLC and other equity method income for the quarter was $352 million compared to a pre-tax loss of $33 million in the prior year quarter. This improvement is reflective of several factors. Net adverse development was $314 million, down from $653 million in Q4 2020. The development in the quarter includes $151 million for asbestos and environmental exposures covered under our ADC. We also strengthen reserves in casualty lines but have reserved releases in personal auto and GRM catastrophe reserves.

Net catastrophe losses in the quarter were $143 million down from $359 million, reflecting the lower frequency of events and also reinsurance recoveries from the attachment to our aggregate cover. Current accident year re-estimation of $19 million was favorable for the quarter, although less so than the $197 million we recognized in the prior a year related to personal auto favorability as a result of the pandemic. The improvement in PTOI also reflects the absence of any COVID-19 charges compared to $115 million last year.

Top line growth in the quarter was robust with meaningful contributions from both businesses. Net written premium of 11 billion was a of 9.2% or 9.5% excluding the impact of foreign exchange. Adding U.S. personal alliance policies force remains an earlier focus and we achieved 5.7% and 6.6% growth in private passenger auto and homeowners respectively. The commercial alliance pricing environment continues to be a tailwind and contributed to growth in a number of lines. GRS specialty insurance grew by 27.7%, GRS reinsurance by 22.2% and commercial prop by 39.1%, reflecting favorable rate and new business to each of these lines. Retentions remain relatively stable or improved in most commercial lines, despite strong pricing change, reflecting a healthy operating environment.

The combined ratio in the fourth quarter improved 3.1 points to 99.2, reflecting the aforementioned PTOI drivers. The core combined ratio 2 points to 95.1 driven by elevated lust trends and personal loss and homeowners, which Tim will speak to in further detail. This deterioration was partially upset by improvement in the GRS core LUS ratio from end rate and excessive lust trend. Despite recognizing some margin improvements in GRS, we remain cautious regarding loss trends given the uncertainty brought on by the pandemic and will continue to push the rate.

The underwrite and expense ratio on the quarter improved 0.6 points to 29.6%, reflecting and premium growth coupled with expense discipline. Also, as a reminder, the $577 million, the structuring costs we incurred in Q4 2020 related to the earlier time and opportunity was nonrecurring and related cost savings will help us make progress on our profitability goals. That investment income in the quarter was $1.3 billion of $350 million from the prior year quarter driven by exceptional returns in our LP, LLC and other equity method income portfolio. This segment of the portfolio produced $861 million in PTOI this quarter, an increase of $343 million due primarily to high valuations in private capital investments.

Net realized losses of $305 million were on favorable compared to realized gains of $450 million in Q4 2020. The net losses during the period were primarily driven by losses on natural resource investments specifically, one transaction described in our MD&A and this was partially upset by equity on realized gains and net gains on equity sales.

In summary, we're pleased with the positioning of our business as we head into 2022. Pending regulatory approvals, we're excited to welcome both State Auto and AmGeneral into the group. Our main objective remains to grow our business profitably over time. And these acquisitions are important steps forward on that journey. There are a number of catalysts dueling GRS towards target returns and the industry headwinds facing our personal lines business are manageable. Our foundation's solid and we're energized to work towards sustaining top tier results for our policy holders and our investors.

And now I'm pleased to turn the call over to Tim for the discussion of business results.

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

Thank you, David. Moving on to business results, global retail markets had another quarter of solid growth. Net written premium in the quarter was $7.2 billion, an increase of 8.5% from prior year. The increase was primarily driven by the U.S., which grew $559 million in the quarter driven by personal lines as well as organic growth in our east region. Overall, growth included the impact of foreign exchange in the west and excluding this, GM net written premium increased by $596 million or 9%.

As our economic environment continues to evolve, we are cautious regarding elevated loss cost trends and remain focused on balancing growth and profit. We continue to have strong growth in U.S. personal lines with core auto and home as policy growth of 5.5%, which moderated slightly through the year and was relatively in line with prior year. In the U.S., homeowners and private passenger auto premium increased by 18.5% and 7.3% respectively driven by solid retention and higher home insured values and rate increases taken to offset rising personal lines severity trends. U.S. business lines net written premium was up slightly over of a prior quarter, driven by higher average written premium attributable to growth and exposures.

