Liberty Mutual Holding Company Inc.

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Fourth Quarter 2024 Earnings Conference Call. 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 [Operator Instructions]. Please note, this event is being recorded.

To begin Liberty Mutual's presentation is Robert Pietsch, Executive Director, Investor Relations and Capital Markets. Mr. Pietsch?

Robert Pietsch

Good morning, and welcome to Liberty Mutual's Fourth Quarter and Full Year 2024 Earnings Call. Hopefully, you have seen the earnings release and financial statements posted on our website. Speaking on today's call will be Tim Sweeney, President and Chief Executive Officer; Hamid Mirza, President, U.S. Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; Vlad Barbalat, Chief Investment Officer; and Julie Haase, Chief Financial Officer.

They will provide an overview of our results and discuss current market trends, followed by a question-and-answer session. Also participating on today's call is Damon Hart, Chief Legal Officer and Secretary.

As a reminder, today's discussion may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results and other developments. Actual results may differ materially from those expressed or implied. Please refer to our website for a complete discussion of the risk factors related to this presentation and the company. The company does not intend and does not undertake any obligation to update these forward-looking statements, which speak only as of today's date.

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

Timothy Michael Sweeney
President, CEO & Director

Thanks, Rob, and good morning, everyone. Before I begin, I want to take a moment to acknowledge the devastating wildfires that have impacted so many California communities. Our committed claims professionals have mobilized to support our policyholders working tirelessly to assess damages and provide compassionate assistance to those whose lives have been disrupted by these tragic events.

In moments like this, our strong financial position takes on even greater significance. Our robust balance sheet and dedicated claims professionals enhance our ability to respond effectively to these catastrophic events, providing reassurance to our policyholders that we will be there to help them recover.

Turning to our results for the fourth quarter. I'm pleased to report we closed the year with the strongest balance sheet in our history and our lowest combined ratio in 20 years, while never losing sight of the needs of our customers and partners. Our ongoing improvements in underwriting and operations have positioned us exceptionally well for what's ahead.

For the fourth quarter, net income attributable to LMHC was $1.2 billion, a remarkable 89.4% increase compared to the $654 million in the same quarter last year. This significant growth underscores our commitment to disciplined underwriting and strong operational execution. Pretax operating income for the quarter was $2.1 billion, driven by substantial earned rate increases and improving loss trends in U.S. retail markets alongside strong underwriting execution in Global Risk Solutions.

Additionally, higher returns from fixed income investments and strong performance from limited partnerships income significantly contributed to this result. Pretax catastrophe losses for the quarter were $234 million, consistent with the prior year quarter, reflecting the impact of severe weather events in U.S. retail markets. Reserve development in the quarter included $175 million related to asbestos and environmental claims, which we assess annually in the fourth quarter and is covered by our 2014 ADC.

Additionally, we took action to prudently strengthen our reserves this quarter by $760 million, which amounts to approximately 1% of our net loss and LAE reserves, primarily within our Corporate segment. Julie will provide further details on this shortly.

Moving to top line. Net written premium for the quarter dipped slightly from prior year to $10.6 billion, largely attributable to the strategic actions we implemented earlier in the year and at curbing new business growth, especially in the Private Passenger Auto

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segment of our U.S. retail markets. That being said, we've pivoted to growth in select products, geographies and distribution channels where we can effectively generate target returns.

By strategically pursuing these opportunities, our aim is to enhance our market position while ensuring sustainable profitability for the future.

The combined ratio for the quarter improved to 91.5%, a 3.6 point decrease from the previous year, reflecting our enhanced underwriting performance. The underlying combined ratio for the quarter stood at 81.2%, a 9.9 point improvement from 91.1% in the prior year, driven by improved frequency trends in Personal Lines and better loss experience in our Global Risk Solutions business. Turning to investment results.

Net investment income for the quarter reached $1.3 billion, an increase of $512 million from the prior year, mainly driven by higher taxable fixed maturity investment yields and favorable other investment income.

Net realized losses for the quarter was $623 million compared to $271 million in the same period last year, primarily as a result of strategic portfolio repositioning and income-accretive transactions. When I spoke to you all at our last Fixed Income Investor Day in March of 2023, I set a goal to achieve a 95% combined ratio by the end of 2025.

Today, I'm pleased to report that we have made significant strides toward this goal, and I'm confident we will achieve it. Over the past 3 years, we have made continuous profitability improvements within Global Risk Solutions.

More recently, we have also realized positive profitability progress in U.S. retail markets, driven by our continued underwriting and rate actions that support our profitability targets. We've laid a solid foundation and now our focus is on optimizing our operations and pivoting to growth in certain segments while ensuring we do so without compromising profitability.

We believe that by balancing growth with prudent business discipline, we can better serve our customers and support the communities where we live and work. This approach will not only strengthen our financial foundation, but also position us effectively to respond to the evolving needs of our policyholders and the challenges within our industry.

In summary, I'm incredibly proud of our strong results for both the fourth quarter and the year overall. The strategic actions we have implemented to strengthen our underwriting discipline and enhance operational efficiencies are yielding positive results, positioning us for continued success into the future. I look forward to the upcoming year as we continue to build on our positive momentum.

Now I'll turn the call over to Hamid to discuss U.S. Retail Markets results.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Thank you, Tim. 2024 has been a transformative year for USRM with the last quarter demonstrating that the remediation actions we've taken on our book have enabled us to achieve strong profit results. USRM achieved a pretax operating income of $1.9 billion for the quarter, marking a substantial $1.3 billion increase compared to the same period in 2023. The combined ratio was 77.1%, down 15.9 points from the same quarter in the prior year.

This improvement was due to our profit actions, favorable non-catastrophe frequency trends, a refined segment book mix and lower-than-expected cat losses for the quarter. Diving into our lines of business, I'll start with auto, where trends continue to moderate in Q4. Collision frequency and severity trends remained favorable. Total loss claim severity trends were also favorable, while repair cost trends were unfavorable due to both auto repair wages and parts.

