COMPANY PROFILE

Liberty Mutual Holding Company Inc.

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COMPANY OVERVIEW

Liberty Mutual Holding Company Inc. (Liberty Mutual or 'the group') is a diversified global insurer and is the parent corporation of Liberty group of entities. Liberty Mutual is a private mutual holding company, which encompasses three principal insurance companies, including Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau. It offers various types of insurance products and services including personal automobile, homeowners, individual and group life, workers compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, reinsurance, fire and surety. The group operates in the US, Latin America, Asia and Europe. It is headquartered in Boston, Massachusetts and employed more than 50,000 people as on December 31, 2013.

The company recorded revenues of $38,509 million during the financial year ended December 2013 (FY2013), an increase of 6% over FY2012. The operating profit of the company was $2,260 million during FY2013, compared to the operating profit of $923 million in FY2012. The net profit was $1,743 million in FY2013, compared to the net profit of $829 million in FY2012.

KEY FACTS

Head Office	Liberty Mutual Holding Company Inc. 175 Berkeley Street Boston Massachusetts 02116 USA
Phone	1 617 357 9500
Fax	
Web Address	http://www.libertymutual.com/
Revenue / turnover (USD Mn)	38,509.0
Financial Year End	December
Employees	50,000

SWOT ANALYSIS

Liberty Mutual Holding Company Inc. (Liberty Mutual or 'the group') is a diversified global insurer. The group offers a wide range of products and services including private passenger automobile, homeowners, workers compensation, commercial multiple peril/fire, commercial automobile, general liability, global specialty products, group disability and surety. The group's strong market position gives it a competitive edge over its peers. However, increasing incidence of catastrophe losses could put pressure on the underwriting income of Liberty Mutual's insurance subsidiaries.

Strengths	**Weaknesses**
Strong market position in property and casualty insurance Well diversified business by distribution channel and lines of business Growing and diversified international operations	Poor employee engagement resulting in lower productivity The property and casualty insurance business is cyclical, which may adversely affect results
Opportunities	**Threats**
Expansion into emerging Asian markets likely to increase market share Growing US non-life insurance market Acquisitions could help the group in increasing its customer and revenue base	Increasing incidence of natural catastrophes likely to drive up claim losses Regulatory changes could affect financial strength and performance Intense competition likely to affect market share

Strengths

Strong market position in property and casualty insurance

Liberty Mutual is a diversified global insurer and the third-largest property and casualty insurer in the US based on 2013 direct written premium. The group's affinity program is the industry's most sponsored voluntary auto and home insurance benefit. Liberty Mutual is the second largest surety writer in the US and the fifth-largest non-life insurer in Ecuador. The group's Safeco Insurance brand is the third-largest writer of personal insurance products in the independent agency channel. The group is the fifth-largest property and casualty insurer in the world based on 2013 gross written premium. Liberty Mutual also ranks among the top ten property and casualty insurance companies in Argentina, Brazil, Chile, Ecuador Portugal, Singapore, Thailand and Vietnam. The group also ranks 76th on the Fortune100 list of largest corporations in the US based on 2013 revenues. The group's strong market position increases its bargaining power and gives it a competitive advantage in new as well as existing markets.

Well diversified business by distribution channel and lines of business

Liberty Mutual is well diversified in terms of distribution channel and line of business. The group offers a wide range of insurance products and services, including personal, automobile, homeowners, individual and group life, workers compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, reinsurance, fire and surety. Moreover, the group's revenue streams are diversified by business lines. For instance in FY2013, the group's largest division, personal insurance, accounted for 41.6% of the total revenues, followed by commercial insurance (26.4%), Liberty international (16%), and global specialty (13.3%). Additionally, Liberty Mutual generated 2.7% of total revenues from other business activities. Liberty Mutual also has diversified distribution channel including independent agents, brokers, exclusive agents, direct response call centers and the internet. The group's personal products are distributed through multiple distribution channels including captive sales force, which consists of over 2,500 licensed local sales representatives, 500 licensed telesales counselors, third party producers, and internet. Diverse revenue streams and distribution channels provide cross selling opportunities to the group enabling it to spread its revenue base and safeguard from downturns in any one of the divisions.

