S&P Global
Market Intelligence

Liberty Mutual Holding Company Inc.
FQ2 2019 Earnings Call Transcripts

Thursday, August 08, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates**

**Estimates Data not available.

Table of Contents

Call Participants

EXECUTIVES

Christopher Locke Peirce
Executive VP & CFO

David Henry Long
Chairman, President & CEO

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Edward Peña
VP & Director Investor Relations

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

ANALYSTS

Alan Danzig

Chad Stogel

Marc Cohen

Reed Eckhout

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Insurance conference call on its second quarter and midyear 2019 financial results. While this call is available online at the URL included in the Liberty Mutual Insurance press release, analysts should participate by phone in order to ask a question.

To begin Liberty Mutual's presentation is Ed Peña, Vice President and Director of Investor Relations. Mr. Peña, please go ahead.

Edward Peña
VP & Director Investor Relations

Good morning, and welcome to Liberty Mutual Second Quarter 2019 Earnings Call. Hopefully, you have seen the earnings release and financial statements posted on our website, libertymutualgroup.com. David Long, Chairman and Chief Executive Officer of Liberty Mutual Insurance, will begin his opening remarks by speaking to the results in the quarter. Following David, Chris Peirce, Liberty's Chief Financial Officer, will discuss our year-to-date financial results. Also participating on today's call are Neeti Bhalla Johnson, Chief Investment Officer and President of Liberty Mutual Investments; Jim Kelleher, Chief Legal Officer; Tim Sweeney, President, Global Retail Markets; and Dennis Langwell, President, Global Risk Solutions.

Also as a reminder, today's discussions may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results or other developments. Actual results may differ materially from those expressed or implied. Please refer to the Liberty Mutual 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 David for his opening remarks.

David Henry Long
Chairman, President & CEO

Thanks, Ed, and good morning, everybody. Consolidated net income from continuing operations for the quarter came in at $399 million, a $110 million decrease from last year. Our results reflect stronger investment income, lower catastrophe losses and continued expense management discipline. These results, though, were offset by unfavorable loss trends, particularly in liability lines, which I'll discuss in more detail at the business level; and reserve strengthening, including $82 million for Typhoon Jebi stemming from our assumed reinsurance book. Net written premium in the quarter was $10 billion, down 0.3% from 2018, driven mostly by a change in our global casualty reinsurance programs in Global Risk Solutions. These changes had an impact of 2.2 points on premium growth, approximately half of which is driven by an increase in our casualty XOL program and the other half by a new casualty quota share. Given market conditions, we view the increased [post] assurance as a good vehicle to help reduce go-forward earnings volatility. Foreign exchange also reduced growth by a point as a result of U.S. dollar strengthening. The combined ratio for the quarter was 101.2%, an increase of 3.3 points compared to 97.9% in Q2 2018. This includes a 2-point increase in unfavorable prior year development, a 1.9 point increase in the core loss ratio, resulting from higher large loss activity and an uptick in liability loss ratios in GRS and higher non-cat losses in GRM. These increases were partially offset by a 0.5 point lower catastrophe ratio and an improvement in the expense ratio of 30 basis points.

Switching over to business results, Global Retail Markets written premium was $7.3 billion, an increase of 1.6% or 2.6%, excluding the impact of foreign exchange. The main contributors were business lines rate increases and modest exposure growth. In private passenger auto, renewal rate increases were almost 6%, but policies in force declined 2.2 points, driven by an intensely competitive marketplace. In homeowners, renewal rate increases were 3.5% with a 0.9 point decline in policies in force. Given our rate execution in these lines, we feel very good about our profitability and are focusing more intently on accelerating profitable growth.

In business lines, renewal rates were up 6% led by commercial auto at 15% and nearly 5% in general liability and commercial multiperil. International growth was 7.1% in constant dollars with strong contributions across the board, most notably in Brazil, which contributed 2 points in constant dollars; and India, which contributed 1.4 points. However, growth was dampened by U.S. dollar strengthening versus the euro and the Brazilian reais. GRM PTOI for the quarter was $265 million, down $61 million from the prior year quarter primarily reflecting higher noncatastrophe losses and an increase in the U.S. Business Lines liability core loss ratio. Partially offsetting these items were lower cat losses and profit margin on growth and premium.