Property damage severity trends were roughly flat. And finally, auto bodily injury severity trends remained elevated in Q4 with annual trends in the low double digits, driven by attorney involvement in claims and legal system abuse.

For personal property, continued non-catastrophe frequency benefits seen throughout the fourth quarter drove favorable loss trends.

While inflationary pressure has moderated overall with mild inflation in construction material costs, labor cost pressure persists and severity remains volatile with low double-digit trends. For U.S. small commercial, severity trends on liability lines remain elevated due to continued pressure from legal system abuse and medical inflation with some offsetting benefit on frequency trends.

Turning to our top line performance. USRM's net written premium for the quarter was $6.7 billion, a decrease of $369 million or 5.2% compared to the prior year. This reduction was driven by necessary strategic rate, underwriting and new business actions in both personal and small commercial lines that had a negative impact on growth. We are fully focused on spurring profitable growth across lines, states and segments.

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In Q4, we increased marketing spend, took targeted rate decreases to drive growth, reduced underwriting restrictions in nearly all states and leveraged our strong network of independent agents.

And finally, we are focused on transforming USRM for the future to be simpler, more efficient and faster. As a part of this transformation, we have recently announced that starting in 2026, we will go to market in the IA channel as Liberty Mutual. Sunsetting the Safeco brand will allow our independent agents to take advantage of the stronger brand awareness of our Liberty Mutual name nationwide.

Further, moving to a single brand will help us take a key step towards simplifying our operations. Overall, the fourth quarter mirrored the strong performance we've seen throughout the year.

Disciplined underwriting decisions, reduced frequency loss trends and focused expense management have all played a pivotal role in our strengthened financial results. With profit challenges firmly in the rearview mirror, we are primed to fight for market share in 2025 and beyond.

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

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Thank you, Hamid. 2024 marks 3 years since we began the GRS transformation to build a consistently high-performing risk-aware business rooted in underwriting excellence and risk expertise while delivering exceptional value to our clients and distribution partners. I couldn't be prouder of our people who have embraced this ambition and are rigorously executing to make this vision a reality.

We are now performing at the initial financial milestones we set for our business a year earlier than our targeted time line. While financial results are one measure of progress, they are a critical marker of our remarkable transformation. The GRS underlying combined ratio for the 3 months ended December 31, 2024, was 88.4%, a decrease of 5.3 points from the same period in 2023.

Underlying pretax operating income nearly doubled over the same period to $915 million. We are more effectively managing our cat volatility and cat budget. Despite 2024 being a heavy cat year, our cat ratio came in below budget and below last year. Our balance sheet is strong, and we continue to be disciplined and prudent in our approach to reserve adequacy, responding to bad news quickly and good news more slowly.

At a time of unprecedented external complexity in our risk environment, we are more prepared than ever to capitalize on our strengths and invest in capabilities with an eye to the future.

With that as the backdrop, let me turn to the market trends and how we're responding before wrapping up with a more detailed commentary on the performance in the fourth quarter. Loss cost pressures in the aggregate remain high with a large cone of uncertainty around trends across different lines. It's worth noting that the World Uncertainty Index has risen sharply and is at its highest point in the last 5 years. Meanwhile, increased competition fueled by cumulative rate increases across many lines and geographies is leading to a rapid softening in the cycle.

In 2024, our loss cost trend was mid-single digits with North America trends more elevated than those internationally. While the pricing cycle isn't one size fits all across lines and geographies, the industry is seeing positive but decelerating price increases, which stand in contrast to sticky, high and more uncertain loss cost trends. In the aggregate, pricing change, excluding the impact of sharing economy, was 4% in the quarter and 5.4% for the year. Property rates have decreased throughout this year, though we still believe the line is rate adequate.

Our underwriting discipline and diversified insurance and reinsurance portfolio provide us with the confidence in our ability to be there for clients as they navigate climate change and geopolitical risks. Specialty lines driven primarily by cyber and D&O continue to soften due to continued competition.

Excluding financial lines pricing, which includes renewal rate change and exposure trend, specialty pricing is generally in line with loss cost trend. No call, of course, is complete without a discussion on U.S. casualty.

The challenges of legal system abuse have not abated, and we continue to see an increase in litigation rates and heightened loss trends across the U.S. casualty market.

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While we may not share the optimism of some peers, we view the current market as responsive to loss cost trends. Auto, umbrella and excess had strong rate change throughout the year in the mid-double digits and primary general liability rate change accelerated in the second half of the year, reaching low double digits.

On the other hand, excess and umbrella trends continue to rise throughout the year as this is the area where legal system abuse is having the greatest impact via increasing loss trends and the leveraged impact of lengthening loss development in the primary coverages.

It is critical for casualty pricing to keep up with loss cost trends, and we must remain disciplined while also engaging with clients on mitigation. We continue to analyze legal system abuse in great detail, bringing this expertise to our clients, educating them on their individual risk, helping them to manage their own risk while also activating their voices toward tort reform.

In addition to rate, we continue to take actions to adapt our risk appetite to the realities of the legal system abuse landscape while maintaining our commitment to our primary umbrella and excess casualty product offering.

We will only grow in lines with appropriate risk-adjusted returns and are taking decisive actions in the areas of our portfolio where returns aren't up to par.

Let me now turn to fourth quarter results. Net written premium for the quarter was $3.8 billion, $450 million lower than the prior period. This reflects continued derisking in less profitable pockets of our portfolio, primarily U.S. casualty, the reestimation of premium assessments and the impact of an intercompany reinsurance transaction in the prior period that did not recur.

The premium decrease was partially offset by renewal rate increases across most lines of business and increased surety volume. While we continue to look for opportunities to optimize our growth, we will remain disciplined and maintain our focus on profitability.

Our rigorous execution and underwriting actions over the past 3 years have enabled us to deliver more consistent returns over time. As I mentioned before, the underlying combined ratio for the quarter was 88.4%, reflecting favorable current year loss activity driven by risk selection and portfolio shifts, partially offset by higher employee costs.