In our international operations, organic net written premium increased by $40 million with the east region up $32 million driven by growth in private passenger auto in China, Thailand and Hong Kong while the west region was up by $7 million driven primarily by auto results in Brazil from higher average written premium driven by rate action. GRM free tax operating income for the quarter was $403 million, down $412 million versus a fourth quarter of 2020, which benefited from a reserve release.

Non-catastrophe auto losses were up and vehicle miles traveled increased and inflationary pressure impacted both auto and property losses. Catastrophe losses in the quarter were $376 million, up $90 million driven by the December tornado outbreak in the Marshall fire in Colorado, which each had ultimate losses over $100 million. Partially offsetting these where releases to U.S. prior year catastrophe and non-catastrophe reserves of $163 million.

Auto loss trends and U.S. personal lines are elevated, driven by increases in used car prices that impact the claims costs of vehicles that are a total loss and elevated parts prices, pressuring repairable claims severities. Bodily injury severity remained elevated as higher average speeds and fatality rates combined with increased uninsured and underinsured motorist activity pressured loss trends. Miles driven was there at pre-pandemic levels in the fourth quarter, but frequency continued to benefit from less congested roads during commuting hours leading to fewer collisions. Personal property loss trends were elevated in the fourth quarter, driven by cost increases for materials and labor.

For U.S. business lines, similar to personal lines, commercial auto and general liability frequency benefited from vehicle miles traveled and foot traffic that increased but remained below pre-COVID levels. Severity trends remained elevated, driven in part by pressure from social inflation. Workers' compensation frequency has remained below pre pandemic levels driven by more experienced workers. Commercial property pure premium trends are elevated, driven by increased large loss related severity.

The combined ratio in the quarter was 96.7% up 5.3 from the prior year quarter. The core combined ratio was up 1.8 points to 94.1% with 4 points primarily from personalized loss ratio deterioration driven by the loss trends I mentioned as well as an increase in economic activity year over year. The expense ratio was 2.2 points better driven by earned premium growth and favorable personnel expense driven by lower staffing levels.

Moving on to global risk solutions. GRS net written premium was $3.8 billion in the fourth quarter, an increase of $400 million or 11.7% over the prior year. The aggregate renewal premium rate increase in the quarter was 13% excluding workers compensation and 11% in total. The rate increases in the quarter exceeded loss trends in all lines except workers compensation. And while we have seen some deceleration in the pace of rate increases, we expect the aggregate rate increase to exceed the aggregate loss trend throughout 2022.

Liberty specialty markets net written premium for the quarter was nearly $400 million or 29.7% higher than the prior year with a few key drivers. The first was the non-renewal of an internal reinsurance program, which contributed roughly 9 points of the increase. We also had significant renewal rate increases of 13% on flat retention. Ultimate premium true ups related to prior years was favorable specifically due to one large account in the fourth quarter. And finally, new business growth was 12% higher than the prior year.

GRS North America's net written premium increased $137 million or 9.2% over the prior year. Renewal rates increased approximately 10% overall and 13% excluding workers compensation, which had a 1.2% renewal rate increase. The aggregate rate increase exceeded our expected loss trend retention improved 8 points over the prior year as North America is retaining more of its improved portfolio. Global charities network and premium increased $5 million or 2% over the prior year and tracks with global economic growth. Other global risk solutions net premium declined $139 million, up 39% from the prior year, primarily due to the previously mentioned non-renewal of internal reinsurance contract with Liberty specialty markets.

As regards to profitability, excluding the impact of catastrophes, COVID-19, prior period loss development and current accident year re-estimation pre-tax operating was $516 million in the quarter of $119 million or 30% improvement over the prior year. Including the impact of catastrophes, COVID, prior year development and current accident year re-estimation, pretax operating income was $278 million versus a pretax operating loss of $3 million in the prior year. The core combined ratio excluding the impact of catastrophes, COVID, prior period incurred losses and current accident year re-estimation was 91.3%, a reduction of 2.6 points from the prior year. This reflects a 3.4-point reduction in the core loss ratio and a 0.8 point increase in the expense ratio. The loss ratio improvement reflects rate increases in excess of loss trend in nearly all lines and improved risk selection.