Turning to loss trends. The bodily injury severity is up 5% to 6% with frequency declining 2% to 4%. And for collision, there's a similar story, albeit with severity increasing in the 5% to 7% range. Within property, trends remained stable at around 5%, which is in line with long-term averages. In business lines, auto severity trends remain elevated in the mid-single digits. Liability severity trends are also in the mid-single-digit range driven by medical inflation and increased litigation costs. Commercial property trends are in the mid-single-digit range. Workers' compensation severity was at 3% to 4% with low single-digit declines in frequency, which is consistent with what we saw at year-end 2018. The combined ratio was 98.8%, up 1.1 points from Q2 2018, including 0.2 points of current year reestimation relating to U.S. Business Lines as well as a 0.1 point uptick in prior year development. The catastrophe ratio was down 0.8 points in the quarter, but the core loss ratio increased 1.3 points driven by the aforementioned trends in U.S. Business Lines.

Moving to GRS. Net written premium decreased $219 million or 7.5% to $2.7 billion. The casualty reinsurance changes I mentioned earlier accounted for over 7 points of the decline. Also contributing to slower growth were profitability measures, including strategic re-underwriting within North American property, accounting for roughly 1.2 points; and also within commercial auto, which drove approximately 0.6 points of the decline. These decreases were partially offset by organic new business growth within Liberty Specialty Markets and growth in Surety.

Rate gains were 8% in the quarter across GRS, mostly driven by specialty insurance and domestic National Insurance at 9.2% and 7.6%, respectively. Rates were up double digits in commercial auto, property and general liability and in single digits in other lines, except for workers' compensation, where the low negative single-digit rate is generally consistent with what we're observing across the market. While trends in liability lines remain elevated, the rate we've taken through the first half of the year has been in excess of observed loss trends by about 1 to 2 points. That said, more rate is needed on these lines.

Pretax operating income in the quarter was $45 million, down $257 million, and is reflective of the combined ratio increase in the quarter. The total combined ratio was 106%, a 9.3 point increase from the same period in 2018. Prior year development contributed 6.6 points to the combined ratio, 6 points higher than the prior year, as a result of reserve strengthening on Typhoon Jebi and increasing prior year loss picks relating to 2018 accident year liability lines, reflecting the higher-than-historical loss trends that we in the industry are seeing.

The loss ratio, excluding catastrophes and prior year incurred, increased 3.7 points. Higher large loss activity contributed 1.6 points to the quarter-over-quarter increase in the core loss ratio. Additionally, higher-than-initially-expected loss trends based on the 2018 accident year led us to increase 2019 accident year loss ratio picks, which contributed about a point to the deterioration in the quarter. On an ultimate basis in liability lines, after considering the increase in 2018 accident year reserves, the 2019 accident year loss ratios are down slightly versus the 2018 accident year loss ratios. There was a 60 basis point improvement in the expense ratio, though, driven by higher-earned premium and expense management efforts across the GRS structure.

Turning to investment results. Net investment income, including partnerships, LLC and other equity method investment income, was strong at $798 million, an increase of $74 million over the prior year quarter. The increase reflects a higher invested asset base, higher earned yields in 2019 and favorable valuations and distributions in private equity investments. Net realized gains for the quarter was $62 million versus realized losses of $59 million in the second quarter of 2018. The net realized gains were primarily driven by fixed maturity sales and partially offset by impairment charges in corporate real estate and unwinding derivative positions related to capital market transactions.

In conclusion, we're benefiting from several tailwinds across our business evidenced by the increase in rate environment, strong investment results and favorable expense trends. Chris will speak to you shortly about our year-to-date results, which we think are more reflective of our earnings power given the year-over-year activity in this quarter. That said, there are certain segments of our industry, mainly commercial auto and general liability, including excess in umbrella lines that remain challenged, and it will take time for recent rate increases to materialize through earnings. We will continue to outpace the impact of these loss trends with rate, thereby strengthening performance.

