S&P Capital IQ

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Liberty Mutual Holding Company Inc.

FQ3 2017 Earnings Call Transcripts

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S&P Capital IQ Estimates**

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Presentation

Operator

Good day, and welcome to Liberty Mutual's Third Quarter 2017 Financial Results Conference Call. At this time, I would like to turn the conference over to Liberty Mutual's Director of Investor Relations, Mr. Ed Peña. Please go ahead, sir.

Edward Peña

Good morning, and welcome to Liberty Mutual's Third Quarter Earnings Call. We don't usually hold a call to review third quarter results, but since we recently witnessed 3 Category 4 hurricanes made landfall, and what would likely be the worst series of California wildfires on record. We wanted to provide an update on our results and also respond to any questions arising from these events.

David Long, Chairman and CEO of Liberty Mutual Insurance will provide opening remarks followed by Dennis Langwell, Chief Financial Officer, who will discuss the financial results. Also participating on today's call are Neeti Bhalla, Chief Investment Officer; Paul Condrin, President Commercial Insurance; Jim Kelleher, General Counsel; and Tim Sweeney, President Global Consumer Markets.

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, so please refer to the Liberty Mutual 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.

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

David H. Long
Chairman, Chief Executive Officer and President

Thanks, Ed, and good morning. Before we delve into the financial results for the quarter, I would like to first touch upon the human side of the incredible succession of natural catastrophes that have taken place over the past several months. Our heartfelt thoughts are with the victims who are still struggling to recover from the impact of Hurricanes Harvey, Irma and Maria, the earthquakes in Mexico and the California wildfires with added concern for those without insurance. It is in time of crisis that our commitments and expertise are meeting the needs of our customers, together with our financial strength, matter most. And our response teams are working tirelessly in the impacted areas to help our customers through the daunting challenge of getting back on their feet as quickly as possible.

I'd also like to express my deep appreciation to our Liberty employees for their dedication, care and compassion during these times of difficulty faced by so many people.

Now to the financial results and the brief overview of the third quarter. The aforementioned catastrophes had a significant pretax impact on our results, and resulted in a combined loss of almost $1.8 billion net of reinsurance. This compared to around $260 million of catastrophe losses in the third quarter of 2016. Specifically, Harvey resulted in a net loss of about $630 million. Losses related to Irma approximate $800 million, and Maria contributed $340 million. Looking ahead to the fourth quarter, we expect the California wildfires to add an additional $300 million of net pretax losses.

Turning to a quick rundown of the business units. Global Consumer Markets continues to demonstrate strong and improving core profitability. In the U.S., the combined ratio decreased 1.1 points from 2016 to 94.2%, despite catastrophe is adding 8 points, that's 3.8 points higher than last year. A key driver of improvement was 10 points raise in personal auto.

In Commercial Insurance, we completed the reserve study we alluded to during our last earnings call. And as a result, we booked an additional $400 million of prior year reserves in commercial auto. This was

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offset by $85 million of prior year catastrophe reserve releases. The underlying trends we've seen earlier in personal auto were linked to emerging commercial auto, but are just as real. And we'll continue to push rate in commercial by year-to-date, we're now just over 10%. And given recent events and market conditions, we do anticipate we enabled to maintain pricing power into next year across property, and to a lesser extent in some other commercial lines given the cat activity in the quarter.

In Global Specialty, Harvey, Irma and Maria delivered about $500 million of assumed reinsurance losses. I would note that our reinsurance business has been very profitable historically, and this result reflects the very reason, why our partners buy from us. These events happen and we'll be there when they do. Within our investments portfolio, we continue to enjoy our run up in private equity valuations. Net investment income, including partnership, LLC and other equity method investment income grew 27% in the quarter to $836 million. We also realized gains of $196 million compared to $84 million in the prior year. These gains were largely the results of the repositioning of our U.S. equity portfolio. We have a shifting from actively managed equities to a passive EPS strategy. We should see additional gains in the fourth quarter as we finalize that trade. Partially offsetting the third quarter, gains were $32 million in impairments on equities due to intend to sell. So all in all, a challenging quarter financially, but also rewarding as we helped many of our customers recover from these events.

And with that, I'll now turn the call over to Dennis.