Including the impact of cats and prior year incurred, the total combined ratio for the quarter decreased 3.6 points to 90.3%, reflecting favorable current year loss activity and lower cat losses.

The lower total combined ratio in the quarter was partially offset by favorable prior year releases in 2023 as compared to immaterial strengthening in the 2024 quarter. We ended the year with pretax operating income of $2.7 billion, a $1 billion increase from the previous year and a combined ratio of 93.3%, a 2-point improvement from the previous year and a remarkable over 9 points improvement from the start of our transformation in 2021.

Our financial performance is the direct result of our rigorous execution and systematic approach to improving the underperforming areas of our book while also making bold choices for our future.

We are committed to delivering consistent results over time, managing the market cycles more proactively by maintaining underwriting and expense discipline while leaning into opportunities that align with our long-term strategic ambition with conviction. I have full confidence in our people's ability to navigate this dynamic operating environment.

And now I'll turn it over to Vlad to share the LMI results.

Vlad Yakov Barbalat
Executive VP, Chief Investment Officer & President of Liberty Mutual Investments

Thank you, Neeti. Investment results closed out the year on a high note with the portfolio generating $1.3 billion of net investment income in the fourth quarter, an increase of $512 million from the same period in 2023. This represents our best quarter ever for net investment income, excluding alternative market strategies and partnerships.

These results from our core portfolio, combined with a strong year for our insurance businesses, supported robust turnover in the liquid markets book, generating $580 million of realized losses as we took advantage of elevated new money rates and actively traded the portfolio in the fourth quarter.

Our activity was firmly aimed at fortifying our balance sheet, managing risk and targeting higher-yielding assets as we execute on our mission to create and compound capital. The fundamentals of the U.S. economy remain robust, though a healthy degree of caution in the near-term outlook is warranted given the uncertainty of trade, tax and macroeconomic policies of the new administration.

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Moderating inflation and a more balanced labor market throughout 2024 enabled the Federal Reserve to lower policy rates by 100 basis points.

However, as we look ahead, the macroeconomic outlook for 2025 will be heavily shaped by government policy choices. These policies are evolving rapidly and their net economic impact is not yet clear. As such, financial markets will remain highly attuned to policymaker rhetoric and incoming economic data. I have always said that our job is not to predict the future, but instead to be prepared for all its eventualities.

Today, that seems as relevant as ever. Throughout the fourth quarter, rate-driven fluctuations remained a key theme and were carefully managed against the backdrop of robust market technicals.

We maintained a tactical trading approach, selling assets with lower book yields while actively managing tail risk through additional trading capacity. Elevated treasury rates continue to support attractive all-in investment yields across many asset classes, especially those of high quality, contributing to incremental earnings.

Our capital deployment strategy remains disciplined, enhancing book yield while simultaneously improving resilience and flexibility while managing duration to our liability aware target. Portfolio yield was 4.5% to end the quarter compared to 4.3% as of Q3, driven by a 5.3% average purchase yield.

Rates moved up meaningfully during the quarter, leading to an $874 million increase in unrealized losses, ending the year at $2.6 billion pretax. Unrealized losses remain rate driven as credit spreads were historically tight. Importantly, realized losses were the result of strategic portfolio repositioning and income-accretive transactions with a focus on investment-grade credit and were not due to credit impairments or allowances, which remained immaterial. Alternative markets and asset classes were a substantial source of strength in our results.

Specifically, our Real Estate business continued to regain momentum, accounting for nearly 50% of our overall partnership results in the fourth quarter. Valuation gains were most pronounced in the multifamily and industrial development projects. As a reminder, our exposure to the most at-risk sectors such as office and retail remains minimal at less than 1% of total invested assets.

Our Private Equity business also delivered healthy results, though elevated interest rates and aforementioned macro uncertainties continue to dampen IPO, M&A and buyout activity.

Credit and infrastructure investments remain a source of strength and diversification, benefiting from both interest rate dynamics and sector-specific tailwinds.

Looking ahead, our outlook remains prudently optimistic. Robust economic fundamentals underpin the outlook, but a lack of visibility on key economic policies remain a near-term challenge. That said, we are prepared and well positioned to manage through these conditions. Our consistent and robust results reaffirm the strength and durability of LMI's strategy and capabilities. I'm confident in our ability to deliver on our mission to grow and compound our capital while supporting the needs of our policyholders.

And now I'll turn it over to Julie to discuss the full year's results.

Julie Marie Haase
Executive VP & Chief Financial Officer

Thanks, Vlad, and good morning, everyone. For the full year, we reported net income attributable to LMHC of $4.4 billion, up from $213 million in 2023. This increase is driven by targeted underwriting actions in both U.S. retail markets and Global Risk Solutions as well as excellent results in our limited partnership portfolio.

These record results reflect the positive impact of the strategic initiatives we have implemented to hit our 95% combined ratio target by the end of 2025. Pretax operating income before limited partnerships for the year was $4.7 billion compared to $622 million in 2023. Pretax catastrophe losses were $3.9 billion, $794 million lower compared to prior year, driven by improved frequency and severity of events compared to the same period in 2023.

This year, we had unfavorable prior year development of $175 million related to asbestos and environmental claims, which is covered by our 2014 ADC.

Additionally, we had $683 million of reserve strengthening across all other lines. In total, this development amounts to 1% of our net loss in LAE reserves and reduced our full year pretax operating income by 10%.

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The vast majority of our fourth quarter reserve strengthening was booked in the Corporate segment to bolster our reserves against uncertainty related to potential emerging mass torts. As we have communicated over the past several quarters, we are confident in our overall reserve position. And following this quarter's prudent actions, we feel even more assured.

I want to reiterate Tim's comment earlier that our balance sheet has never been stronger. Excluding the impact of catastrophes and prior year development, our underlying PTOI increased $4.5 billion from prior year to $9.4 billion. This result was primarily due to improved personal lines frequency, rate execution and other underwriting action in our U.S. Retail Markets business and improved risk selection and portfolio shifts in our Global Risk Solutions business.