And with that, I'll turn the call over to Chris Peirce

Christopher Locke Peirce
Executive VP & CFO

Thanks, David, and good morning, everyone. For the 6 months ended June 30, pretax operating income before partnership, LLC and other equity method investment income was $873 million, up $9 million from 2018. Higher net investment income, lower catastrophe losses, profit margin on earned premium growth and lower employee benefit expenses in corporate were effectively offset by prior year development within GRS, higher current accident year non-cat losses in both businesses and the increase in U.S. Business Lines liability loss estimates that David mentioned. Year-to-date, the core combined ratio improved 0.2 points to 93.5% as a 1 point reduction in the expense ratio outweighed the adverse loss trends we've already discussed. The expense ratio decreased as a result of earned premium growth of 2.8% and underwriting expenses decreasing by 2.9%. The all-in combined ratio further benefited from a 0.7 point improvement in the catastrophe ratio, which was more than offset by higher prior year incurred losses, bringing the total combined ratio to 98.7%, up slightly from 98.5% year-to-date in 2018.

Pretax partnership LLC and other equity method investment income decreased to $394 million year-to-date, reflecting less favorable energy valuations, partially offset by increased valuation in traditional LPs. Realized gains year-to-date were $312 million, an increase of $216 million from year-to-date 2018 primarily reflecting a change in unrealized gains of $329 million as we adopted ASU 2016-01 this year. We also report $49 million of loss on extinguishment of debt, up from $3 million year-to-date in 2018.

This year, we've taken a number of opportunistic actions to optimize our capital structure. We issued EUR 500 million of junior subordinated notes due 2059 with a coupon of 3.625% and EUR 350 million of 4.5% senior notes due 2049. We used those proceeds to call the Series B junior subordinated notes due 2067, totaling $300 million, tender for $196 million of the 7.8% Series A junior subordinated notes due 2037 and for general corporate purposes.

Consolidated net income from continuing operations was $1.1 billion, up 1.9% from 2018. Including discontinued operations, consolidated net income was down $559 million from $1.6 billion in 2018 as 2018 included the gain on the sale of Liberty Life Assurance Company of Boston. Excluding the after-tax impact of unrealized gains on equity securities and unit length life insurance, year-to-date net income was $860 million. Cash flow provided by continuing operations was $1.5 billion, up almost $400 million from the prior year, reflecting favorable cash flows from underwriting, including lower catastrophe payments in GRS and favorable investment results. We ended the second quarter with financial leverage of 25.6%. This level is well within the requirements for our ratings. GAAP equity at the end of the quarter was $23.6 billion, an increase of roughly $2.8 billion over the prior year-end driven primarily by unrealized investment gains due to a decline in interest rates and net income of $1.1 billion. Statutory surplus as of June 30, was $21.2 billion, up from $19.8 billion at year-end, reflecting strong net income and unrealized investment gains.
This concludes our prepared remarks, and we'll now open it up for questions.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Rob Hauff with Wells Fargo Securities.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Wanted to, if I could, start with the premium growth in the quarter. I just want to make sure I'm tracking the numbers right because I was a little surprised to see the premiums flat given some of the rate increases you have coming through. David, I thought I heard you FX reduced by about a point, but how much impact did the new reinsurance agreements have?

Christopher Locke Peirce
Executive VP & CFO

Hey, Rob, it's Chris. Yes. The -- in the quarter, the reinsurance had a very significant impact, much more than on year-to-date, just given the [4 1] inception of the new casualty treaty. So for the quarter -- year-over-year in the quarter, reinsurance ceded premium was about $300 million more. So that is a big impact in the quarter. Year-to-date, it's only about $100 million. So that's a big part of the story in the quarter.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. Very helpful. And then I wanted to, of course, talk about the adverse development in the quarter, the $204 million. Just to double-check numbers here, that includes the $82 million from Jebi?

