Credit Suisse 22nd Annual Virtual Financial Services Forum

Company Participants

- Mark Lyons, Executive Vice President Chief Financial Officer
- Sabra Purtill, Deputy CFO and Treasurer

Other Participants

- Andrew Kligerman

Presentation

Operator

We are live and you may begin.

Andrew Kligerman {BIO 1551668 <GO>}

Excellent. Well, it's a pleasure to have senior AIG management with us today. We've got Mark Lyons, Executive Vice President and CFO of the company, and Sabra Purtill, Deputy CFO and Treasurer. The way I'm going to approach it today is I'm going to ask a series of questions and then toward the end, I'm going to take a number of questions, whatever you may have via email. So my email is andrew.kligerman@credit-suisse.com. And the last name is Kligerman. So happy to take those email questions if you have them.

So, Mark, and, Sabra, I'll kick off with some general questions that I think people want to get a good feel for. Little tricky, but thinking about AIG's intermediate term adjusted return on equity, how should we think about that with the potential divestiture a year or two out of the life business, general insurance recorded in ROE of 3.8% in 2020, of course that was impacted by elevated CATs and COVID and then 8.8% in 2019. So is there any kind of snapshot or thinking around an intermediate term adjusted ROE?

Mark Lyons {BIO 21746221 <GO>}

A great question, Andrew. I would say that at this point we're more comfortable with some of the guidance we've given to date which I would say is more around the steps for GI to get to the Accident Year Combined Ratio that we've targeted subs 90, which I'm sure we'll get into. The fact that there's premium growth that we plan associated with that and so forth. It's really difficult on the capital markets and the NII side of the house, both in AIG in totality as well as L&R which shows in a strictly[ph] linked inside of that.

So -- and the reason there's more feeling on GI is because that's really principal as opposed to principal of interest if you think of it in terms of what Garner's said down to the bottom line. So we have that. But interestingly, could just spark something when you said the intermediate because and you made the L&R reference that -- and the L&R -- with separation down the line and the ongoing discussions with key constituents and rating agencies and so forth, it's a little hard until you anchor and really finalize on structures as to what's on that might be. But back to the intermediate point that you made is, everybody's looking at what's the change in accounting principles, right? What's LDTI going to do, for example, because that's kind of intermediate.

And we've done some preliminary work, of course, there's more work to go, but given that that affects FAS60 more than anything else which is likely a term insurance and whole life and some UL on that, our initial view on that is I can get into why, but close to neutral if not minor favorable. Remember, we are -- retirement dominates life on a relative proportional basis for us. But it -- when you get into term and whole life where we kind of view that really as the net positive and it comes down to where you think your lost margins are and everything else on that, it's the UL side that, although, that's kind of unlocked as you go anyway, it's the change in the amortization that becoming more straight line that'll be more front and center and be the offset to some of the gains we might get out of the term and whole life and I know there's been conversations about the difference in the scope, right, where under FAS60 you had a lot of aggregation, a lot of freedom as to how you could put things together unlike a PBR on the property/casualty side, right?

So -- but in the case of this, you got to really look at every issue here and everything else, but the interesting aspects is that you don't any longer have the provision for adverse deviation. So you have that the drop because it needs to be expected value of your best estimate on a go-forward basis. So between the net of the two, much more favorable associated with a term and whole life with an offset on UL, mostly because of the back amortization, but we still view that as a net neutral or minor net positive. Anyway, you said intermediate. So, keep in mind.

Questions And Answers

Operator

(Question And Answer)

Q - Andrew Kligerman {BIO 1551668 <GO>}

Got it. Let's -- this is some very good data points, Mark, and maybe one area that's just kind of a top of mind issue around AIG in the general insurance business is that targeted 90% Accident Year Combined Ratio. You had about 94. -- and then that would be by the end of 2022 I assume and you had 94.1% in 2020. That was a nice improvement over 96% in 2019. Mark, maybe you could give us the construct, what are going to be the key drivers of pushing that down another 4 percentage points over the next two years?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah. Happy to. I think Peter Zaffino touched on it a little bit, but we can certainly get into that as well. So you do have componentry on the expense side through AIG 200 and probably for the course of this discussion I'll be reaffirming a few things in that regard, as well as the favorable environment and AIG's approached that favorable environment. But -- so on the expense ratio side first, let's just talk about AIG 200. AIG 200 and we stick by the numbers, it was a $1.3 billion investment over the three-year period to have an ending $1 billion exit run rate on that and we talked about to where we would had achieved in this year, which is better than we originally planned.