The expense ratio deterioration reflects investments in technology and operations to support profitable growth in an increase in employee related costs, partially offset by business growth. The all-in combined ratio including catastrophes, COVID-19, prior year incurred losses and current accident year re-estimation decreased 8.1 point to 98.2% 2020's COVID losses contributed 3.6 points to the loss ratio that did not recur. The catastrophe ratio decreased in the quarter and reflects releases on events that occurred in the first 9 months of 2021. Partially offsetting this with higher net and current losses attributable to prior years in 2021 than in prior year quarter.

Finally, within Liberty Mutual Investments, results in the quarter were continuation of the exceptional results we've seen over the course of 2021 with the portfolio generating $1.3 billion of net investment income in the fourth core order. As David noted, the portfolio realized losses of $305 million in the quarter, reflecting $377 million of natural resource losses, primarily stemming from one transaction, which is described in detail in our MD&A. These losses were partially offset by $98 million of unrealized gains on equity securities and $52 million of net gains on equity, sales.

Economic and market conditions in the fourth quarter continued to be supportive broad us equity market indices ended 2021 higher due to a combination of robust earnings growth, record profit margins and a supportive liquidity environment. Prompted by the prospects of a more hawkish fed outlook interest rates, into a lesser extent credit spreads experience volatility in the fourth quarter.

In terms of portfolio positioning, the fixed income portfolio, which represents the majority of our asset base saw a modest increase in high quality bonds with adds to U.S. government and municipal. Credit quality remained broadly unchanged with a slight increase in double A rated and better securities. Despite interest rate volatility due to our active portfolio management approach, portfolio duration of 4.3 years remains at our liability aware target. Liberty's private equity portfolio continued its exceptional performance with fourth quarter net investment income of $512 million bringing full-year results to $2.8 billion.

Results in 2021 was strong across PE sectors and our venture capital portfolio produced gains due to several key general partner relationships and IPO activity. As a reminder, these investments are reported on a quarter lag and do not reflect the recent volatility seen in early 2022 in the public markets, which has heightened in the technology sector. We have actively looked for opportunities to manage portfolio growth due to market appreciation. For example, we closed a modestly sized secondary sale in the fourth quarter to align our portfolio positioning.

We remain constructive on the private capital space and continue to opportunistically deploy capital. Before I hand it over to Chris, I'd like to echo some of David's comments. 2021 was a year of significant progress across each of our operating units. Our aspiration to profitably grow the business over time hinges on our ability to be dynamic and respond to fast evolving trends in the industry. We think we're well positioned to do that with our breadth of key capabilities, strong culture of innovation and diverse workforce. Achieving more consistent capital creation will inevitably lead to even greater scale to further strengthen our global franchise.

With that, Chris will conclude the prepared remarks with the discussion of our full year results.

Christopher Locke Peirce
Executive VP & CFO

Thanks, Tim, and good morning, everyone. Turning to full year results. Net income attributable to LMHC was $3.1 billion, up from $758 million in 2020. Exceptional performance in our partnership LLC and other equity method investment portfolio continued to drive results. Earnings also benefited year over year from the nonrecurrence of $680 million of COVID-19 related losses booked in the prior year, as well as the $577 million charge we took last year for our early retirement offer.

Net written premium increased 7.5% to $43.7 billion with strong contributions from both businesses. Within GRM, private passenger auto grew 7.4% and homeowners grew 12.9%, both reflecting solid retention, strong new business production and rate increases. GRM growth also benefited from the non-recurrence of $307 million of premium refunds. We issued in 2020 into the pandemic. In our GRS unit, strong growth was led by our specialty insurance book with a 27% increase in premium driven by favorable rate, strong new business and higher retention GRS renewal rate.

GRS renewal in the year totaled 12% in aggregate. Foreign exchange also contributed to top line growth due to U.S. dollar weakening. Full year pretax operating income before partnerships, LLC and other equity method investment income was $664 million, up $477 million from 2020 driven by lower prior year reserve strengthening primarily from casualty lines and higher favorable development on prior year catastrophe losses within U.S. personal lines and the non-recurrence of COVID-19 related losses I mentioned.