Christopher Locke Peirce
Executive VP & CFO

Yes, it does. Yes.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. And then the balance of the $122 million, how much of that was from the legacy Ironshore book versus legacy Liberty? And then if you could give us some color on -- I assume if it's Ironshore, it's accident years 2017 and '18 since you have the ADC there. But if you can give us a little bit more color on specifics on those lines, et cetera, that would be great.

Christopher Locke Peirce
Executive VP & CFO

Yes, sure. It really is not Ironshore related, so it's virtually all sort of legacy Liberty business. In broad terms, there's about $40 million of it that's from our U.S. GL commercial book, and the rest is spread across -- a lot of it came out of our London LSM operation. And it's really spread across a bunch of different lines, including some of our internal reinsurance. All I would say, liability-themed, whether it's excess casualty, a little bit of D&O, so -- but really Liberty.

In terms of accident years, I can't give you an exact split, but a significant amount of it's '18 as we've really focused on what the trends are doing over the last 2 years. It's not all '18. A little bit of it bleeds into '17 and prior. But for the most part, it's 2018.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

And I mean -- just to dig in a little bit more, I mean is this tort social inflation type of stuff? I mean is this related to some of the reviver statutes? I mean any color there would be helpful.

David Henry Long
Chairman, President & CEO

Hey, Rob, it's Dave. Yes. We're seeing bigger verdicts. I think I said in my remarks, a little bit more medical inflation, a little bit of sort of social inflation. For the most part, we're just seeing trends emerging, in particular, in the past couple of years that are surprisingly high given historical. So in the -- in some instances, in the high single digits. Everybody's got their theory, but we are seeing verdicts that come in a little bit higher than expected. The issue for us is we still think -- the market is open to pricing for it. The problem is, even though we've gotten pretty good price, the trends remain elevated. And to the extent that the trends remain elevated, it's just going to take us longer to -- we will outpace the trends, but it's going to take us longer to get to where we need to get to. I think everybody is throwing around the same theories, and we're sort of seeing the same thing, but it's relatively recent and hard to really sort of put a stake in the ground as to what it is exactly.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. No. Understood. And definitely, we're hearing similar issues across the industry, so understood on that front. And then just one more quick one, if I could, and then I'll pass it off. On the Jebi reserve addition, did you guys -- I couldn't find it. Did you disclose an initial loss estimate that we could size the $82 million off of? And what level of industry loss are you assuming with the revision?

Christopher Locke Peirce
Executive VP & CFO

Yes, Rob. The level of industry loss is $12 billion.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. And was there an initial loss that we could size the $82 million off of? I'm not sure if it was disclosed in the past.

Christopher Locke Peirce
Executive VP & CFO

Yes. I'd have to get back to you on that initial number.

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Yes. We put up just I think a little bit over $50 million in 2018 on this. And then obviously, I think as you've seen the theme, the industry picture on it with business interruption and some of the other things was just -- has continued to drive it up.

Operator

[Operator Instructions] We'll take our next question from Alan Danzig with Lord Abbett.

Alan Danzig

Just want to follow up on the New York state and the Child Victim Act. Could you roughly talk about, as much as you can, what your exposure is, especially since Ohio Casualty was named in one of the lawsuits from the New York archdiocese?

Christopher Locke Peirce
Executive VP & CFO

Sure. This is Chris. So we can't say a lot of specifics. We have not recognized an explicit reserve for that. We do view this as sort of a contingency event, which is a part of the baseline for IBNR. And honestly, it's just too early to tell whether this is going to drive actual losses that are higher or lower than what we would assume as normal contingency stuff. So needless to say, we're watching it very closely and looking at our exposures. But nothing that's caused us to react to our reserves at this point.

Alan Danzig

Since you have acquired many businesses over the years, could you indicate which -- what areas you might be more vulnerable in terms of your different underwriting entities over the years?

Christopher Locke Peirce
Executive VP & CFO

Are you asking specific to certain states? Or...

Alan Danzig

No. Just in general, between the Safeco, Ohio Casualty, just where some of the policies may lie?