But if you go back to what we originally said that we adhere to, so at the end of your two 650 (inaudible) run rate, exit run rate and then at $1 billion at the end of year three. So if you think about 2022, which is your question, you're going to have the 650 coming forward and effectively you're going to have half of the balance, right? So let's call that 825 in a calendar year perspective, right? So -- and we still feel that over the long haul, roughly three-quarters of that will accrue to GI, the general insurance. So you can kind of do that arithmetic in math, right? And then you can pick where you think net premium might be, but you're probably in the 2.5 points range of that. We've got make some assumptions, right, along the way.

And then the balance and the interesting thing I think we all need to keep in mind is AIG is not a monolithic entity and the way we report externally with the segments in North American commercial and that's subdivided in personalized commercial lines, we tend to focus where the excitement is, right, and which is in commercial lines and it's mostly in North American commercial line, secondarily in international commercial lines. But personal lines is because of the regulatory nature of it and so forth and so on, you're not going to get this kind of massive uptick or massive downtick depending where you are in the cycle. So the personalized acts as kind of a ballast on that overall portfolio.

So I think it's good to keep that in mind. But I think the loss ratio improvement is going to come out of North American commercial, first, international commercial, second, in a kind of a rank order and personal line side is I think I've kind of addressed that, right? That's -- you're going to get some improvement. But you might see more expense ratio improvement than loss ratio improvement on that side where we would expect more loss ratio improvement on the commercial side of the house. So, I think the combination of the AIG 200 efforts the ongoing, I'll try to give you that mix answer on the geography and kind of business, is going to drive it. So we're confident that we're going to achieve that.

Q - Andrew Kligerman {BIO 1551668 <GO>}

And that math makes a lot of sense, especially with all the strength in pricing we're seeing these days. So one quick sidebar though on AIG 200, Mark, you mentioned that three quarters of it will be general insurance related and a quarter to life and retirement. With that separation, is there any disruption, you have any concerns about the ability to kind of smoothly transition?

A - Mark Lyons {BIO 21746221 <GO>}

We will look at couple of things. First off, I view that three quarters as an endgame. In a quarter or a year it's going to fluctuate a little bit, but at the end of that period we would expect that to be the case firstly. Secondly, I really didn't mean to imply that the remaining 25% is L&R. There's going to be what we view as corporate today, right, that in a post separation it would be combined with GI, right? So there's going to be savings accruing to corporate on that as well. And now with the separation lens, there's further elbow grease associated with our further consolidation of costs and functions, both at corporate and then what does L&R need on their side of the house as a standalone public entity.

Q - Andrew Kligerman {BIO 1551668 <GO>}

I see. So, no disruptions maybe even a little bit better, a little smoother. Is that the right way to interpret what you said?

A - Mark Lyons {BIO 21746221 <GO>}

Yes. On a composite basis we would expect them to close to offset each other. I think Peter's kind of mentioned that in the past as well and that's where we are.

Q - Andrew Kligerman {BIO 1551668 <GO>}

That's great. Now another item that's come up quite a bit. And I know you can't apply specific numbers to evaluation and IPO or private investor that has an app and but some people have brought up similar or companies with comparable businesses such as Equitable, (inaudible), we think is an extremely low multiple of five times estimated '22 earnings. We think this sector is really undervalued. So if we look at AIG's life and retirement business, what might be -- what might give you some confidence that you could do better than the life sectors a whole or would you be willing Mark to accept a multiple that's comparable to some of these other companies like Equitable or Lincoln?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah, there is a couple of thoughts that come to mind on that Andrew. First off is really are in a different position I think, the many of those, let me kind of enumerate a few of those and feel free with the dialogue with it, but we're not a one or two. We have a lot of products that that's a large part of distribution, also that is diversified that is very, very helpful. We don't have the back book issues anymore. I mean, whether it's old business that we've different comments on -- what we see and anything else I mean that's been solved to the (inaudible) transaction.

So we think that diversification provides a lot of good ways to manage of their cycle and the macro cycle without the fear of back book really coming back and hitting. So I think that's a point of differentiation. And to the extent on whether it's public or private, again, that's idiosyncratic, right? You got to say, what's the terms or conditions that someone might come forward with and doesn't make sense. We'd only want to value that if it was in the best interest of shareholder and we could really see increased value or creation. And it either enables or doesn't hurt the ability to deal with the balance of what we would need this to sell post that. So, that's probably the best answer I can give you now.