This was partially offset by catastrophe losses of $3.1 billion, up $534 million from the prior year, primarily related to winter ice storm events, Hurricane Ida and the Germany floods. The all-in combined ratio for the full year was 100.8%, a 1-point improvement from 2020. Similar to PTOI, the combined ratio benefited from lower prior year reserve development and the non-recurrence of COVID-19 losses partially offset by elevated catastrophe losses.

Excluding catastrophes, COVID-19 and prior accident year development, the core combined ratio deteriorated 1.7 points to 93.3% as inflationary pressures and elevated repair costs impacted non-catastrophe losses in U.S. personal lines. This was partially offset by lower current year losses in GRS. The expense ratio improved 0.3 points in the year to 29.4% as we continue to make progress in our expense discipline. As we've said in the past, we will continue to balance expense savings with making strategic investments in the future of our business.

Private equity results led to the exceptional performance in our partnership, LLC, and other equity method portfolio. The portfolio produced $3.7 billion in pre-tax operating income compared to $711 million of free tax operating income in 2020. As Tim mentioned, these results are booked on a one quarter lag and do not reflect recent market volatility.

Realized losses were $222 million compared to 790 million of realized gains in 2020. This year's result was primarily due to impairments and net losses on natural resource investments, including the impairment and subsequent sale of Baralaba and the previously noted transaction in the fourth quarter. These were partially offset by equity unrealized gains, fixed maturity sales and equity sales.

2020 realized gains included $1 billion of net gains on fixed maturity sales. Cashflow provided by continuing operations was $5.6 billion, down from $6.4 billion in 2020 driven by higher paid losses and expenses in GRM, partially offset by higher premium collections across both businesses and favorable paid loss activity in GRS. Statutory surplus was $26.5 billion at the end of the year, up from $22.8 billion at the end of 2020, reflecting $1.2 billion of statutory net income, $1.1 billion of affiliated unrealized gains and $782 million of net capital contributions from LMGI.

Gap equity as of December 31 was $27.8 billion, an increase of $1.9 billion over the prior year end, driven by $3.1 billion net income partially offset by $1.6 billion in unrealized losses on fixed maturities due to rising interest rates. In August, we issued $500 million of junior subordinated notes with just over a 4% coupon due in 2051. The funds will be used for general corporate purposes. We ended the year with financial leverage of 25.2%, which is a level we're comfortable with and one that is well within our ratings. Our capital, leverage and coverage metrics will remain strong upon close of the State Auto and AmGeneral acquisitions pending required regulatory approvals.
With that, we're happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We will now take our first question from Chad Stogel from Spectrum Asset Management.

Chad Stogel
Spectrum Asset Management, Inc.

Just had a couple questions. First one, broadly speaking about the elevated loss trends you're seeing in GRS. You continue to see them, but rate is above trend. Can you speak to maybe what some of those lost cost trends and also in that what you're paid to incurred were in the commercial segments or GRS segments this year relative to last year?

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

Yes, I'm happy to take that. Yes, as you mentioned, I think you're exactly right in saying that we continue to see lost cost trends increasing again with varying degrees across the different lines. The other thing to note there of course, is the uncertainty around those lost cost trends is probably higher than ever before as well. And so those 2 things combined is why we think we will continue to see rates although moderating from their highs in call it late 2020, we expect to continue to see them, continue to exceed lost cost trends.

U.S. sort of specifically some of the factors affecting -- I think we're all deeply aware of these lost drivers being monetary and social inflation. If you look at monetary inflation, where in the GRS book, we're seeing that probably come through most the most strongly is on the property side and on the commercial auto side of things. Social inflation continues to drive trends in the in the casualty lines. And I think that's where the closure of courts and some of the uncertainty still lingering post-COVID continues to drive that uncertainty.