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Thanks, David, and good morning, everyone. For the 9 months ending September 30, we had a net loss of $188 million versus net income of $863 million in 2016. Excluding catastrophes and prior year incurred loss activity, pretax operating income increased 2.5% to $2.6 billion. But pretax catastrophe losses increased $1.7 billion year-over-year due to the hurricanes, and pretax prior year incurred losses were $500 million worse than in 2016. The prior year incurred loss deterioration was primarily due to the commercial auto reserve strengthening, previously discussed, and $160 million of asbestos and environmental reserves strengthening. All of this resulted in an operating loss of $688 million after-tax, but before partnerships, LLC and other equity method investment income compared to net operating income of $886 million in 2016. Our combined ratio for the 9 month period before catastrophes and prior year incurred losses was 93.4%, an uptick of 0.2 from 2016. Our claims and claim adjustment expense ratio 64.2%, increased 1.7 points, primarily due to higher loss ratios in our commercial insurance businesses, commercial auto and general liability lines, and to a lesser extent best private passenger auto liability and also in our specialty business.

The increase in the loss ratio was substantially offset by a 1.5 point decline in our expense ratio, reflecting both lower expenses and the impact of rate increases across all our businesses. Including the impacts of catastrophes and prior year incurred losses, our combined ratio was 107.1% versus 98.5% in the prior year. Pretax partnerships LLC and other equity method investment income was $479 million, compared to just $26 million in 2016, reflecting more favorable private equity valuations in 2017 and improved pretax operating income in our energy operations.

Net realized gains were $395 million versus realized losses of $50 million in 2016, primarily as a result of the aforementioned equity sales, and the sale of a company-owned building, which generated a gain of $109 million. 2016 was also impacted by higher impairments on direct investments in oil and gas wells. Acquisition and integration costs relating to the Ironshore acquisition were $74 million year-to-date. Cash flow from operations was $2.06 billion, an increase of $144 million driven by lower pension funding and higher premium collections, partially offset by the funding of a large reinsurance purchase.

We ended the quarter with financial leverage of 24.5%. This level is well within the requirements for our ratings. GAAP equity at the end of the quarter was just over $20.9 billion, up $500 million from the beginning of the year as unrealized investment gains in the impact of foreign exchange, more than offset our net loss of $188 million.
This concludes our prepared remarks, and we'll now open it up for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question will come from Rob Hauff with Wells Fargo Securities.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

First of all, thank you, guys for holding an outer cycle call like this, with a quarter like this. It definitely means a lot to your long term investors. So thank you for doing this. I wanted to start with the catastrophes. You broke down the storm losses by event. Thank you for doing that. I was trying to get to the gross loss though. I saw your reinsurance recoverable went up by about $1.4 billion but it looks like maybe $400 million of that was for the NICO cover on Ironshore. So it was the gross loss to the events of about $2.8 billion?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Gross loss for the 3 events, including [some catastrophic] storms is about $3.5 billion.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

$3.5 billion, for the year?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

So that has severe storms too.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. So that includes the severe events?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes, the events were about -- gross were about little over $2 billion.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

That's for the 3 hurricanes?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. So does that imply then that very little of your reinsurance cover kicked in? You guys retain the net for most of these events?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

We bought a cover post one that attached at $500 million. And about $200 million of that roughly was attached with Harvey. And then we also have some aggregate protection and about roughly $150 million

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of that attached. So we buy both excess of loss and global aggregate treaty, and the aggregate given the frequency of fairly sizable events attached.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. Yes, I think there's been some questions around your all 3 insurance program. And I saw on the MD&A, you guys gave some disclosure on the $500 million attachment. And then it looks like you have $3.1 billion of limit above that?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes. A good portion of the $3.1 billion, it's slightly less than that and varies by layer. But pretty close to the $3.1 billion. And that includes -- that $3.1 billion includes the aggregate treaty.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. Was it just because of the nature of the events that a lot of your reinsurance didn't kick in? Or I don't know if you could talk about...

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes, so Ironshore, was not included in our treaties because we acquired them 5:1. So Ironshore had about $300 million of catastrophe losses gross. And then they had some of their reinsurance attached to that. I am sorry, the $300 million is net, so they were a little higher than that on a gross basis. And then Irma didn't reach our attachment point than our standard program of $3.1 billion, that you've referenced doesn't include some of our reinsurance business. But the aggregate program does.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay, it's more of the inbound stuff that hit you. Okay, I think I understand now.