Q - Andrew Kligerman {BIO 1551668 <GO>}

And Mark, just again I know you can't speak very, very specifically to it. But a lot of questions out there about rationale for maybe on the one hand keeping the whole life and retirement business together versus potentially selling blocks of business, notably the annuity blocks or just altogether different sub segments within life and retirement. You know, what's that rationale for keeping it together or would you indeed consider some -- breaking off some portion of the business? And if so how, that was a long question, I'm sorry, but --

A - Mark Lyons {BIO 21746221 <GO>}

No issue with that. Well, I would say that to some extent I can rely on some of the answer I gave you on the prior one with the diversification because you do leverage one to the other, as well as a common view of longevity, a common view of mortality, the hedging program quite frankly is across the board. It's not a legal entity one, it's an aggregate view of hedging program. But when you get to blocks, when I look at the history of those things within the industry, sometimes you could be left with something much less attractive or at least in the eyes of the outside world, that's all point of view. So if the most attractive blocks or subsets go off first by definition, they don't have to be core books but they're (inaudible) books by not having the cream left in there and that's always an issue we got to -- you have to really push the pencil on.

Q - Andrew Kligerman {BIO 1551668 <GO>}

So Mark, it feels like AIG is leaning in the direction of kind of keeping this business as a whole as opposed to separate pieces. Is that a fair statement?

A - Mark Lyons {BIO 21746221 <GO>}

That would be our preference. Yes, that would be our preference.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Preference. Okay. That's a good word to use there. In terms of the separation, could you talk to us about the capital implications? Would AIG be able to free up capital? Will there be more capital constraint? How do you kind of view AIG from a capital standpoint post 19.9% divestiture whether that be private or IPO?

A - Mark Lyons {BIO 21746221 <GO>}

Well, a couple of points of rationale maybe just to recenter everyone, is the 19.9% is the level which, it's a consolidation line in the stand, right? It's whether you consolidate or not consolidate. And because of AIG's long history of the DTA, a piece of that being foreign tax credits, the FTC's, there is a material amount of that expected to be utilized over the next two years. There could be some overhanging into year three, but dominantly in the first two, so that's one consideration for the percentage and the timeline associated with that.

And a lot more of the work as Peter I think alluded to on the call, that's been done is that we are increasingly comfortable that no equity capital would need to be invested into the operation. But we still anticipate in order to come out of this with two strong entities, with two strong platforms, the debt leverage and the -- of the capital structure makes sense. And it makes sense within a reasonable period of time so that's comparable and not disadvantaged and still comfortable with rating agencies' time frame asks that we would go to. So on the equity side we don't see it, on the debt side of it I think we've already alluded to it in the past and I'll ask Sabra if you have anything else you might want to kick in on that?

A - Sabra Purtill {BIO 1764408 <GO>}

I think you hit on all the key points. I know back I guess it was five or six years ago with a different management team, they talked a lot about the diversification credit that AIG received having both the GI and the life and retirement businesses. And while some of that diversification credit does go away, both GI, and life and retirement on their own are very diversified as Mark has commented relative to the risk profile of life and retirement. So, with the strength of the balance sheets, GI -- the GI pool's risk-based capital levels are like the highest they've been in about a decade and improving profitability. We were happy to be able to confirm that the capitalization structure that we're talking about is achievable without having to downstream any capital into subsidiaries.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Nice. And I guess just in general talking about capital and I don't know if you answered that, we kind of estimate about $4.8 billion of excess capital in AIG and are we in the ballpark and if so, what are your priorities? I know you've announced plans for $500 million in buybacks in the first half of this year. I think you've got a leverage ratio of 31.4% ex-AOCI. So where would you like to take your kind of proceeds, is it de-levering, is it repurchase, do you have any growth investments? What are the priorities there?

A - Mark Lyons {BIO 21746221 <GO>}

That's actually a mouthful, that question. So I think Sabra and I will frick and frack it as we go through, but I guess starting with your discussion of the AIG level leverage which on the GAAP basis is 28.4% and I think you were kind of looking at it with or without AOCI and so forth, but as we said on the call, we've already dealt with a maturity in the first quarter, right, that we had kind of pre-funded for anyway when we did the $4.1 billion debt raise. So that's already taking us down towards glide path, towards where we wanted to be, pre-separation of 25% on a GAAP basis, 25% on a GAAP basis, so that improvement continues, so I think that's the first thing.