What I would also say is that we do think that the geopolitical shifts that we're seeing occurring right in front of our eyes, as we look at today continue to drive this focus around the uncertainty underlying these lost cost trends. So that's broadly what I would say to you. Monetary and social inflation continue to be big drivers. The supply chain disruption issue is big labor shortages. Both the quality of labor and higher wages are driving trends in the workers comp book. And then of course, we're all deeply familiar with the elevated natural catastrophe trends that we're seeing. Overall, I would say the GRS book, we're looking at lost trends of broadly kind of mid-single digit and we continue to expect rates to exceed that.

Chad Stogel
Spectrum Asset Management, Inc.

That's helpful speaking about the geopolitical issue, with some of your specialty lines or maybe looking at the Lloyd's businesses, is there exposure to that region, the Russia-Ukraine region? Is there any, or do most policies exclude war damage and so forth? Any comments you could provide there?

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

Sure. As you can imagine, I mean, these events have been unfolding for several weeks now, and we've been monitoring these for several weeks now. I would say maybe a few things one while we do have some exposure through property and specialty products, as you mentioned, we expect any potential losses to be manageable. Really not significant specific to Ukraine given what we know today. You mentioned the war exclusions. Yes, we have those war exclusions and cyber war exclusions on our direct policies. I think, you know enough to be aware that you, these things can be challenged, but again, our cyber book is quite small relative to others in the market. And we have a 50% quarter share reinsurance protection on our small cyber book anyway, which further reduces our exposure. So I would say in totality, everything we know today, our exposure to Ukraine is extremely manageable and not significant.

Chad Stogel
Spectrum Asset Management, Inc.

Okay. And then my second question outside of the lost cost trends, on the LLP, the LLCs book, what part of the returns that you generate are mark-to-market and what part are cash distributions? And I'm just trying to get a sense of what actually drives statutory income that can be dividended. And are you looking to monetize any of that after such a strong return multiple double digits in some of those books this year?

Unknown Executive

I can take that. In terms of our LOP book, a substantial amount of that is marks. And so your question about attempting to monetize some of those, we did in fact conduct a secondary sale as was earlier mentioned as part of our regular portfolio management practice but a substantial amount of the LLP performance is in form of marks.

Chad Stogel
Spectrum Asset Management, Inc.

Okay, great. And I did in my first question, I was just ask, I asked about pay to incur. Is there any color you can provide there, just what your commercial paid to incurs were in 2021 for RGS?

Christopher Locke Peirce
Executive VP & CFO

Chad, this is Chris. I'll just jump in. We're not going to disclose any of those specific ratios, but as a general comment, I'd say we're still definitely seeing the impact of the COVID shutdowns of ports and even impacts on the medical facilities. So I think the phenomenon that we saw in 2020 has carried over. I mean, we're treating that as a timing thing. We're not ING any of that slowdown in our ultimate incurs.

Operator

[Operator Instructions] We will now take our next question from Jeff Bernstein from Insight Investment.

Jeffrey Bernstein
Insight Investment Management Limited

Chad asked all the big questions. So the remaining questions I had was you have some maturities coming up this year. If you could talk about what your issuance plans might be and talk about auto and home rate increases that you are pursuing.

Christopher Locke Peirce
Executive VP & CFO

I can answer the first part. So, I mean, we're not going to comment on any specific plans. We feel good about where we are with our current maturity portfolio and we'll continue to monitor opportunities in the market as we always do, but no specific plans to talk about.

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

Jim, you want to talk about...

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

Yes, I was just going to say, Tim is Jim MacPhee from Global Retail Markets. I can talk about the rate environment for personal lines and what I would say Tim and others have mentioned that just the current economic environment is putting significant upward pressure for the industry on both frequency and severity. And we are also seeing inflationary pressures in home repair costs. So it is I think reasonable to expect that we will continue to see pricing actions and in fact, an acceleration of pricing actions on FC side, the story of the vehicle miles travel that continued to rebound throughout 2021 towards pre-pandemic levels, causing an increase in auto claims frequency. And that was what we expected to happen and that's been the case. And I would say that view is consistent with information you see from the Department of Transportation. It shows this happening more broadly.