The total combined ratio for the year was 95.9%, down 6.8 points from the prior year. Our catastrophe ratio of 8.6% was roughly in line with our expectations for 2024.

On an underlying basis, the combined ratio for the year was 85.5%, a 7.9 point improvement from 2023, driven by underlying loss ratio improvement in both business units and favorable expenses compared to prior year.

Turning to top line performance. Net written premium was $45 billion, a decrease of 3.3% compared to 2023, driven by management's continued strategic actions to achieve an appropriate level of underwriting profitability. We are pivoting back to thoughtful growth in the near term where it makes sense. Total net investment income was $4.7 billion in 2024, up 60.3% from $3 billion in the prior year.

Favorable valuations driven by private capital investments drove an increase in limited partnership income from $99 million in 2023 to $1.3 billion this year. Net investment income, excluding limited partnerships, was $3.5 billion in 2024, up 21.3% from $2.9 billion in the prior year, driven by higher fixed income yields. We experienced net realized losses of $1 billion in 2024, an increase of $745 million over the same period in 2023, driven by net losses on fixed maturities as we proactively turn the portfolio over into higher-yielding assets.

Cash flow provided by continuing operations was $6.5 billion, up $2.9 billion from 2023, reflecting favorable paid loss activity and premium collections.

We ended the year with financial leverage of 21.2%. This level is well within management's tolerances and the requirements for our ratings. GAAP equity as of December 31 was $30.7 billion, an increase of $5.6 billion over the prior year-end, driven by $4.4 billion of net income and $1.1 billion in unrealized gains on fixed maturities. Statutory surplus was $32.2 billion at the end of the year, up from $27.7 billion at the end of 2023, primarily driven by $4.6 billion of statutory net income.

As of year-end, we've achieved our target of having core insurance entities RBC ratios above 400%. To reiterate Tim's earlier message, we want to express our heartfelt concern for those affected by the devastating wildfires in California. We are closely monitoring our exposure to the situation. At this time, our preliminary estimate is a $2 billion gross loss with the vast majority attributed to USRM.

Our estimated net loss is $1.2 billion. The estimate includes losses and expenses reported through the group's business units, an estimated California fare plan assessment and expected recoveries from reinsurance net of reinstatement premium.

These values do not consider any subrogation. Several weeks ago, we deemed it prudent to clarify and disclose certain elements of our 2025 reinsurance placement, which would normally have been released in the first quarter. This disclosure can be found on our website. Slide 20 of our earnings presentation also includes additional details regarding our 2025 reinsurance tower.

Our fourth quarter and full year results demonstrate the successful execution of our strategy and combined with our strongest balance sheet on record, position us well to consistently fulfill our commitments to policyholders.

This strong performance puts us in an excellent position to succeed in 2025.
With that, this concludes our prepared remarks, and we're happy to take your questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Jeff Bernstein with Stonebridge.

Jeffrey Bernstein

So I heard you're reaffirming your strive for 95% in '25. Happy to hear that with -- even after the California wildfires. And as you say, you have the strongest balance sheet in your history. So what's next? What lines would you like to enlarge in? Or what are the plans?

Timothy Michael Sweeney
President, CEO & Director

This is Tim. I'll start with only in segments where we're at target profitability. So I'll let Neeti and Hamid speak directly to the lines of business within their business units. But we like the conditions in personal auto, not in every state. There are still some states that are problematic where there's rate suppression. But we are reasonably bullish in the second half of this year and into next year to get Personal Lines business growing again. It is a scale business. We know that.

We've been reducing expenses to make sure we stay rightsized to our top line. And then within Global Risk Solutions, it depends on where we are in the cycle in each line of business. But ultimately, we're looking to extend our market leadership in the U.S. and North America and continue to build a premier global commercial and specialty business, and it's going to depend on where we [Technical Difficulty] are in the cycle, where we're at in the yield environment, et cetera.

But we will be much more front-footed in the right segments for growth in the next 18 months than we have over the last 2 or 3 years.

And I'll let Neeti and Hamid add color from their business perspectives.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Jeff, this is Hamid. Thank you for your question. I think to Tim's point, really across all the businesses in USRM, so whether it be Auto, Homeowners or the Small Commercial business, our intent is to have sustained profitable growth.

I think the way I can give some context to what we've really been trying to prioritize and where we're headed. So our -- we've made a very concerted choice to trade growth in the moment in order to do 2 things. The first is to get to target profitability.

And as we close '24, I'll talk to auto and homeowners, especially, our accident year combined ratios are 93% in auto and 88% in homeowners. And really, on homeowners side, we're one of the only carriers who are at target profitability and open for business.

So really bullish on our prospects in winning in the Package business, our Package segment in personal lines, where we would sell homeowners, auto and specialty lines. I think the second thing we've been trying to do is really position ourselves for the future.

So if you think about everything that's been happening since COVID and where we are right now, we believe that there will be more external shocks, and we wanted to make sure that we are a business -- we become a business that really thrives in those kinds of situations.

So examples of things we've been doing is we purposely slowed new business down at a moment where we knew we would be writing really high new business loss ratio business and then having to take more rate. And that really sets us up well for the future.

A second thing we've done is really transformed our exclusive agency channel into an independent agent business. It is one of the biggest independent agent businesses in the U.S. and thriving right now. But from a short-term perspective, it puts a bit of a headwind on our growth. And then finally, I'd say that we're really trying to make sure that our premium is distributed across states in a way that if a shock were to happen, we could react really, really quickly.

Operator

The next question is from Andrew Schiappa with Amundi.

Andrew Schiappa

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Just wanted to touch on kind of your current capitalization. I mean it is, as you noted, the lowest that it has been. I saw you just sold another couple of businesses out of Asia. Can you just talk kind of strategically whether you intend to maintain capital at levels like this or redeploy that? What's kind of your capital deployment plan? Is it just organic growth through the business lines? Or is there anything else contemplated?