Growing and diversified international operations

The group, through its Liberty international division, has diversified geographically outside the US. Liberty international, through local insurance companies, sells property, casualty, health and life insurance products to individuals and businesses in 18 countries including Venezuela, Brazil, Colombia, Argentina, Chile, Ecuador, Spain, Portugal, Turkey, Poland, Ireland, the UK, Russia, Thailand, Singapore, China, Vietnam and India. Liberty International is the second largest US based international property and casualty insurance company in the world. Liberty International ranks among the top property and casualty companies in Argentina, Brazil, Chile, Ecuador, Portugal, Singapore, Thailand and Vietnam. It is the number one insurer in Venezuela, second largest direct writer in Spain and the number two property and casualty insurer in Colombia. This division has diversified from personal auto insurance to project cargo coverage to professional indemnity. Growing and diversified international operations reduce the group's dependence on the domestic market.

Weaknesses

Poor employee engagement resulting in lower productivity

Efficiency, measured by revenue generated per employee, for the group in FY2012 was $770,180 per employee whereas the corresponding figure for Prudential Financial Inc. was as high as $875,535.8 per employee and Chubb Corporation revenue per employee was $1,367,352.9. This reflects lower efficiency of the group as compared to its competitors. Continued lower efficiency would strain the financial position of the group.

The property and casualty insurance business is cyclical, which may adversely affect results

The property and casualty insurance business is cyclical. Although no two cycles are identical, these cycles have typically lasted for periods ranging from two to six years. Periods of intense price competition due to excessive underwriting capacity, periods of shortages of underwriting capacity permitting more favorable rates, consequent fluctuations in underwriting results and the occurrence of other losses characterize the conditions in these cycles. This may cause a decline in revenues during certain cycles if the property and casualty product prices are not reduced in order to maintain profitability. Liberty Mutual may therefore experience the effects of such cyclicality, changes in customer expectations of appropriate premium levels, the frequency or severity of claims or other loss events, or other factors affecting the property and casualty insurance business, which could adversely affect the results of operations and financial condition.

Opportunities

Expansion into emerging Asian markets likely to increase market share

Liberty Mutual is expanding into emerging markets such as China and India. For instance, Liberty Mutual has its branches in different parts of China: Chongqing in Southwestern China, Beijing in Northern China, and Zhejiang in Eastern China. In 2011, it received permission from Chinese regulatory authorities to open fourth branch in Southern China's Guangdong Province. The group commenced business in Guangdong province, the largest property and casualty insurance market in China, in 2011. During 2013, Liberty Mutual opened its office in Shandong province, the fourth largest property and casualty insurance market in China. In India, Liberty Mutual tied up with Videocon industries, the flagship company of $5 billion Videocon Group and established a non-life joint venture, Liberty Videocon General Insurance Company Ltd. Headquartered in Mumbai, India, Liberty Videocon General Insurance would provide multi-line insurance underwriting capabilities nationally to various distribution channels, with an emphasis on personal insurance products. The group looks poised to benefit from the buoyant insurance sectors in China and India.

Growing US non-life insurance market

The non-life insurance market in the US is growing at a steady pace. The non-life insurance consists of the general insurance market segmented into the accident and health insurance sector and the property and casualty insurance sector. The sector grew by 2% in 2013 to reach a value of $716,865.9 million, as per MarketLine estimates. Motor insurance is the largest segment of the US non-life insurance market, accounting for 42% of the market's total value. The property segment accounted for 31% of the market and the liability segment accounted for a further 9%. Furthermore, MarketLine forecasts that in 2017, the US non-life insurance market would have a value of $844,750 million, an increase of 17.8% since 2013. Liberty Mutual is the third-largest property and casualty insurer in the US based on 2013 direct written premium. With its leading market position in the US property, casualty market, Liberty Mutual is well positioned to harness the growing potential of US non-life insurance sector.