I would say that we've seen some mitigation and frequencies in the shift from driving between more congested commuting hours to non-com commuting hours. And that has led to a increase in the proportion of single vehicle accidents, which has then collision claim frequencies to rebound a bit faster than liability claims frequencies, but looking forward, we would expect to see continued lower relative commuting levels. Given many companies are sticking with hybrid or virtual type work arrangements. The bigger issues we have been seeing as folks alluded to are on severities within auto damage claims. And here we're seeing total loss claims valuations driven up by the higher used car prices, which are a result of the supply constraint on new cars. And we're also seeing parts price increases and repair labor cost increases, particularly as the year progressed that are putting pressure on repairable estimates.

And there are indications out there that this kind of supply chain related inflationary pressures could continue to persist. And so that combined with Neeti talked about social inflation as a contributor to trend in liability coverage each make us conclude that these inflationary pressures will continue for the auto line and we've been incorporating that into our current and our future rate activity. I'll mention homeowners just for a moment as well, because we've been experiencing increase in the cost of materials and construction labor there as well. And this is driven claims costs up. However, I would note that our homeowner's product is designed to increase the policy coverage levels to reflect these higher rebuild costs at each renewal. And we're already seeing that in our premiums. So just expect the inflationary pressures to continue. Reasonable to expect that you will therefore see pricing actions based on this and we're incorporating all, all of this into our own rate activity.

Jeffrey Bernstein
Insight Investment Management Limited

Okay. And the last question I had was, was there anything noteworthy for event cancellation costs in Q4?

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

No, nothing, nothing noteworthy at all.

Operator

[Operator Instructions] We will now take our next question from Andrew Schiappa from Amundi.

Andrew Schiappa

Just a couple clarifying questions here. In the war exclusions in your policies, what constitutes an act of war? I know you said that can be challenged and obviously some countries may deem it war. Others may not. I'm just kind of curious what the language is around that and how set in stone that is.

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

Andrew, I think it's fair to say that it's going to be hard for me to give you any specifics, but what I would say the war exclusion broadly, if governments deem a cyber-attack is part of the invasion an act of war, then the exclusion would be considered strong. The gray area becomes where if you have more kind of non-state actors and it's not clear, then we think in this case, the U.S. government would be holding Russia to a high bar. But again, that that's about as much as I can give you here. We know that the war exclusion has been tested more recently. And so, which is why I say to you, there's always sort of this uncertainty, but potentially in this case, it may be clearer or it may not be. But hopefully that gives you sufficient color.

Andrew Schiappa

Yes. It's helpful just to put some guardrails around it. A couple other clarifying questions. On the LP and LLC side, have you quantified or can you just remind me, what was the size of the secondary sale that you guys did or have you disclosed that?

Unknown Executive

Sorry about that. The secondary sale was about $150 million sale in the OP portfolio.

Andrew Schiappa

Okay. Thanks. And then I know you can't comment specifically on the acquisitions, but just curious on I think the expected close dates was that expected 1Q or just in the first half of ‘22. And do those just broadly remain on track? Are there any slowdowns on regulatory approvals or is it all going as you would've expected?

Damon Hart
Executive VP & Chief Legal Officer

This is Damon Hart. We're not going to comment on that at this time.

Andrew Schiappa

Okay. And no just even general color on when they were expected to close. Was it first half or just no comment period?

Damon Hart
Executive VP & Chief Legal Officer

Yes. I'm sorry. We're not able to comment at this time.

Operator

[Operator Instructions] We will now take our next question from Scott Frost from State Street.

Scott Frost
State Street Global Advisors, Inc.

Just a couple questions. Could you tell us what percentage of your premium base, if any, is non-standard auto?

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

I can take the question. Oh, sorry.

Unknown Executive

Go ahead, Jim. Yes, no, go ahead.

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

We are a preferred in standard writers, so it's possible that we have some non-standard risk, but it is not a market we target.

Scott Frost
State Street Global Advisors, Inc.

Okay. So nothing intentional in other words. Okay.

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

No, not from the non-standard market.

Scott Frost
State Street Global Advisors, Inc.

Okay. Also, I always have a little trouble reconciling GAAP to the supplement especially in Q4 and yearend numbers. Can you tell us what underwriting profitability was for the quarter excluding the investment effects? I know you've put out the combined ratio, but as a whole on a consolidated basis where you see GAAP underwriting profitability this quarter versus last.