Timothy Michael Sweeney
President, CEO & Director

This is Tim. I would say a couple of things. We got the divestments. We've done a little bit of that in Western Europe, LatAm and now a couple of businesses in Asia. Our housing [Technical Difficulty] is pretty much done now. So we inherited a business that was running at 101% combined over 10 years, 3 years ago, and we determined as a group that's not acceptable.

We took a strategic review of all the businesses in our portfolio and determine which ones were strategic and which ones weren't. And as I sit here now in the beginning of 2025, we feel very good about our geographic footprint.

We feel really good about our product set and our diversification, likely the most diversified P&C writer that there is across different lines of business and geography. And so technology is moving quickly with the emergence of these rapidly evolving technologies. I see technology as a place that we will want to deploy capital over time. We will certainly look for strategic acquisitions in the future.

But to be honest with you, 3 years ago, we were a couple of billion shy of our S&P rating. So we're actually going to enjoy holding some excess capital for a little bit and take a breath and not let it burn a hole in our pocket as perhaps it has a little bit in the past.

And so no immediate plans to deploy large pieces of capital on anything inorganic. We will invest in the short term in resuming profitable growth in our organic business. We are looking to modernize our technology stack and deploy new technologies, which will take some capital. But for now, we are comfortable carrying excess capital until we determine the right strategic use for it.

Andrew Schiappa

Excellent. I appreciate that. And then just to follow up on some of the comments on retail lines earlier, specifically around the expense ratio. I'm just trying to think as you pivot to growth, your expense ratio in that business is also probably one of the lowest, if not the lowest that I've seen in the, call it, 10 years plus of covering you guys.

How are you thinking about the durability of holding that expense ratio as low as it is? Is there going to naturally be some creep back as you -- as competition increases and marketing spend, et cetera? And just kind of how should I think about that evolving going forward in the next couple of years?

Hamid Talal Mirza
Executive VP & President of US Retail Markets

Thanks for the question. Yes, we are definitely very focused on managing our expense ratio, especially the fixed portion of it -- fixed portion of our expenses and to remain disciplined on that. That said, I think our goal is to make sure that we're delivering 95% in every calendar year.

And I think as we move forward and make some investments in growth or some technology investments, the expense ratio might creep for a bit of time, but not because we've lost discipline just because we're making some investments in growth. And then as we gain traction back on our top line, I would expect that expense ratio to continue to come down.

I think it's really important in the Personal Lines business, especially to deliver a low-cost product to customers that also delivers target returns for us. So expense ratio will 100% remain a focus for us.

Robert Pietsch

This is Rob here. I think we did have a bit of a technical difficulty. There was still a bit that we wish to say in terms of where the next opportunities we feel are for the future. I think Hamid had a few comments he wish to wrap up with, and then we'll turn it over to Neeti.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

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Yes. I was just wrapping the idea of setting ourselves up for the future. And I just want to say that as we sit here right now, and I think Tim referred to this, that we are set up -- well set up in pretty much every state other than maybe a couple, and we are front-footed in states across auto and homeowners. We've increased our marketing spend in Q4 and are looking to do the same as we move forward.

So yes, just prospects look very different as we move forward than looking back to the shock that we experienced with the inflationary environment.

And with that, I'll pass it to Neeti.

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

Thank you. Jeff, I thought it was such a good question. So perhaps I'll start by taking one step back and then answer specifically some of the areas where we're seeing opportunities. The step back I would take is to say, overarchingly, we are very focused on being there for our clients because we firmly believe, as all of us as Liberty Mutual, that the role of insurance is more important than ever as a trusted risk adviser, as a partner in assessing risk and mitigating it in more solution-oriented ways going forward.

So we're very focused on really thinking about what will it take for insurers to be risk aware. I said that in my opening comments, what we're building essentially is a risk-aware business that's going to be rooted in underwriting excellence and risk expertise, which will require more and more specialization and capabilities to truly think about as the nature of risk sort of continues to shift dramatically across all industries, what will it take to make and keep risks insurable.

So that's perhaps the overarching comment I would make.

Within that then, I would say the way we think about what will it take to be risk aware, it starts with, first and foremost, and why I feel very confident about Liberty Mutual's ability to help our clients on the commercial and specialty side is what it takes, first and foremost, is a strong balance sheet and then it goes to have a brand that is known for being there for clients.

And I would say our claims service and our brand very much stands for doing the right thing by our policyholders.

And then you go to -- we have a portfolio that has a lot of options. We have market-leading positions across lots of places like surety, for example, environmental, health care. And then there are places where internationally, we have a lot of options to deploy capital. So the ability to have the options and then be dynamically about deploying that capital with a risk-aware underwriting profitability focused solution orientation is really, really important.

The other thing, and Tim touched on this, is we're in all the geographies we want to be. We believe that we have the capabilities where we need them.

Where we see the biggest opportunities are in Asia Pac, we continue to refine and focus our portfolio there. At this point, we're broadly done with that and very focused on executing on our strategy in the country operations where we're at. U.S. middle market continues to be a big focus for us, where we believe we have a right to grow and win. U.S. specialty, both on the admitted and the E&S side remains a big focus for us.

So overall, I would say we're pretty excited actually about the fact that we've got the talent, we have a clear strategy, and it's very much led by we have options. We are there for our clients. We want to continue to be there and our mutuality, how do we turn that collectively as Liberty Mutual into a superpower in service of our policyholders.

Operator

The next question is from Chad Stogel with Spectrum Asset Management.

Chad Stogel
Spectrum Asset Management, Inc.

And my first question, just if you can provide any additional color on the reserve strengthening. So there was the Corporate segment A&E and then there was the additional -- maybe just kind of -- was that asbestos and environmental or was the Corporate just asbestos and environmental?

And then sort of the movements in that strengthening, were they excess liability and maybe more recent accident years or older accident years?