Acquisitions could help the group in increasing its customer and revenue base

Liberty Mutual has made some significant acquisitions in the recent years. For instance, the group acquired Quinn's Irish insurance business, as well as the transfer of all the Quinn Insurance employees to Liberty Mutual's new Irish company, in 2011. The group also acquired the Russian insurance company KIT Finance Insurance from KIT Finance Holding Company (LLC) in 2012. This acquisition enabled the group to enter Russia's $21 billion property and casualty insurance market. During the same year, the group entered Ecuador's insurance market through the acquisition of Panamericana de Seguros del Ecuador S.A. and Cervantes S.A. Compania de Seguros y Reaseguros. The combined property and casualty market share of the two acquired companies positioned Liberty Mutual as the fifth largest non-life insurer in Ecuador.

During November 2013, Liberty Mutual announced its expansion into Mexican surety market with the acquisition of Mexican surety company Primero Fianzas. Furthermore, Liberty Mutual Insurance Group announced the acquisition of Uni.Asia Capital Sdn Bhd’s 68.09% stake in Uni.Asia General Insurance Berhad, a non-life insurer in Malaysia, in February 2014. This transaction marks the group’s entry into Malaysia’s $4.6 billion non-life insurance market. Uni.Asia General ranks as the 14th largest non-life insurer in Malaysia with nearly $143 million in gross written premium for the financial year ending March 31, 2013. The company, which specializes in private passenger automobile insurance and fire insurance for homes, features multiple distribution channels through agents, brokers, banks and car dealers. Thus, Liberty Mutual, through these significant expansions, seeks to expand its customer and revenue base.

Threats

Increasing incidence of natural catastrophes likely to drive up claim losses

There is general consensus that major climate changes are likely to occur in the coming decades and insurance companies face a trend towards higher losses as population densities continue to grow in catastrophe-prone areas. Altogether, a total of 880 natural catastrophes were recorded in 2013, dominated by weather-related catastrophes in Europe and Supertyphoon Haiyan. The monetary losses from 2013's natural catastrophes reached around $125 billion. The costliest natural catastrophe of the year in terms of overall economic losses was the flooding in southern and eastern Germany and the neighboring states in June 2013. Overall losses totaled $15.2 billion, while insured losses came to $3 billion.

Liberty Mutual's earnings from insurance underwriting are significantly impacted by the magnitude of catastrophe loss events. The group incurred catastrophe losses of approximately $1,262 million and $2,067 million in FY2013 and FY2013, respectively, from severe storms in the US, Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. It is widely believed that catastrophe losses will increase in the years to come due to a combination of several reasons. Therefore, increasing catastrophe losses could put pressure on the underwriting income of Liberty Mutual's insurance subsidiaries.

Regulatory changes could affect financial strength and performance

Insurance industry in the US and elsewhere, like other sectors in financial services industry, is undergoing significant regulatory changes. For instance, The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), among other things, established a Federal Insurance Office (FIO) within the US treasury. Under this law, regulations will be created for the FIO to carry out its mandate to focus on systemic risk oversight. The FIO is required to gather information regarding the insurance industry and submit to Congress a plan to modernize and improve insurance regulation in the US. These regulatory changes could have significant impact on regulatory compliance spending, and the way statutory capital and reserves are calculated. Consequently, the group's financial strength and performance could be affected.

Intense competition likely to affect market share

The financial services industry is highly competitive. The group encounters significant competition in all lines of business from other insurance companies, many of which have greater financial resources than the group and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have lower profitability expectations than the group. The group competes with players such as American Financial Group, Hanover Insurance group, American International Group, and State Farm Insurance Companies. Intense competition makes it difficult to maintain benefits of economies of scale.