David H. Long
Chairman, Chief Executive Officer and President

So Rob, this is Dave. Let me add a little color to that. So any of these events or Harvey and Maria on a gross basis had triggered a $0.5 billion close to that, I mean we need to cover on the $500 million x $500 million. And then the aggregate cover we've just about penetrated, but there will be significant recoveries on the wildfires in October in that treaty.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Got you. That's helpful. And then I -- it is the first time I have seen disclosure on the NICO deal on Ironshore's reserves. It's the basic promise here that the cover basically protect you guys on any adverse development on these reserves, you acquired up to a limit, and then the payment, I was a little confused about, is the bulk of the payment basically the asset transfer into a trust or how does that work?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes. So basically, most of the payment was -- roughly $400 million was in the money reserves. And the balance was the premium for the protection above the retention threshold.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

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Is it a right way to think about that, it's basically $1 billion of protection on the almost $2.8 billion of reserves? Or is it more like $500 million above $500 million?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

I would think of it more as $500 million.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. Got it.

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

So it's 95% of $500 million. And it is a large capital efficiency element of it as well as just protecting a new balance sheet component of reserves.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Absolutely right. Have you guys talked to the rating agencies since the storm losses have come through. And I don't know if you could share how those conversations have gone?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes, we have talked to the rating agencies. We talked to them pretty regularly. I think that generally, I would characterize that as having gone well. Obviously, they haven't formally said anything, but we're in that normal annual rating agency update process. I think that, I don't want to put words in their mouths, but I think generally, they appreciated the quality and the responsiveness of our reinsurance program in terms of the aggregate protection and how the wildfires are netted down by the reinsurance program.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Good to hear. Just two more for me real quick. I wanted to talk about the consumer segment. Looks like you guys are making a lot of progress there, in terms of improving margins and getting rate on the book, the underlying combined ratio of 87.6% in the U.S. consumer segment. Is that approaching sort of your target margin on this business? Or do you have something better in mind as we look out towards 2018?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

Yes, this is Tim Sweeney speaking. I would say, we'd probably adjusting for cats and harvey on the domestic auto book, of course. And maybe 2 or 3 points from our target combined ratio. As David said in his opening, we are taking about 10.5 points of rate on the U.S. auto book, this year. We are starting to see some of the coercion severity moderate at least. So I wouldn't say get back to historic norms, but at least moderate to a place where it's not on a continued upward trend. So continuing to watch things like additional parts per repair because of all the technology in the vehicles while continuing to watch labor hours spent per repair because of [lack of some] technology. And ultimately, I think of threat looming in the future is labor rate. So as the vehicles become more complex, there's going to be a demand for more specialized talent to repair the vehicles. And so we see, at least, a risk of that. But generally speaking, we feel better about the U.S. auto severity trends than we did a year ago. We're still watching the midst of future, within what probably 2 or 3 points from our target combined ratio for auto insurance in the U.S.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

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Great. Thank you for that color. That's helpful. And then just last one. On the balance sheet. You guys are one of the few P&C companies that actually do levered in the quarter like this. Obviously the $1 billion of debt pay down was pretty meaningful. But shareholder's equity is actually been pretty resilient as well. I get a slightly different picture though when I look at the $1.6 billion decline in stock capital year-to-date. So I was wondering if you could discuss what's driving that. And why the delta between shareholders equity and stock capital?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Well. I think one thing, Rob, is the treatment of unrealized fixed income gains that come through for GAAP and aren't necessarily reflected in statutory, and certainly equities are, but -- so that's a part of it. And then I can get you more detail, but I think the Ironshore acquisition and intangibles were a factor there.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay, okay. All right, maybe we can follow up afterwards.

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Yes.

Operator

Our next question will come from Scott Frost with SSGA.

Scott Frost

Just -- I'm sure it's in disclosure somewhere, but could you give us an idea what lines were worst affected by the storms?

David H. Long
Chairman, Chief Executive Officer and President

I'll-- Thanks, Scott. There are actually a little bit -- they're a little different. And so Harvey was primarily an automobile and a commercial flood event. So from our perspective, it wasn't a major homeowners event. I think, in our personal lines, it'll be somewhere around [$230 million], the losses were in automobile. And that was pretty much a commercial and a reinsurance event for us. So again we gotten out to Florida homeowners in a pretty meaningful way. And so our consumer business was not impacted particularly not only by Irma. And then Maria was primarily again a commercial property event, and zero -- just around zero on our U.S. consumer book. The wildfires remain different in getting particular next quarter, I'm sure, but the wildfires were predominantly only a U.S. homeowners event for us.