Julie Marie Haase

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Executive VP & Chief Financial Officer

Chad, this is Julie. So a little bit of context on the reserve strengthening. All in, we mentioned we strengthened by $760 million in the quarter and $683 million in the year. That is excluding asbestos and environmental. If you put it all in, just as a reminder, the full year represents about 1% of our reserves, and it reduced our pretax income by about 10%.

So we had a very strong earnings year. And I think that context is important in terms of how we were thinking about this.

It really was a management decision to mitigate the uncertainty and future volatility in those lines of business that have the highest potential impact from emerging mass torts and legal system abuse.

So I'd say this was not a reaction to something specific. I think about it more as a level of prudence to protect against negative surprises in the future. We did book all of that in the Corporate segment. So it's not in our operating business segments because we do view this as a distinct booking decision from our ongoing operations.

And in terms of the accident years, again, we see some of these broader industry trends that are creating uncertainty really impacting all accident years. And so it's spread fairly evenly across all accident years. But the last thing I'd say, we really do feel great about the strength of our balance sheet and putting these reserves up makes us feel even stronger about that.

Chad Stogel
Spectrum Asset Management, Inc.

And just building on what you're saying in terms of claim trends recently at AIFA, one of the main themes that found in P&C is that there's this elongation of the claims pattern post-COVID, we've been talking about, but also because limits have tightened up in the industry due to defense risks, people are -- companies are paying small limits quicker and just settling.

How do you -- are you seeing that same dichotomy? And how do you sort of triangulate all that?

Timothy Michael Sweeney
President, CEO & Director

I'll let Neeti and Hamid hop in for the particular claims and what they're saying. But I will just -- I won't be polite about it. It's legal system abuse, and it's better to close the claims fairly for our policyholders and make them whole before the -- I have all sorts of nouns I could use here, but I won't.

But before the litigation begins because ultimately, our job is to make sure that our products and services are available to our customers and that they remain affordable and legal system abuse and cynical attorneys and some private equity firms that are funding it are taxing our policyholders and making our product for both individuals and businesses less affordable.

So we need tort reform. We need to make policymakers know that this is a tax on their constituents and a tax on the businesses in the U.S. And so we are constantly out with our public affairs folks talking both at the state level and at the federal level to get some change here.

But sadly, change doesn't usually happen until there's a crisis, and we've had a couple of crisis recently, and that tends to lead to a little bit of change. And so we have identified the judicial hell holes in the U.S., and we are underwriting around them, just like you would underwrite around nat cat risk. And we have vastly improved our analytics and our processes and claims in both of our organizations to mitigate as best we can the abuses that are occurring.

But ultimately, there was pretty good reform in Florida. There's some hopeful bills passing through the Georgia legislature right now around tort reform. And so we need to continue to push policyholders to get a lid on this thing. In the meantime, it's going to lead to both businesses and individuals having trouble getting insurance and having trouble being able to afford that insurance in certain places unless a broader solution is handled.

So we're attacking it on the underwriting side, avoiding risks where we know there's unhealthy legal situations or legal environment, and we are adjusting our claims processes as well, as you said, to just get the claims closed more quickly so that cynical attorneys cannot take a small run-of-the-mill claim where we, of course, are going to make our policyholder whole and cynically turn that into something that it's not. So if you close the claim, you're in better shape.

But I'll invite Neeti or Hamid to add anything if they see fit.

Neeti Bhalla Johnson

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Executive VP & President of Global Risk Solutions

I think, Tim, you covered all of it. Perhaps the only thing I would remind you guys, and I sort of had shared this statistic the last time we had a call, if an attorney is involved, let's say, in a commercial auto bodily injury claim, that claim tends to stay open twice as long with the severity being 6x higher than a comparable claim where you have sort of -- you don't have that.

And then if the claim is litigated, that same claim stays open 4x as long and the severity tends to be 12x higher.

So while, yes, there's been a lot of discussion around are we seeing settlement patterns stabilize or our claims getting closed earlier, I would say it's not a one-size fits all. What we continue to see is you really do have to cut your data very granularly. You have to cut it between litigated and non-litigated.

In commercial auto and GL, there's some signs of stabilization perhaps. But frankly, [Technical Difficulty] umbrella side, it's the reverse. And we continue to think that's a great area of concern because that's where you see the leveraged impact of these lengthening loss development factors as well as the legal system abuse impact that Tim touched on.

So that's perhaps the only thing I would add to Tim's comment.

Chad Stogel
Spectrum Asset Management, Inc.

That's quite helpful. If I could just sneak in on all that. So you mentioned companies are paying these claims quicker and settling, but does that kind of create sort of a prisoner's dilemma where the plaintiffs bar sees that the industry is just going to do that and not necessarily fight and therefore, it kind of drives up all claims sort of in a circular way?

Neeti Bhalla Johnson
Executive VP & President of Global Risk Solutions

So again, there isn't sort of the -- there is -- different clients will take different approaches to this. So there isn't, again, a generic answer.

I will tell you, we just -- I hate to be dramatic about it, but we tend to say this is a knife fight at the end of the day. And you really have to focus -- and I touched on this in the opening comments, you really do have to spend time with clients, helping them understand where the risks are in their portfolio, how do we help them mitigate that. And you have to essentially play both offense and defense.

Maybe I'll just sort of say the -- if you think about it, the ultimate purpose of the offense is tame legal system abuse before the claim is filed, but the purpose of the defense is to mitigate any downside risk when the claim is filed, right? So you kind of have to do both.

But I'll invite Hamid also to see if there's anything you would add to that, Hamid. But suffice it to say, legal system abuse is a multidimensional issue, and it's going to require dynamic solutions. And as you said, the plaintiff bar is constantly adjusting their tactics. Our clients and insurers have to also constantly adjust their tactics.

Hamid Talal Mirza
Executive VP & President of US Retail Markets

I think your concern is really valid. I think the important thing Tim said is we have to fight legal system abuse. And in the interim, we have to have the right claims expertise and leverage the right analytical capabilities and AI as much as we can to pay what we owe.