The second thing on your $4.8 billion, I'm not totally sure where that may come from, but I think it's easy to because we talked about liquidity a fair amount. So it's easy to kind of transpose the two, I mean, on our invested assets, I can have them all in cash and have inadequate capital but be massively liquid, right? So I think that's might be more of a liquidity view, Andrew, I'm not completely sure, but on -- but back is the rest of your question, the debt reduction still is paramount. I think one message we are trying to leave is although that is continues to be a high priority, we see a lot more flexibility now only in the $500 million that you noted on share repurchases, but that on the minority sale, we see a portion of that being also additionally added I believe as share repurchase potential in that. Other uses, we have the investment as we've highlighted the $1.3 billion into AIG 200 and share repurchases as we mentioned, but it's always holding company expenses, so forth and so on. So -- but into absolute excess capital whether I'm at AIG or Arch, as you know, Andrew, I never go there. But Sabra, anything else on liquidity side you wanted to bring out?

A - Sabra Purtill {BIO 1764408 <GO>}

I would just mention it, Peter talked about it in terms of capital management priorities on the call and, just a reminder that March 1st is when he is appointed as CEO and I think that we will probably try to be a little bit more systematic in how we talk about our capital management priorities. But as Mark reviewed we are managing the debt situation and have been for the last couple of years, with the beginning of COVID, we kind of took a side step for a little bit because we raised the money in May of last year to basically pay off all the maturities that we had coming up over the course of the next effectively year. And we've actually done that.

So, the $4.1 billion that we raised has been used to pay off maturing debt and to repay the revolving credit draw. So from where we sit today, we're frankly relieved that COVID did not have as bad of an impact on our balance sheet as I think we all feared back in March and April, but with the debt maturities that we've had we will continue to look for opportunities to get our leverage down, but the really -- the big event for capital as Mark has referred to will be with the separation and the setting up life and retirement capitalization, paying off debt at AIG, getting the proceeds from the 19.9% and that'll be kind of the next big frame -- a time frame for when we'll be able to do significant capital management activities.

A - Mark Lyons {BIO 21746221 <GO>}

And one other thing, Andrew, if I could just append one thing. Sabra and I kind of go back and forth on this anyway, the $4.1 billion clearly was pre-funding. It was economically advantageous. We had a weighted average coupon effectively of 3.3% with three tenors on it, weights for that. So that part was attractive for us. But given the uncertainties back then we didn't know what the impact would be on the global economy because we're a global organization not just a national organization.

And how the US government and other governments around the world would react to help sustain those economies. And so you wanted to get in and be liquid for all the contingencies we knew about, the known and the unknown that could have happened. So with that maturing debt schedule, we knew how much time we had with excess cash on our hands in case something went south of no one could predict. So, it was just as much a risk management move as it was an economical one.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Makes sense. And just so you know how we had calculated that $4.8 billion of excess. So we estimated roughly $10.5 billion of holdco liquidity, I guess you've got a $1.2 billion tax settlement due in the second quarter of this year, $1.5 billion of debt due in February and another $3 billion of holdco cash needs. So that's kind of how we did it. I don't know if you want to say anything or address that because you don't always address excess capital but --

A - Mark Lyons {BIO 21746221 <GO>}

Yes, that's a liquidity approach. And I would answer that doing share repurchase. I would answer that the AIG 200 expenditures and so forth, which kind of narrows that gap.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Makes sense.

A - Sabra Purtill {BIO 1764408 <GO>}

Yes. And I would just say I know every company has a different approach in framework, but in general in our industry, which relies on capital to write business and support risk, we look at like base case and stress scenarios as well. And so excess capital is really measured through the lens of a stress scenario not the current balance sheet, which is why as Mark was saying, you're looking at a liquidity framework and what are like near term cash needs, we actually manage and evaluate capital on a stress scenario.