Scott Frost

Okay. And what sort of industry loss are you assuming for the 3 storms? What is your sense of what the industry loss is?

David H. Long
Chairman, Chief Executive Officer and President

Yes, so if the industry, I understand talking about $50 billion number. I think, that's high.

Scott Frost

50 is high?

David H. Long
Chairman, Chief Executive Officer and President

I think 50 it's high and that's based upon what we're looking at...

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Scott Frost

Sorry, for the total storms, I'm trying to figure out, where are you coming out on that? In the follow is, if it's around $90 million to $100 million, I'm curious as to -- or I'm assuming your loss estimates, you're based on direct observation of and claims assessments that you've made, not an estimate based on modeling. I'm just curious as to where you think the losses are going to manifest? Because they don't fit with what I -- what we've seen from loss disclosures so far from issuers? Where do you think most of the losses are going to come if it's a, say a $90 million to $100 million series of events?

David H. Long
Chairman, Chief Executive Officer and President

Yes, so I think it's tough to get arms around. And so from our perspective, on each of our losses, for the most part we're using a combination of actuaries and on the ground folks. We have pretty good estimates we think in terms of Irma and Harvey at this point. Maria is not that significant for us. But one exception I would tell you, Scott, is that our reinsurance operations out of Europe on Hurricane Irma are using a market share percentage on that latest $50 billion number, which we think is a little conservative. But at this point on Harvey, on personal lines, we probably closed 90% of the cases already. So we have a pretty good idea of what it is. I would say the same thing about Irma. And then Maria, there is sort of unknown update because we know what our limits are and we took a step at it. I think Harvey is probably the most difficult to get the arms around, just because of the flood components of it. But with the exceptions of reinsurance market, I think we have a pretty good handle on what our losses are.

Scott Frost

Sure. If that's the case, what I get to is about, I don't know -- let me see, it's about -- from most of the folks that have disclosed so far, it comes to about $30 billion or so of losses that I can see. And I haven't seen many more mutuals disclosed besides farmers and you. Where is the rest of it, is really the question? Do you have any idea where that would -- where that's going to be, what do you think?

David H. Long
Chairman, Chief Executive Officer and President

Yes, there's a couple of guys who haven't put out any numbers yet, right. So we haven't seen anything from State Farm yet. We actually haven't seen anything from a couple of other guys. I would say their losses will have to be meaningful, but it's not going to take you [indiscernible] $90 billion. So the $90 billion might be a little high for us. I'm not sure where they're going to come from, to be honest with you. The wildfires would also be interestingly we estimate that, it's somewhere between $5 billion and $10 billion. And that should be pretty easy to see who has the market share there. But yes, I don't know there's big gap here. And we've got a little bit of debt into the gap hole, but there's a long way to go. So I don't know who has it, I don't know who's put out numbers that are a little bit low, I don't know who is yet to report. But yes, I am as mystified as you are. I think the conclusion it leads you to is that $90 billion number might be a little high.

Operator

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

Marc Cohen

I appreciate the color on personal auto. I was just wondering if you could provide a little bit more into that specific business line. If you could talk about frequency trends and partly injuries severity, I know that you've highlighted that collision severity has come down a bit. But I wanted to triangulate the other factors of the lost cost trends in that specific business line?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

Yes, I would -- this is Tim Sweeney again. I would say in the BI line frequency, we're seeing something around vicinity of 1% and severity in the 4% to 5% range. So again, perhaps, a bit elevated from prior,

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but feeling a little better about it now than a year ago. A little bit of noise in uninsured motorist. But generally speaking, I would kind of summarize it as 1% frequency, 4% to 5% severity. And as I talked about looking at labor rates on the collision side on the BI side, we're looking -- still trying to quantify as our -- several of our competitors in their spoken comments. The impact of distracted driving. So that's something that we're looking at in that area of the business. But 1% frequency, 4% to 5% severity. We feel a little better this year than last.

Marc Cohen

Great. More on a -- on macro industry question. One of your competitors highlighted that they are starting to see severity increases in the horizon based on what the plaintiffs are winning during their claim award. I was wondering if you're seeing the same thing, specifically, on the longer tailed professional, commercial liability lines that you ensure?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

So, Marc, there's nothing that leaps off the page at us in terms of awards or increased severities or changing trends in terms of severity hung on any of those lines of business. That's not to say, we don't need price in those lines, because we do. But it's more of a broad-based need for rate than it is on the particular characteristic of those lines. But we've seen that it caused us to react that way.