David Henry Long
Chairman, President & CEO

Hey, Alan, this is Dave. I would say it's safe to assume, given we've been around for 107 years, that most of the policies would live at Liberty.

Christopher Locke Peirce
Executive VP & CFO

And I'd just make one last comment on it. I mean we -- historically, in some of those earlier years, we're more predominantly a workers' comp writer. We obviously wrote GL and have GL exposure. But back in those days, we were a bigger comp writer than pure GL.

Operator

[Operator Instructions] We'll take our next question from Marc Cohen with Guggenheim Partners.

Marc Cohen

Maybe to start off, to build up on the previous questions from the other individuals on the call, could you maybe walk us through your outlook on rate on various businesses that you underwrite in? And then your outlook on loss cost trends on those businesses and how rate is exceeding loss cost trends or your expectations of rate to exceed loss cost trends in the future?

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

This is Tim Sweeney. I'll start with personal lines, which we feel is in fine shape. It's actually pretty hyper-competitive. We're seeing rate decreases by some of our competitors, and so -- in personal auto, particularly. So there's not a lot of rate taking. In personal auto, we start -- in personal auto, from a very strong profitability position. So we feel okay about that and feel we can continue to grow with our rate outlook and loss trend outlook. So in personal auto, we're seeing something in the vicinity of negative 3% frequency. We're seeing flat miles driven, flat new car sales, somewhat higher gas prices. And so the frequency increases in personal auto that we saw a few years ago have -- excuse me, the vehicle miles driven have flattened out after increases. So frequency looks fine. Severity is running probably about 6% on personal auto, increasing labor costs from the tight market, repair hours given vehicle complexity, et cetera. So -- but nothing that's not manageable in personal auto loss trends, and we continue to take some rate but a lot less rate because as I've said, we're in a very strong profitability position.

On the personal property side, we're running at about long term -- ex-cat long-term loss trends, flat frequency and about 6% severity. We're seeing labor costs from the tight market go up a little bit for repairs, but we're seeing material costs on property kind of moderate from a year ago. So personal lines loss trends feel fine to us. We're keeping rate in the pipeline in most places. On the commercial line side, we're seeing probably something around 7% commercial auto loss trend, but we're taking about 15% rate. So we're taking rate at about double the pace of what we're seeing in loss trends for commercial auto. Workers' comp is pretty benign in my business. We're seeing liability loss trends, as we've talked about, and we're pricing ahead of those. And so personal lines feels very healthy to us from a loss trend and a rate perspective. If anything, rates are coming down, and we're trying to make sure we're disciplined and we keep our eye on target profitability, which we're doing. And if that costs us a little bit of growth, that's okay in the short term. In commercial lines, we're seeing kind of mid- to high single-digit trends in the liability lines, but we're taking rate well above that. So that's kind of the view from personal lines and small commercial, and I'll let Dennis add any color on the larger commercial.

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Yes. I'd say in the larger commercial, workers' comp is -- rate declines were a little more moderated, larger account business and in line with slight decline in loss trend. Auto, very similar to what Tim had described, although rate is a little lower than what Tim is able to get on the smaller commercial. And liability lines, on GL, loss trends, kind of mid-single digits, and rate is exceeding that. On the excess coverages, loss trends, we view in the high single digits, and the rate increases are well exceeding that and continue to ramp up. On property, it's kind of a tale of coverages. On large single carrier, looking at high single digits. And then on E&S and shared and layered, it's in the low 20% range for rate increases, and we've been reunderwriting that book pretty aggressively. Reinsurance has been a little more moderated in terms of rate, but we're seeing low single digits across casualty and property somewhat higher in loss-affected areas and in the U.S.

David Henry Long
Chairman, President & CEO

So Marc, if you're looking for a place that I feel, this is Dave again, the most concerned, so I think we're far outpacing trends on commercial auto and excess liability on umbrella on GL, sort of core National Insurance GL, I think we're outpacing trends but only slightly. And it's a place where we need more rate, and so that's a little frustrating. But one of the things that we've noticed is when we push harder on those rates, we're tending to lose customers to people that we would not consider to be our key competitors. So the majority of the business that we've lost when we pushed rate harder has been outside of the realm of our key competitors, so going to more regional players.