And that's what we're focused on. In some instances, we will take things to court 100%. In other instances, we will try to pay as quickly as possible. We're just trying to get faster and better and just try to pay what we owe despite the legal system abuse we're experiencing.

Operator

The next question is from Brett Gibson with JPMorgan.

Brett G. Gibson
JPMorgan Chase & Co, Research Division

Great. So I had a follow-up to the capital question from earlier. I mean the high levels of capital are also creating a scenario where debt-to-cap is much lower than it's been in the past.

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So just a question on the sustainability of debt-to-cap at the current level. Is this kind of a new normal that we should be thinking about, especially if you don't have any needs? And maybe just where do you want that to be?

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. Thanks, Brett. This is Julie. Our debt-to-capital ratio has drifted down a little bit as we've had strong earnings and our organically generated equity has improved. Right now, we're at around 21%. We feel comfortable with that. It's within our range. It's supportive of our ratings. And the only other thing I'd say is that while we won't comment on specific plans, debt will always be an important part of our capital structure.

And so we'll continue to evaluate and align our long-term strategy with our overall capital composition that makes the most sense for us.

Brett G. Gibson
JPMorgan Chase & Co, Research Division

Great. And then with the improving credit profile here, the improving earnings, the improving balance sheet position is targeting upgrades, rating upgrades a priority for you or not as we sit here?

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes. Right now, we're comfortable with our current financial strength ratings. We recognize the importance of having a quality investment-grade insurance financial strength rating. But based on our business today, we feel comfortable with where we are.

We do want to make sure, of course, that we're maintaining a sufficient buffer capital to make sure that we can withstand any underwriting and investment volatility. But at this point, comfortable with where we are.

Brett G. Gibson
JPMorgan Chase & Co, Research Division

Okay. Great. And then just the last one for me, just very quick is, is there anything that you can say on a preliminary basis about maybe your thoughts on the impact of tariffs across your business? It's not a quick one, but a quick question.

Timothy Michael Sweeney
President, CEO & Director

You mean terrorism risk in general?

Brett G. Gibson
JPMorgan Chase & Co, Research Division

No, the impact of tariffs...

Timothy Michael Sweeney
President, CEO & Director

Tariff, I'm sorry. I'd [Technical Difficulty] talk about tariffs.

Brett G. Gibson
JPMorgan Chase & Co, Research Division

I think.

Timothy Michael Sweeney
President, CEO & Director

Look, tariffs are inflationary. If you look at the bundle of goods that we buy, particularly in our consumer business, it's lumber, it's auto parts, and it's labor for construction and auto repairs. And so we import a lot of lumber from -- the U.S. imports a lot of lumber from Canada, as you all know, and auto parts from Canada and China and Mexico and constraints on immigration will drive up labor costs, particularly in the construction industry.

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So we are looking quite a bit at those impacts. They certainly are inflationary for us. As Vlad said during his opening, we're not in the business of predicting -- particularly at this moment, we're not in the business of predicting the future, but being prepared for any eventuality.

We have modeled out, particularly in our consumer business where inflation has the most impact. We've modeled that out pretty extensively into different scenarios and kind of I wouldn't say worst case because who knows what worst case is, but we're really talking about 3 to 4 points of combined ratio impact on our consumer business if tariffs lead to another spike in inflation.

And so a 3- to 4-point combined ratio risk is much more palatable when your starting point is at a 93% combined ratio than when it's at a 101% combined ratio.

And so yes, we're on guard for inflation. Inflation -- when you only change your price in auto and home insurance every 12 months and inflation goes up every day, as we saw over the last couple of years, it can be quite problematic.

But we have a much, much stronger starting point than we did 2, 3 years ago. We have much better predictive analytics looking forward, and we've already modeled out the impacts of tariff. And while they would be unpleasant, they would be perfectly manageable.

Operator

The next question is from Pinto Suri with PGIM.

Pinto Suri

I think most of my questions have been addressed already. I wanted to touch on maybe a couple of points. One, just if you can refresh us on what limits may be left on the -- I think there's quite a few ADCs that you have with NICO. I think there's a chunk of it that still covers the general liability and the liability reserves as well for certain accident, I think in 2015 and prior. So if you could just help refresh us on that.

Julie Marie Haase
Executive VP & Chief Financial Officer

Sure. Pinto, this is Julie. So yes, we do have those disclosures in our MD&A. At a high level, I'm just pulling up the numbers here. Sorry, go ahead.

Pinto Suri

No, I was just going to say, I think all of the A&E goes right to the ADC. And then I think there's still some good chunk of limit left on your liability...

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes, that's correct. So we have a few ADCs. We have the original one you're talking about, the '24 ADC. We currently have in total about the same available limit as when we accepted it. It covers both workers' comp and A&E.

On the A&E portion, we have $82 million of sublimit remaining for A&E. We also have 2 other ADCs. We have a 2019 casualty ADC, and we have $511 million remaining on that $1 billion layer. We also, post the acquisition of Ironshore, have an ADC and there's $454 million remaining there. And again, within the MD&A, it specifies more so it gives you these numbers as well as what is covered.

Pinto Suri

Got it. And I think the way you're reporting, all of your losses that may end up going into the balance sheet for recovery under the ADC would still come through the income statement and be reported within the combined ratio?

Julie Marie Haase
Executive VP & Chief Financial Officer

Yes, that's correct.

Pinto Suri

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Correct. Okay. So that basically could be inflating the ratio. And kind of a broader question for you all. I mean, you're one of the global market leaders. We're starting to see cat losses continue to rise for a variety of reasons, namely frequency and severity, smaller events showing up way more frequently. First quarter has been a pretty intense one this year. This could be another record year for catastrophe losses.

How long can the industry continue to impose double-digit price increases without any substantive changes in how these losses and loss exposures develop, right? In other words, climate change impact, whatever it is, man-made or otherwise. At what point does the industry step up to start addressing some of those issues?

Timothy Michael Sweeney
President, CEO & Director

When you say step up, do you have something in mind so I can respond appropriately?