Marc Cohen

Okay. And then finally, if I could maybe delve in more detailed on the workers comp book. The market has been a little bit moving in terms of where rates are, Florida versus the other state. I was wondering if you could comment about the workers comp market overall? And then specifically, Liberty Mutual's book, how it differentiates itself versus the industry?

J. Paul Condrin
Executive Vice President and President of Commercial Insurance

Marc, this is Paul Condrin. Overall, the market's probably been in the best place, it's been for a while in terms of industry reported combined ratios and manageable loss trends. That said, I think there's headwinds because of the NCCI's filing rates of minus 8% across -- basically across the country. So rate is going to be hard to achieve going forward. Loss trends will be positive. So one could expect the combined ratio deterioration as we go forward.

Marc Cohen

And in respect to Liberty's book, maybe you could give us a little bit background as to in what classes are worse they are? And how you may be a little bit more sheltered from rate decline of about 8%?

David H. Long
Chairman, Chief Executive Officer and President

Well, we have a pretty diverse book from a class perspective. As you know, we've made a significant reduction in our workers comp book over the last -- since 2012 to the present. I mean we went from #1 in market share to #5 in market share. And then the large portion of our book, of course, is loss sensitive which insulates to some from the rate in trend. But we do have a large portion of the book, probably close to 50% to 55% that is guaranteed cost. And so it would be subject to -- we're running at the very healthy group in terms of our profitability on that line. But as we've said earlier, there are headwinds.

Marc Cohen

And I guess -- my last question, and then I'll give it up. In respect to Ironshore's book, have you maintained that's the same business line as well as composition of book? Or have you adjusted that based on Liberty Mutual's overall book and potential overlap or exceeding exposures in specific business lines on an aggregate enterprise risk-wide basis?

David H. Long

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Chairman, Chief Executive Officer and President

Yes. That's a good question. So Marc, in terms of share we've done very little. We combined the LIU U.S. book with Ironshore pretty quickly post acquisition. But we have not done anything to change the Ironshore appetite of the lines of business to date. I think a little coordination across all of our business units will be a good thing. We have -- there has been a little bit of incident and overlap, but we have been on the same risk twice, which is to be expected. But it is incidental. We do work pretty hard to take a look at who's getting paid for the risk and make sure that we try and we write it in the right place. But if you go out in the marketplace with a 35% market share, we bump into each other a lot more than we do with most single digits. So we make sure that's coordinated but we're not going to get in the way of Ironshore in terms of the business, they particularly want to right. We just want to make sure that we have a cohesive approach to the market and we don't overlap in places where we wouldn't want to. But we overlap in the incidents have been sort of more one-offs than any sort of consistent overlap in what we write.

Operator

[Operator Instructions] We'll move next to Matt Healey from Fidelity.

Matthew Healey

Can you just clarify -- you went through the losses pretty granularly there. But can you clarify which part of the losses you took through reinsurance, you wrote directly versus which came through Ironshore?

Dennis J. Langwell
Chief Financial Officer and Executive Vice President

Well, Ironshore doesn't write reinsurance. So any reinsurance -- you're talking about reinsurance [indiscernible] ?

Matthew Healey

Yes, yes.

David H. Long
Chairman, Chief Executive Officer and President

So, Matt, all of the assumed reinsurance losses, the $500 million all came from our syndicate operations in Global Specialty.

Matthew Healey

Okay, great. And were you overall pleased with the way your reinsurance programs behaved through Q3 in these events? Or are there going to be some maybe changes in the way that you structure things for next year?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

Yes, you hate to say please, but we hope that you never use the reinsurance that you buy. Yes, it did what we wanted to deliver this year. Early in the year, we had 2 pretty significant terror events, one in Dallas and one in Denver, Colorado. And we're closing the Ironshore acquisition. And so we sort of took a look at the program that we had and decided we might need just a little capital's protection, because we're not on the business of protecting earnings. So we sort of -- as Den has said, we took that $500 million x $500 layer for a single event and then we put an ag cover in place. And [indiscernible] kind of worse and it serves its purpose well. I don't paint -- but we're sort of out in the marketplace trying to be constructing. How I'd say that, if there is any sort of difference that we're looking for, we take a sizable retention on a per-event basis. And none of these events penetrated our historic retention on a single-event basis. So if you were looking for maybe a tweak and get intense with reinsurance program, we would may be push that a little higher and maybe buy some reinsurance where we think we might need it more. But of course, the flip side of -- we are pleased about how reinsurance responds to you is that, once it's responded, then

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the reinsurance will also respond and charge a little bit more for the cover that you're looking for. So if threat is one this year, that'll be more expensive next year. If there would be a trend, probably be the tail mode on a per-event basis and maybe by little more [indiscernible]serve as well.