Marc Cohen

Great. I had just one follow-up on the personal lines. I appreciate that color. We -- I think you did highlight PIF has declined. Is there intention to potentially lower that rate in line with competitors to kind of slow down the reduction in PIF? Or are you comfortable having risk-adjusted returns on the personal lines, both on the auto and on the homeowners side of the business?

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

No. I would say, in both cases from some PIF decline this year. Our plan for next year is absolutely to grow PIF and to grow PIF a little bit faster than the market. We have put in new pricing and -- new pricing programs for both auto and property. Over the past 18 months, our new business loss ratio had gotten to a place where we weren't comfortable with it, so we quite intentionally pulled back. I would also say that if you look at our PIF growth, we're actually growing our direct PIF, and that's through our call centers and website. We're growing that direct PIF by about 15% per year and year-to-date this year as well, but it's only about 1/4 of our in force. So we're growing in the place where we think the market is headed. Our unaided awareness from our ad campaign is up 6 points just year-over-year in 1 year, so we feel really good about our direct exposure growth. We're holding our own in the IA channel in the place that we're seeing the drag in our PIF growth for personal alliances in our captive agency channel, which we're kind of doing a strategic retooling of and stepping back and asking the question. We've shrunk that channel by about 30% over the last 5 years, and we're kind of retooling that channel to be successful in kind of a different market with different consumer expectations. And so no, we will grow PIF next year. We have very good plans to do so. We've put new pricing in place for both homeowners and auto insurance.

Our direct is growing quite nicely. We're pleased with the IA. We want to juice growth a little bit through the independent agent channel, but our real opportunity is in our captive channel to start to drive more growth there.

Christopher Locke Peirce
Executive VP & CFO

Does that answer your question, Marc?

Marc Cohen

Yes. No. It definitely does. I have one last one, then I'll go back in queue. David, appreciate your commentary in terms of rate on commercial GL and on the issues that you've been having on the casualty book. Can you maybe give us a little bit more color in terms of actions taken by the company in respect to the legacy book of casualty risk that on -- have you taken a relook at the specific accident years? Are you readjusting your loss picks? Understanding there was the reserve strengthening on Liberty-specific lines of businesses, but maybe you could help us get a clearer picture of -- is this going to be a onetime issue? Or are we going to see marginally changes in previous accident year on the reserves on this specific line of business?

David Henry Long
Chairman, President & CEO

Yes, sure. I'll start, Marc, and then I'll pass you over to Dennis in terms of specific actions. So if you think back to the third quarter of last year, which is really when we started to see some of these trends emerge, we actually increased our loss picks on the most -- mostly on the most recent accident year or 2. And we were taken a little bit by surprise, just by the magnitude of the trends. So those trends have continued, and so we sort of thought it prudent to increase the current accident year. When we get through the next quarter, you'll see that the loss ratios have actually improved year-over-year, so the timing is in there. Dennis can talk to you about where he's re-underwriting, how hard we're pushing for price, and this is an endeavor that we've been at for quite some time. I think it's a little frustrating when you see the progress that we're making on pricing on this selection sort of being a race to a certain degree by the magnitude of the trends that keep it mostly at an elevated pace. But I'll pass it to Dennis for the actions.

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Yes. It's really all of the above as far as the things you asked about. So we're re-underwriting the book of business, deemphasizing areas such as real estate that might generate a lot of prem ops claims. On the excess, on GL, we're reducing capacity that we put out. As we've discussed, we're pretty aggressively increasing rates, changing the composition of the book and not writing unsupported excess and getting off of a number of programs that were run in the past, which just haven't provided the opportunity to get to targeted profitability. Now there are exogenous forces, as we alluded to, that are affecting these loss trends such as millennials on juries, litigation financing, which seems to be an increasing factor in terms of prolonging the life and the cost of claims. Some survey work we've done indicated about 60% of the attorneys we'd surveyed believe that litigation financing is doing just that, extending life and cost. And we've seen some studies on the number of firms that are utilizing litigation financing increasing pretty rapidly. That will get well into the double-digit increases year-over-year. So that's a major factor that's going to certainly be something we need to continue to monitor as we look at loss ratios and indications, and we'll respond as we see movement in those. And this year is an example of strengthening the data in the prior couple of years resulted in us needing to reset the 2019 baseline and start even more aggressively pricing. The trend and rate activity has been increasing pretty significantly on the excess lines.