But having said that, like I said the subsidiaries are very well capitalized right now, the credit losses and downgrades that we had through the COVID situation thus far, it may be a third of what we thought they might have been at the worst of late March when we were -- before all the Fed reserve programs kicked in. So the subsidiaries are very well capitalized. We have very strong liquidity at the holding company. So obviously we wouldn't be saying they're going to repurchase $500 million of stock, if we didn't think we had excess capital, but similar to many of our peers, we don't put point estimates out there because stress scenarios, you can run 10 different stress scenarios and come up with 10 different numbers.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Got it. Shifting a little more to general insurance on the topic of premium growth, net written premiums off about 9% in 2020, 5% in 2019. Now you were alluding to some of the benefits in commercial, you've got also -- there were some announcements I guess that you would decided to retain a bigger piece of some important casualty quota share treaties. I think you're retaining more with respect to catastrophe reinsurance. And it sounds like even on the quota share, you are getting a better ceding commission. So between the rate increases that you're seeing in commercial particularly in North America and the changes that you've made in 2021 to reinsurance, how might you see premium growth playing out in the next year and maybe two or three years after that?

A - Mark Lyons {BIO 21746221 <GO>}

I would actually look more towards 4Q over 4Q as a better indicator than a full year as you commented on. As you know, we had a lot of noise in personal lives, especially in North America for the trouble book they got hit hard roughly in the 80% reduction area and with PCG or high network structure we do with syndicate 2019 and some outside reinsurers and kind of spread that creative approach. It created calendar year accounting havoc. There was also under premium reserves they came in not just new and renewal and that had a different structure to it. Anyway, it created noise and that was dampening noise that it's contributory to the reduction that you quoted in net written premium.

I think as Peter as (inaudible) jumped on the one of the comments on the call was second quarter of last year we had negative net written premium at that. He thinks we should be able to exceed that, jokingly so. So I think the quarter-over-quarter growth of fourth quarter, I think is a better reference point than the year to begin with. And there's clearly going to be different growth in different pockets. But to the point of the reinsurance fees, yes, you're right. When the quota share is less on the casualty side, one thing I just want to correct because you mentioned on the property CAT that there's a lesser reinsurance and there's lesser spend. I don't want the listeners to think there's a different exposure. Actually there's lower attachment points associated with certain elements of the CAT program including the risks as well as (inaudible) and we're not really sacrificing anything and that's a testament to the continued improvement and characteristics of the gross book that enables that as well and the exhaust period, the exits are very comparable with any other carrier as to the return period of exhaustion. So all of those feed in. Yes, there's going to be some growth areas and that can be accelerated a bit by a reduction in ceding.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Okay. Maybe before, again, if anybody has questions, please do email, I see two emails now that have come in, but maybe just on the life and retirement segment, Mark, we asked about intermediate term growth in pre-tax income, again a lot of noise in that segment or that business as well. I think it was a 3% drop off in 2020 ex notables, but you had a 9% increase in 2019 and mid-single digit declines in '17 and '18. So what kind of growth is this business, this diversified mix of business capable of generating over time? What should investors be thinking about?

A - Mark Lyons {BIO 21746221 <GO>}

If I look backwards to inform the future and I look at calendar '20, and yes, the fourth quarter, the annualized fourth quarter was buffeted nicely, right, by alternatives. That came through and you got to kind of flatten that out, right, normalize that out. But it's -- when we tend to look at that and say, okay, that's uncharacteristically high, we also have to remember that the first quarter had an annualized 9.1% because of the reverse of what was happening back then and over the course of the year it was just shy of 14%, 13-9-ish, 13-8-ish. So that's even with those kind of offsetting each other. That's a good indicator coming forward. I would probably carve a little bit out of that because the averaging I'll say of that high annualized fourth quarter with the low annualized first quarter goes part way there, but perhaps not all the way there. So I think there's a lot of good momentum still coming in and as your saw and I think it's under the net flows that we have we saw some sequential rebounds, not the certainly year-over-year rebounds, right, but sequential rebounds, but given the economy I think sequential is a better the look at premiums in the positive and the net flow.

So the index annuities really seemed to have regained their legs. I think with a lot of that in, I mean it makes sense I think once you hear it, is that distribution have to just get used to the new world. And a lot of that stuff is still sold in a face-to-face contacts and that just -- they just had to get over that hump I think and I think that's where you're seeing the growth of that occurring more. So, in the fourth quarter there's always going to be in the institutional markets, there's going to be reverse transfer opportunities here and there, on clothes and other sorts of mechanisms, but fixed annuities with the current interest rates environment are going to be tough for a while, but we think the growth area is really an index and it's somewhat variable.