Christopher Locke Peirce
Executive VP & CFO

Yes. I think probably the easiest way to look at that maybe is just the combined ratio disclosures. And we do split out obviously, the things like cats and the COVID and prior year things to try to give a specific picture on the real underwriting performance. So running down quickly, if you look at our full year disclosure and the supplement, we had what we would call a normalized combined ratio of 93.3 for the full year. And then a 100.8 on an all-in reported basis, obviously, including the catastrophes, mainly the catastrophes. The net prior year development was almost zero. So I think that piece is probably the easiest way to look at the respective underwriting performance.

Scott Frost
State Street Global Advisors, Inc.

Okay. Maybe that's a topic for later, but it might also be helpful if there were part of the supplement included a reconciliation of GAAP versus supplement. Last question. I noticed that the cashflow from continued operations declined. I think I understand why, because you go over why it dropped by 42.3% in the quarter?

Christopher Locke Peirce
Executive VP & CFO

Yes. The quarter is all the quarters can always be lumpy. If you look at the full year, it's down modestly, so we talked about the – and I would say still up significantly over pre-COVID levels. So we're still seeing the slow down on paid losses from COVID, although it has started to recover more in the GRM side. So their paid losses were partly just from growth in the business, but I think a little unwinding of the COVID slowdown in that space, on the GRS side still significantly delayed. So the quarter, you have a lot of timing from how, when we do our advertising spends and, and just some other or discretionary thing. So I think the full year picture would tell you that there's been a modest recovery and paid losses on the GRM side. But still we're growing on the top lines of getting premium in and still paying out a lot less on a relative basis than pre-COVID.

Scott Frost
State Street Global Advisors, Inc.

Okay. So pre-COVID but it's better, but year over year, it's down because of higher paid losses. Well, I mean, I missed that. Sorry. What is it?

Christopher Locke Peirce
Executive VP & CFO

Yes, correct. So if you look at the full year, 2021 is down from 2020, really because of paid losses going up. So if you think of 2020 was you know, completely impacted from COVID in terms of loss settlements. So 2020 is really the full impact, the full, I guess you'd say favorable impact – so reduction in paid losses from COVID shutdowns that started to unwind a little bit in 2021, again, more on the GRM side than the GRS side. So it's starting to return a little bit more to normal pre-COVID levels, meaning net cash flow will start to go down as we liquidate a lot of those claims that are just sitting in reserves right now.

Operator

Mr. Pena, it appears to no further questions at this time. I'd like to send the conference back over to you for any additional or closing remarks. Apologies. We do have a further question if you'd like to take it.

Edward Jose Pena
Senior VP & Treasurer

Yes, please. Please pass it along.

Operator

We will now take a follow-up question from Chad Stogel from Spectrum Asset Management.

Chad Stogel
Spectrum Asset Management, Inc.

Yes. I wanted to follow up. I queued back up, but since we had some time left. On the personal auto side, you mentioned BI severity. Is social inflation something that you're seeing permeate into the personal line space, the uninsured, under-insured motorist liability. Is that something that you're seeing more and more legal activity in higher claims as a result?

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

Yes, I can take that question. This is Jim. I did mention that for liability claims, we are seeing the return of the frequency, although at a lower level than collision claims. And I did mention that severity is impacted by social inflation and there's a number of impacts that make me think the severity of liability claims will remain a little elevated over their long-term levels. And it's things like driving speed, distracted driving the social inflation meeting. And I both spoke to slightly higher attorney representation rates that we're seeing. And there have been delays, court delays throughout the pandemic and those will cause some increase in cost. So if you're asking would I expect BI severities to remain elevated over the longer term levels, I do think the indications that they would, and we are incorporating that into our go forward rate actions.

Chad Stogel
Spectrum Asset Management, Inc.

And does that mean that looking at commercial auto over a decade ago, it really wasn't, it was seen as sort of a short-term meeting tail one. It has become longer tail because of the attorney representation. Is that a phenomenon that can shift in the personal auto space, something where that becomes a longer tail line as a result?