Operator

[Operator Instructions] We'll take our next question from Reed Eckhout with Legal & General.

Reed Eckhout

Just a couple of questions for me. So you talked about the rate that you've been achieving in commercial auto relative to loss cost trend there. I know that there's been some noise in that book historically and for the industry. Could you just kind of give a little bit more color on when you expect those higher rates to earn in to achieve your target underwriting margins? And what have those score combined ratios been year-to-date relative to last year?

Christopher Locke Peirce
Executive VP & CFO

Yes. Reed, this is Chris. So yes, commercial auto, as we've talked about a few times in the call, rate activity has been strong and definitely outpacing trend. I think a couple of points of context around our auto book. So first of all, it is about 5% of our total business, so it's not a huge amount. And of that 5%, about 70% of the auto book sits in the small end of the market, so in the business lines. That it's in GRM, and that's where, as Tim referenced, we've been getting north of 15 points of rate. So very significantly ahead of trend. So we have had accident year loss ratios incrementally coming down, as we've earned in that rate in excess of trend. Can't give you an exact timing on target profitability, but we're not that far off. I think we were hoping to get there in 2020. It may push us off -- the trends going up a little bit, probably push us off into 2021. But where we stand today, we're not that far off, and we're pretty encouraged by the spread between the rate we're getting in trend. The larger end, which sits in GRS, it's just a little harder to get rate in that segment of the market. But again, that's actually a very small percentage of our overall business.

Reed Eckhout

Okay. That's helpful. And then is there any update right now on the -- that can you provide us on the international growth strategy? If there have been any competitive dynamics or market pricing changes that would impact your view on some of the geographies you guys talked about related to inorganic growth at the last Investor Day?

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

This is Tim Sweeney. I think I'm not -- I wouldn't characterize any particular competitive dynamic concerns. I mean we're hitting kind of macroeconomic headwinds in Europe and in Brazil, for instance, from -- in terms of from a growth perspective. But we feel pretty good about both Europe and Lat Am from a profitability perspective. So growth, we are growing in both Lat Am and Europe, but a little bit slower than we would like. And most of that can be tied to even the U.S.-China trade situation, as you guys probably know better than I, is impacting Lat Am a little bit from a macro perspective.

In the East region, in Asia, we continue to grow more than 30% per year. In India, it's still only about a USD 250 million business. We're quite focused on making sure that's profitable economic growth, which it is. China, we're still growing about 15% a year, and that's -- of our $1 billion or so in Asia, that's -- those 2 markets, India and China, are probably about 70% of that revenue. The only concern perhaps is the regulator in China has been concerned about the industry dynamic and has really been trying to hold all competitors in China, motor, really, to industry average growth rates in an awkward kind of way, trying to push every competitor to the same growth rate. And so that's been a little bit of a challenge in terms of reaching our growth aspirations. But I would say we still look at Allianz and AXA and Zurich and others as our key global competitors, and I think they are seeing the same challenges as we are seeing as we listen to them, and they have some of the same strategies against it. So nothing I'm concerned about from a competitive dynamic. It's more of a macroeconomic, and in the case of China, a bit of a regulatory situation. But we feel pretty good about where we're growing and the ultimate profitability of that business.

Operator

[Operator Instructions] We'll take our next question from Chad Stogel with Spectrum.

Chad Stogel

My questions were largely answered, pertaining mostly to adverse on liability and being that it was mostly recent accident years. Again, I've been going across the board here, pricing, trying to keep up with loss trend across the industry, most management is saying this has been a rational response as opposed to due to a motion. But again, just going back, how much of a book is occurrence or retroactive where we really have to think about the older accident years, if there are surprises? However much you can comment on that. I mean the question was largely answered to the extent that it had, but I thought maybe I'd dive a little deeper on that end.