Matthew Healey

Yes. So on the tweak that you would contemplate on the program cover is more covered but the same attachment point, the same retention?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

See, Matt, we're playing around a bit, to be honest. And I wouldn't want to lead you down the path. But at the -- if the likes of the Harvey, Irma, Maria, superstorm Sandy, if none of those events penetrate a single event deductible. I'm not afraid pushing out of a little bit and take a little bit more risk.

Matthew Healey

That strikes me as counter intuitive but I would think you have all these events and none of which -- well, I guess, you're saying none of which penetrate the cover, right versus hit the retention? That's your point?

Timothy M. Sweeney
Executive Vice President and President of Global Consumer Markets

Yes, correct. So if we have a $1.3 billion retention on a hurricane, and even the size of these hurricanes and the magnitude of them, they don't penetrate that level for us. And I'm unafraid to -- and I'll use this illustratively like I'm unafraid to move that retention to $1.5 billion, I'll take the money that I have saved by having a bigger attention and by reinsurance in a place that's going to be more valuable to us. So the aggregate cover up or some kind of lower layer penetration.

Matthew Healey

And when you think about your -- how you price your business overall, how is it Mutual's versus the public's? And your overall profitability, which I'm assuming is slightly lower than the -- for Mutual than the public's would require for equity holders. Does that -- what I expect that your approach to using reinsurance would be more conservative, in other words that you might, in general, take more reinsurance because you're -- because as a Mutual, you're not expected to be able to earn back a loss over a short amount of time, the way a public might?

David H. Long
Chairman, Chief Executive Officer and President

Before I get to reinsurance, let me just push back to your -- that's a little bit on our acceptance of great [sub] personal auto combined ratio is 7 points better than the industry. So there's a whole bunch of process there that's supposedly providing better returns and maybe onto a lot of some places. Inevitably, in other places were not quite as profitable. We don't really think about ourselves as a Mutual. We think about ourselves as a large multinational that compete to the large multinationals in the marketplace. And if our returns on it are good, it's because we got some work to do rather than what satisfied with it. But as I said, we look at reinsurance purchasing not as any means to sort of protect earnings in any way. We don't take risk of but we don't think we could retain those the 100% of -- we just look at places, whereby those significant events or accumulation of events. But it's not a significant capital event for us. So we don't see anything under reinsurance side to the arbitrage or to protect earnings. We are really looking to make sure that after any event or any savings of events, it's not a significant capital event for us, and we're ready to take advantage of market changes. And I don't think we think about it any different than other guide.

Operator

[Operator Instructions] We'll move next to Alex Obaza with T. Rowe Price.

Alexander S. Obaza

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T. Rowe Price Associates, Inc.

I wonder if we look at both the commercial and specialty segments. If you look at the underlying year-to-date combined ratios, they most likely declined for each segment. I just want you to walk you through each segment and touch on the specific product lines that are driving that. I know you guys mentioned commercial auto earlier, but if there is any others? And talk about what is the rate you are getting now is enough, any other challenges you're facing there to catch up to those lost cost trends?

David H. Long
Chairman, Chief Executive Officer and President

Yes, how long would you cast? So couple of the high points, I would say. We're obviously in need of rate on commercial auto where it's going around 10%. And I would say that you don't need double-digit given the trends, you'll need double-digit for multiple years to get to where we need to get to. On commercial auto from a property perspective, what pretty help this issue. We are also aligned and need some great work. We're pretty optimistic to hit 10% to 20% on the back of some of this which is also well needed. And I think most liability lines are also in need of price coming at this point from import of [indiscernible] little bit here. I'm just trying what's still looking at sort of low mid-single digits on some of those lines. And professional lines need rates. I don't have a good sense yet, to be honest with you, Alex whether, what we are going to see in the marketplace. But I think to show the wind in the sales, we've gotten to the property line and these events on the losses that people have taken, I think there's nothing lot of folks to really test the market and we are one of them. So commercial autos need rates and the professional lines need rate, property needs rate. I'm more optimistic about getting little profit we are going to add in any of the lines, but we are going to push pretty hard this year, if we can have an impact there. Is there a line specifically that you're curious about?