A - Sabra Purtill {BIO 1764408 <GO>}

And I would just add, on the group retirement side, which is our VALIC business, early part of the year was really impacted by the lack of new business contracts in the environment that we were in. The school systems and the hospitals that we sell those plans into weren't out shopping for new providers, but that turned around later in the year and actually in the fourth quarter we signed two large contracts about $500 million of assets under management and we feel good about the momentum we have there.

I would just -- just one quick observation though to make in terms of profit forecast for life and retirement, the last two years have been really, really strong on alternative, particularly on private equity. Our annualized yield on the life and retirement portfolio was almost 19% this year and it was like 16% last year. When we build our forecast for that business like many others in the industry and we have a placeholder of around 6% or 8%. So, when we think of 2021 we wouldn't project those kind of alternative return, so there is obviously headwind on APTI coming from our base assumptions for private equity.

A - Mark Lyons {BIO 21746221 <GO>}

One thing I think, Andrew, also to help that is when you think about, you know, there's so much more that goes into it, but of course we kind of tag the 10-year as an industry on the yield and we've given some sensitivities and we've said $10 million to $15 million on the 10 basis points change. So let's put -- go in the middle of that, right, $15 million APTI pre-tax income and at year-end that was roughly 90, right, and now we're in 150 lands, right? So that's 6 times 15 is 90 and tax effect if it's $70 million to $75 million, I mean just to kind of put numbers to your question as a function of that alone gives you some scale.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Got it. Really helpful. I see one question. Has AIG issued $400 billion of term insurance in the 1998 through 2004 timeframe? As much of this is coming up on its level term period, how is the business developing and could there be risk of adverse selection. And my take I guess earlier you were just talking about the term insurance being a good guy, but that's an interesting question. What do you think on that, Mark?

A - Mark Lyons {BIO 21746221 <GO>}

Well, a couple thoughts on that. First off, AIG was a bigger term writer back in the up throughout I'd say the early part of the 2000s and most of it was 20 year term. So you can kind of see that that's going to roll off I think pretty dramatically on that. So I guess the additional questions associated with that is what happens then because you made an adverse selection comment. So on post-term, right, what happens? And everybody knows they get jacked up beyond belief, right?

It becomes one year at a time and it generally goes to standard life, right, as far as the preferred life or something like that. So you can get 10x, 20x movements and there's two views, right? You got the policyholder view and then the portfolio view. A policyholder view, their IRR is great. At any time they I mean it's the best. So, bear with me, I think (inaudible) going to hate when I say great. I mean the return on IRR standpoint if you die within the term of a term policy, it is attractive. It's -- but that attractiveness, if there was sane rational decision-making, probably no more than two years after that term expires, if you pay those premiums, it's a horrible financial decision to make.

But on a portfolio basis, yeah, I think there is that potential. I think the industry and AIG has undergone programs to try to soften that and perhaps make it not as steep an increase that encourages more people to buy it and therefore a different profile of remainders who continue to pay those premiums. So I think we and others have done something like that in that regard. But I think the biggest takeaway is that a lot of that was written in that time period and it was mostly 20 year. So it's end date is right in front of us.

Q - Andrew Kligerman {BIO 1551668 <GO>}

I see. I have another question that reads, can you ask about loss exposure to the Texas pleas and maybe give us a little color around that?

A - Mark Lyons {BIO 21746221 <GO>}

The very little color, actually be very, very, very pale. It's very early, as you know. I think it was just the day before yesterday we're beginning to even have the ability to inspect. So reported claim experience at this point is light. There's not a lot I can tell you from an actual basis on it. But they'll be personal and commercial exposure and I think the interesting thing would be that from a personal side, we -- the way the vertical works let's say on the personalized structure on the reinsurance, it's a $150 million attachment on that, so -- which is nice because it's a nice low attachment on that.

And if I think on the commercial side and we touched on this in the 10-K is the reduction from $500 million to $200 million on the attachment points of the commercial, North American Commercial CAT program except for South Eastern Gulf. However, that deals with windstorm and earthquake and so forth. This is a winter storm event and therefore it qualifies as a $200 million attachment. So I think that are good data points I think for you and your group.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Got it. Very helpful. And I guess it's because --

A - Sabra Purtill {BIO 1764408 <GO>}

I would just note in general though, obviously first quarter is normally one of the lighter CAT quarters particularly in North America. And we also have a large book in Japan where there was an earthquake about 10 days ago. So in general I would say that the, I guess it was storm Yuri is probably going to make it a higher CAT quarter for the industry and AIG than you would normally expect for a first quarter.