David Henry Long
Chairman, President & CEO

This is Dave. I'll pass you off to Chris in a second, but I would say a couple things to keep in mind. Old workers' compensation years and all of the asbestos and environmental, we have an ADC cover for. From the purchase of Ironshore prepurchase, we have an ADC cover for development on Ironshore. So any of the development that you might expect to see would really be core Liberty sort of liability lines. For the most part, we think that we're very well reserved on older years. I think the issue of the day today is much more recent elevated trends.

So as I sit here, I'm not overly concerned on older accident years. I'm much more concerned about making sure that we're getting the right price on the right accounts and booking them the most recent 1 or 2 accident years to the levels at which we think are most reflective of these trends. But to be honest with you, we just haven't witnessed this level of sort of loss trends in these lines, I'm going to say, in quite some time. And that's code for I don't remember seeing trends like this, but they might have happened in the past. So to me, it's less systemic, and it's less about the old part of the balance sheet. It's much more about the most current couple of years and making sure that we outpace those trends.

Christopher Locke Peirce
Executive VP & CFO

Yes. And the only thing I'd add is -- or piggyback what Dave just said. It has been pretty dramatic trends over the last couple of years but also on the positive side. So workers' comp has developed very favorably over the last couple of years. And then as we talk a lot about GL, trends have gone in the opposite direction. So there's been 2 large moving forces turn, and I think both of those would drive actuarial ranges a bit wider than we normally would see with more stable trends. So we continue to watch very closely where we think comp is going to end up and then also GL, and we'll just continue to evaluate what trends mean for the older years.

Chad Stogel

That's helpful. And just following up again, I mean it sounds like you have good confidence in the older accident years, but you mentioned litigation finance. And you've got life with glyphosate, talc and all those emerging trends as well. To what effect that people go back and retroactively say I was touched by this stuff in 1994, right, and we have to revisit that?

David Henry Long
Chairman, President & CEO

Yes. I'm sure that happens on occasion, Chad. But one man's opinion here, there's too much fresh chum in the water to go back and resurrect old stuff. I think we're in a situation whereby the likelihood of litigation on more current matters and the likelihood of getting bigger outcomes is much more of an issue than incidental openings of old claims to me.

Operator

[Operator Instructions] We'll take our next follow-up from Marc Cohen with Guggenheim Partners.

Marc Cohen

Just one last one, and this is more on the capital structure of the company. Wanted to get your thoughts on hybrid capital. One of the rating agencies recently changed their criteria -- their various insurance criteria, and one part of it was their hybrid capital -- rating agency capital modeling acceptance. Wanted to get your views on legacy operating insurance company obligations that are out there, the surplus notes or even the intermediate holding company, the hybrid equity junior sub obligations. If you could give us any commentary on that, that would be very, very helpful.

Christopher Locke Peirce
Executive VP & CFO

Yes, Marc. We wouldn't really have any specific comments on plans. I mean as you're aware, we were pretty active out there in the earlier part of this year in the market. And I would say we took the opportunity to look at some of the parts of our capital structure, certainly in light of some of the rating agency views on things and market conditions. We're quite pleased with the transactions that we were able to do, and I think we're quite pleased with the existing structure we have. So we'd always be looking. But beyond that, we wouldn't have any comments.

Marc Cohen

Is there need for rating agency hybrid capital? Do you find it more efficient? Or in terms of your liability management, you're comfortable with a senior unsecured obligation?

David Henry Long
Chairman, President & CEO

So Marc, this is Dave. Doesn't really matter since they're not counting that anymore, so -- which is why we were out in the market this year. So if we're not going to get credit for hybrid capital, then why would you pay for it?

Operator
And ladies and gentlemen, this does concludes today's question-and-answer session as well as today's call. Thank you all for your participation and for using AT&T Teleconference Service. You may now disconnect.