Alexander S. Obaza
T. Rowe Price Associates, Inc.

I'm just curious if anything was standing out to you all beside commercial auto .

David H. Long
Chairman, Chief Executive Officer and President

Yes, property is big one. I think there's a general consensus that everybody is going to be out there and trying to get that lines priced properly. Professional line here in the U.S., I think is, investor is in need of some rate, I just don't have a good sense for how the market's going to respond when we start pushing for price on that?

Alexander S. Obaza
T. Rowe Price Associates, Inc.

And would expect that if you can't get the prices -- the price increases that you're looking for, would you expect to then take exposures down?

David H. Long
Chairman, Chief Executive Officer and President

Sure. It holds us a little bit of our worker's compensation where we probably took down a couple of billion dollars worth of exposures, but you couldn't get the right price on. So if we have to shrink any line of business, we would certainly walk away from that and to put capital in place until we think, we are going to get better return. Not just on the insurance, but on the investment side. So we're going to be pretty disciplined about who gets capital and gets the put in play, which at times generate a decent return on it, we're happy to reduce exposure.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Okay. Good. And could you just talk about -- what was -- what is the return metric that you look at when you're making those allocation decisions?

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David H. Long
Chairman, Chief Executive Officer and President

Yes, so actually kind of a couple, and depends what it is. But Tim talked about target combined ratio because that's easy for our people to understand and push for. Internally, when you look at basically return on the capital, the risk-adjusted capital that we put behind any investments or any business or any line of business with a caveat or a constraint about regulatory capital. So we try to make the best decisions from an economic perspective on the return on equity basis, on a risk-adjusted basis. But sometimes the rating agencies think that we need more capital in place that-- than we do. So we don't left that sort of to get in the way. But it's certainly a constraint when we make some of those decisions. But it's a -- mostly a return on equity that translates that's something meaningful to the people on the front line to a pricing, so that they understand what we're trying to do.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Okay, great. And then sorry, just last one from me. If I understand, what you are doing with the reinsurance buying this year kind of after some larger than expected severe storms earlier in the year, you bought the additional cover. So as you look into kind of help protect capital through the rest of the year. As you look in to your plans for 2018 with the reinsurance buying? Do you think it'll be kind of business as usual as far as the program you put in place? Or do you think there'll be any additional kind of special onetime programs you put in similar to what you did earlier this year?

David H. Long
Chairman, Chief Executive Officer and President

Yes, you know -- we don't know. We're actually sort of out in the marketplace now. So if you call back in the retail, I have the good answer for you. But we decided to go out and start looking nearly and see what's available. At the same time, we're also repricing our reinsurance for our partners that are buying from us. It's too early to tell what the structure is going to look like. We don't really know but the pricing is going to be yet. But hopefully, you don't need to do what we did this year, which is sort of the reacted to the situation. We much rather have something that was in place that we felt comfortable about. But yes, I think something that looks reasonably similar to what we had now would be what we would look for.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Yes, okay. And in India, just to be clear on that point. If the goal of the reinsurance program is to protect capital. It sounds like you're not especially concerned about your current capital levels? Or obviously, might be out looking to do extra things on the reinsurance side. I feel like that's not the case for 2018?

David H. Long
Chairman, Chief Executive Officer and President

No, absolutely not. It's tough to be on the phone, if you're saying we just lost $650 million, for me to say. I feel good about that underlying business and that's the situation that we are in. And we're not overly concerned about buying out reinsurance. Within the risk, we actually see the sort of change in the market is a good opportunity for us to write more and get a little price and take more risk and make sure we get paid for it. We're not being defensive here. We think this is a good time to move forward.

Operator

It does appear that there are no further questions at this time. I would like to turn the floor back over to Mr. Ed Peña, please, for any additional or closing remarks.

Edward Peña

Thank you all for joining us this morning. If you have any questions, contact details can be found on the Liberty Mutual website.

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Operator
This concludes today's conference. Thank you for participation. You may now disconnect.

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