A - Mark Lyons {BIO 21746221 <GO>}

Yes. That's a great point, Sabra. And also when you think about the volatility of that, if you look at the modeling firms, right, you had Karen Clark go from $10 billion to $18 billion I think in a span of a couple of days. AIR just came out with $10 billion I think yesterday. So it's too early, I mean, even the modeling is parameter risk is all over the place.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Got it. One last one is we kind of come up on the hour. I had wanted to ask. I don't see any more questions via email at this stage. But I'm curious as to your confidence in reserves on years written outside of the Berkshire treaty which stops after 2010. The 2016 to '18 accident years generated $351 million of negative prior-year developments in the fourth quarter, a $171 million in the third quarter of '20. So, Mark, I think you were even touching on it a bit in the fourth quarter call. But could you give us a little color on why you maybe confident or concerned in the 2016, '18 block?

A - Mark Lyons {BIO 21746221 <GO>}

Yes. Sure. So I look at it like this. When you look all in because after all it's every company has some pockets of plus and minuses you go through in any quarter. But if we look at the original accident year picks, right, 12 months into an accident year and where is it today, right, so at 2019 it is the greenest right? It moved 1/10 of a loss ratio probably at this point all in with all recoverables and everything else. And then if you flipp to 2017, that moved half a point, half a loss ratio point from the original to where we are now. And when I look back as to when that happened, I mean when I came in the second half of 2018, I jacked up reserves in both the third and the fourth quarter. So half of that half a point, if you will, in the 2017 year, I did when I first got here. So '20 -- so a quarter point and then there's been another quarter point since then, which is still in (inaudible) recovery, right?

When you get to 2016, which I think is probably most of the question on that, the original to where we are now actually deteriorated 4.5 loss ratio points, but we should dissect where that came from and more importantly when that came from. So the 2016 year had about two-thirds, so 2.7 loss ratio points of that 4 and I have loss ratio points was in 2017 on the 2016 accident year versus there was some recognition of that. And then similar to what I said on the prior accident year, I came in, I did some jack up and that affected the 2016 year as well, and that pushed it up another close to a point I think. So between the '16 year having an increase in 2017 and me moving it up, that was like 85% of the difference there. So, that's one of the reasons because there's been enough of a look, there was a correction made almost within the second 12 months of the 2016 year in 2017.

Then 2018, we're a little out of order here, but 2018 it moved a point the half from its original and that you have to put mostly on me, because in 2018 I didn't really affect the 2018 accident year as of 12 months. So that movement has been, point and a half and it's moved some in 2019 calendar year and 2020 calendar year for little different reasons. But so what I think back of it '19 didn't really move much, '20 -- let me go in order, 2016 moved the most, but for the reasons I just itemized and therefore that's why I have comfort on that. 2017 really didn't move much at all. 2018 moved a point and a half and it's I think more a function of some of the things we talked about along the way inclusive of some of the financialized I think, I mentioned on the call and 2019 hasn't moved at all, really, that's what points noise to me. So that's how I'm looking at it, that's why when I look at it in broader terms I get increased comfort.

Q - Andrew Kligerman {BIO 1551668 <GO>}

I see, Mark. So just kind of like, just looking -- taking what you said, it sounds like when you came on board in 2017, you scrutinized it, you took some hits, you kind of sized it and you were taking into account all of these issues like social inflation, severity increases et cetera. So it sounds like you feel like you've gotten your arms around it at this stage in the game, so is that the right way to think about?

A - Mark Lyons {BIO 21746221 <GO>}

(inaudible) I would just correct one thing, it was 2018, the latter half of 2018 when I joined AIG.

Q - Andrew Kligerman {BIO 1551668 <GO>}

I'm sorry, I'm sorry. I'm right, right. But what so when you did get there in the latter half of 2018, that's when you kind of attacked it though, is that right?

A - Mark Lyons {BIO 21746221 <GO>}

Yes. Well you if you try to get your arms around it much as you can given the sprawling nature of this organization six months, and then after that I got yanked up the corporate.

Operator

Sorry for the interruption, we are out of our alloted time for the broadcast.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Mark and Sabra, thank you so much for your great insights. Really appreciate it.

A - Mark Lyons {BIO 21746221 <GO>}

Appreciate the invite and the time. Thank you, Andrew.

A - Sabra Purtill {BIO 1764408 <GO>}

Thanks.