Pinto Suri

Well, I guess the question is that you're at the front lines, right? Of these exposures. And I don't mean Liberty Mutual, I just mean the industry broadly. So at what point do regulators start pushing back and saying the 20%, 30% rate increases are excessive. The only way to address that is to have substantive change on the underlying exposures, right?

That's about addressing some of the issues that are driving these exposures. And I think that can only be done at the industry level, right? Not at the individual company level.

Timothy Michael Sweeney
President, CEO & Director

Correct. No, I agree. And trust me, we have conversations across the industry, me and peers on this topic quite a bit. Our role as an industry, as Neeti said, is to be there for our policyholders and protect them and help them to manage risk. And our additional obligation is to make sure our product remains affordable and available to customers. We need to work with regulators.

We cannot continue to have -- if you look at U.S. state regulation, we cannot continue to have this -- in some states anyway, I won't -- this is not at all most states, but in some states, this kind of adversarial relationship where there's an assumption that we're trying to price too high or something like that. Last I checked, the auto and homeowners insurance market in the U.S. was one of the most competitive -- just turn your TV on, one of the most competitive marketplaces in the -- of any industry. And so this is intense competition. We are pricing for the risk.

And we will shrink where we cannot -- we're not allowed to get the price. Having said that, we are working with industry groups on building codes. If you look at the nat cats over the last few years, as we drill into the data, about 1/3 of the increase in nat cat in the U.S. was monetary inflation, about 1/3 was -- and I'm making broad sweeping numbers here, but about 1/3 was climate signal, just worse, more severe, frequent nat cat and about 1/3 was exposure growth in places that there shouldn't be exposure growth, exposure growth in cat-prone areas.

And part of the problem with that is part of the reason that people are building in high-risk areas is because of some of the contortions in rate where they're not paying -- they're not being made by insurance rates because of some regulation -- some unintended consequences of regulation to bear the full cost of the building decisions they're making.

So some of it -- 1/3 of it, say, is exposure growth in the wrong places, and we need folks that do that and build their need to bear the full cost of that. And right now, they're not. 1/3 has been just monetary inflation that we all are well aware of and 1/3 of that is worsening frequency and severity of natural catastrophes. Now within that, we need revised building codes, right? We need -- you looked at what happened in Hurricane Andrew, I'll go back 30 years or more, building codes change dramatically in Florida. And so we need to work with the public sector on changing building codes.

There are other things that we communicate to our customers about resilience, even putting mesh on your chimney as a homeowner to prevent wildfire embers from coming in to clear brush, et cetera. So there's a lot of mitigation efforts that can happen. But we need to build in the right place. We need the price to reflect the risk. People need to be made to bear the full cost of the decisions they're making in terms of where they're building exposure and then we need to mitigate and get the right price.

And so I wish I had a silver bullet solution for you. It's very difficult and complicated. Ultimately, if you want to go all the way down the path, if we can't make hay with some of the things that I've already mentioned, you have to look at the product and the coverages, right? I mean that's ultimately -- and structure the product, so it's a true catastrophe product. I don't think we're there yet. We want to

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continue to protect our customers in the way that we currently protect them. But if in an extreme case, it could go to a place where the product is truly just for catastrophe and not for lesser losses, but we're far away from there, but it's a potential future state.

Pinto Suri

Got it. No, this is very helpful color. I appreciate it. And again, this is really to just get that push started. I presume it is already, but -- thank you.

Timothy Michael Sweeney
President, CEO & Director

No, we, Liberty Mutual and the P&C industry in general, when I talk to my peers, we feel a deep sense of obligation to help with this. And I'm going to start talking in terms of availability and affordability in terms of worsening natural catastrophes. And I'm going to avoid the climate word because all of a sudden, that's somehow politically unfashionable. So the reality is empirically nat cat is increasing both in frequency and severity. And I personally, we Liberty Mutual, and I know the industry feel an obligation to be part of the solution, but we're going to need a public-private partnership to get after it.

Operator

And the final question today is a follow-up from Andrew Schiappa with Amundi.

Andrew Schiappa

So I appreciate all the color on cat losses that you just provided as well. That was one of them. But if I could, just on the investment portfolio.

You said there was a lot of activity in the fourth quarter. I'm just kind of looking at how the portfolio has evolved over the last year. I mean your fixed income exposures are down. Your LPs continue to grow. The Other category is also up substantially. Can you just kind of walk me through how you guys are thinking about positioning the portfolio in the go forward and how I should think about the risk embedded in those -- in some of those categories? I just don't know what's embedded into Other, and why fixed income given the higher rate environment is coming down so substantially?

Vlad Yakov Barbalat
Executive VP, Chief Investment Officer & President of Liberty Mutual Investments

Andrew, it's Vlad. Just a couple of responses. First, in terms of the shifting weights between the categories, some of that is just simply due to valuations. And your point on the turnover, as I mentioned in my opening comments, the turnover was opportunistic and really aimed at fortifying our balance sheet by realizing some losses on fixed income instruments that were purchased earlier when the rate environment was substantially lower and recycling that capital across all our asset classes where we feel the risk is attractive and where future returns will be economically beneficial to the company.

That could be in fixed income, and that could be across our alternative strategies as well. In terms of the embedded risk, I don't see anything of consequence. All our risk is taken in the context of the company's overall health -- financial health. We have substantial risk metrics that are internal to LMI and of course, work with the broader enterprise risk management to make sure all risk is ultimately rolled up in a manner that's appropriate for the company.

Operator

Mr. Pietsch, it appears we are at time for question and answers. I'd like to turn the conference back over to you for any additional or closing comments.

Robert Pietsch

Great. Thank you, Gary, and thank you to everyone for the engagement and joining us today. For those questions that we were unable to address or if there are any follow-up questions, please feel free to reach out to us directly. Our contact information can be found on the Investor Relations portion of our website. Have a great day.

Operator
Thank you. And this concludes the Liberty Mutual Fourth Quarter 2024 Earnings Conference Call. Thank you for participating. You may now disconnect.

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