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

I don't see it becoming – oh, sorry, Tim.

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

Yes. The only thing I would add there is substantially lower limits on the personal lines policies which is kind of a guardrail on it getting too extreme. We can look at our umbrella policies and it can start to get into the umbrella policies, but generally speaking lower limits is a buffer to how bad it can get on a personal lines basis. But go ahead, Jim.

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

That's exactly what I was going to say. There's sort of like a short-term delay in given the courts being closed for different periods last year, but overall, I don't see sort of this becoming a longer tail line than it already is because just the policy limits are what they are.

Operator

[Operator Instructions] We will now take our next question from Gordon Russo from Flaherty & Crumrine.

Gordon M. Russo
Flaherty & Crumrine Incorporated

I'm not sure if you answered this. I got on a call a little late. Could you give an update on your adverse development cover that you entered into years ago and what the status is and what you see in the trends of the underlying claims?

Christopher Locke Peirce
Executive VP & CFO

This is Chris. Sure. Just as background, so we have 3 active adverse development covers. So I'm not sure if you're specific to one of them or more of a general question.

Gordon M. Russo
Flaherty & Crumrine Incorporated

I guess the asbestos one was the big one.

Christopher Locke Peirce
Executive VP & CFO

Yes. Okay. Yes, so we did seed another $150 million in 2021 to the asbestos – the ADC that covers asbestos. And that $150 million is split fairly evenly between asbestos and pollution. Clearly the trends have not improved as significantly as everyone I think in the industry thought that they might. So defense costs are still sort of an ongoing issue there. And we did make adjustments both in asbestos and pollution on a couple of individual cases, but defense costs are certainly a part of the story.

So, and I think we've disclosed in there. We have on the sub-limit for asbestos and environmental, we have, I think $464 million of the limit left. That's on an incurred basis. On a pay basis that will run forever, almost, and Berkshire is handling those claims under the ADC on our behalf. So we typically will do a ground up review of this every year in the late third or fourth quarter. And we'll continue to evaluate the exposures as we run forward.

Gordon Russo: Great. Thank you.

Operator

[Operator Instructions] We will now take a follow up question from Scott Frost from State Street.

Scott Frost
State Street Global Advisors, Inc.

To follow up a little bit on the auto book. And I understand that you don't target non-standard markets, but although you don't target it, let me ask it this way. How much of your book would you consider to be the equivalent of non-standard risk, even though it's not something that you target. Does that make sense, the way I've asked it?

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

Yes, I don't have an exact number. It would be a very small percent. Our rating and underwriting programs, our go-to-market strategy is geared towards the mass market but predominantly preferred and standard market writings so that we can get into the affluent market. And we will write some non-standard, but it's going to be maybe low single digits part of our bonds.

Scott Frost
State Street Global Advisors, Inc.

Okay. And have you provided any guidance or target or goal on what your combined ratio on a core basis would be over time? If you have, could you remind us what that is?

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

I don't know if we have done that. We do drive every one of our segments towards target profitability. We want to have a double digit return on equity goal across every segment within global retail markets in that Liberty.

Christopher Locke Peirce
Executive VP & CFO

Is the question for Liberty overall or for personal auto?

Scott Frost
State Street Global Advisors, Inc.

Oh, Liberty overall.

Christopher Locke Peirce
Executive VP & CFO

Yes, we should be in the mid-90s combined ratio, a little bit higher for personal lines, a little bit lower for commercial lines, but that's what we're targeting. We finished last year around a hundred percent combined ratio. So we have a little bit of work to do some of that was attached to fees, but you should expect us to be driving toward mid-90s.

Scott Frost
State Street Global Advisors, Inc.

Is it XCAD, PPD or headline, including CAT load?

Christopher Locke Peirce
Executive VP & CFO

When I say mid-90s, I mean all in.

Operator

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

Edward Jose Pena
Senior VP & Treasurer

Thank you. And thanks everybody for joining us today and for your questions. If you have any other follow up questions, please feel free to reach out to us at Investor Relations. Thank you very much and have a good day.

Operator
Thank you and this concludes the Liberty Mutual fourth quarter and full year 2021 financial presentation. Thank you for participating.