Company Name: AIG
Company Ticker: AIG US
Date: 2017-08-03
Event Description: Q2 2017 Earnings Call

Market Cap: 55,414.90
Current PX: 61.34
YTD Change($): -3.97
YTD Change(%): -6.079

Bloomberg Estimates - EPS
Current Quarter: 1.223
Current Year: 5.247
Bloomberg Estimates - Sales
Current Quarter: 11787.333
Current Year: 49783.200

Q2 2017 Earnings Call

Company Participants

- Elizabeth A. Werner
- Brian Duperreault
- Siddhartha Sankaran
- Robert S. Schimek
- Kevin T. Hogan

Other Participants

- Kai Pan
- Ryan J. Tunis
- John M. Nadel
- Jamminder Singh Bhullar
- Jay Gelb
- Thomas Gallagher
- Jon Paul Newsome
- Meyer Shields
- Brian Meredith
- Jay A. Cohen

MANAGEMENT DISCUSSION SECTION

Elizabeth A. Werner

GAAP and Non-GAAP Financial Measures

Today's presentation may contain non-GAAP financial measures

The reconciliation of such measures to the most comparable GAAP figures is included in the slides for today's presentation and in our financial supplement, both of which are available on our website

Brian Duperreault

Q2 Highlights

Opening Remarks

- It's great to be here today and talking to you about AIG
- It's been a busy few months
- And I want to give you a sense of where we are as a company and why I'm excited about AIG's future
  - Q2 is a great indication of the breadth of our businesses and the opportunities for growth they provide

- Overall, our second quarter results were solid
- Consumer delivered another strong quarter led by Personal Insurance profit growth
- Commercial continues to execute on its mix shift and manage through a very challenging property casualty market
- Before I get into the numbers, I want to note that going forward we will no longer be providing guidance or targets
    - But today I will speak to the actions that will improve the bottom line and drive shareholder value
- Financial targets are important in how we manage the company, but they have to be put in balance

Commercial

- I would like to share my thoughts on Commercial, Consumer, talent, growth and capital
- Over the past few months I've spent my time in the field and with our business leaders
- As you might expect, I started with Commercial
- Our goal in Commercial is to improve the bottom line
- And the best way to do that near term is to shift our mix of business, while continuing the emphasis on risk selection

U.S. Casualty Exposure

- The Commercial team has made good progress reducing our U.S. casualty exposure, shrinking the gross book by a third from 2015
- Those risks were easily absorbed by the market
- And we've seen a market with capacity and underwrite at prices, terms, and conditions that we find unacceptable
- Improvements in our underwriting are emerging and will continue to positively impact our results
    - But we are not done
- We still have portfolios that don't meet profit targets, including property

Market Conditions

- Given market conditions, fixing them most likely will require further reductions in premiums written
- Disciplined underwriting should also reduce the concern surrounding our reserves
    - This quarter roughly $16B of reserves were reviewed, including some of our most challenged lines, where we've seen adverse development in Q4 previous years
- Most recent, accident years, which are still green, are developing as expected
- I believe our reserve review and loss pick process is sound

Consumer

- Moving on to Consumer
- These businesses represent roughly half of the company's core equity and are a valuable source of earnings stability
- We enjoy leading market positions across many products and distribution channels, which allow us to maintain profitability in evolving markets
- Personal Insurance in particular has significantly contributed to the quarter's profit growth and provides a great opportunity for future growth

Cost Structure

- Expense discipline is a hallmark of a great company
- Good work has been done to reduce our cost structure
- A balance needs to be set so that we invest in both people and technology that produce long term productivity gains, while addressing costs that produce no value add
- I heard many concerns about talent before I arrived
- There is no question AIG lost talent
  - But it was also blessed with a strong bench
- The job now is to rebuild that bench

Executive Appointment

- We are regaining our position as the best company to work for in our industry
- I'm going to take full advantage of that as a net acquirer of talent
- You've seen our recent announcements
- And we're excited that Peter Zaffino and Seraina Macia have joined the team
- Having spent five years working with Peter, I know that his focus on leadership and – leadership will drive operating excellence and expand AIG's franchise
  - Seraina is no stranger to AIG
- And she is coming back as a CEO of our new technology driven subsidiary
- Under her leadership, we will build upon the Hamilton USA platform, where she was previously CEO

International Footprint

- I also intend to maximize the value of AIG's international footprint in over 80 countries
- The global presence simply can't be duplicated
- And we will empower our people to develop and expand upon it
- As I mentioned back in May, I'm here to grow the company profitably
- In addition to targeted organic growth opportunities, we will consider acquisitions that are strategically complementary

Acquisitions

- I have a track record of building value through acquisitions
- And you can expect that I bring that experience and philosophy to AIG
- We will consider opportunities that are additive with respect to diversification and the balance they bring to our existing portfolio and capabilities along with future profitable growth
- Areas where we see opportunities may be found internationally, in personal lines, life insurance, and in the U.S. small to middle market to name a few

Capital Management Strategy

- Our capital management strategy will support our goal of profitable growth
- And while we will return capital to shareholders, we intend to prioritize our investments in organic and inorganic opportunities
- We still have a buyback authorization in place and will consider capital return, but there – but are no longer targeting an annual amount for share repurchase
  - We have already repurchased half the company's market cap over the past 3 years

FCF

- Going forward, our priority is to allocate capital to support profitable growth, both organic and inorganic
- This company generates a significant amount of FCF
- As we generate excess cash, we can consider capital return, including our dividend payout, given our growth outlook
- To reiterate, my comments at the Consumer Investor Day, growth in profitability and book value are the measures of success in our business

SIFI

- Finally, on the topic of being a bank SIFI – non-bank SIFI, I should say, I've looked at it And I think if you consider where we are today, we would not meet the hurdles for that designation
- This company has dramatically changed its risk profile and controls since the financial crisis
- The beta used for designating firms supports that statement when you compare us to peers
- And we will continue to work with our numerous regulators to demonstrate the substantial and successful derisking that AIG has achieved

Summary

I often remind everyone that there are few companies in the insurance industry with the scale, global footprint, and brand of AIG

Not only am I excited by what I've seen, I know what this company is capable of doing based on my long history at the company and my prior roles at one of the largest broker partners and largest competitors

My goal is to make AIG better than it's ever been

In closing, I look forward to speaking with you again on our progress

Siddhartha Sankaran

Q2 Highlights

After-Tax Operating Earnings

- This morning I'll comment on our second quarter financial results and provide an update on our capital liquidity
- Turning to Slide 4
- We reported after-tax operating earnings of $1.53 per share, driven by solid operating performance, led by our Consumer business and in particular Personal Insurance
- Our results benefited from strong alternative investment returns, driven by favorable equity markets and lower-than-expected CAT losses
- Even after removing excess alternative investment returns, prior-year development, and lower-than-expected CATs, normalized EPS was $1.33

Adjusted ROE

- Book value per share ex AOCI grew 2% during the quarter to $76.12 and 4% YTD.
- Book value per share growth in the long term remains an important objective for us in assessing value creation for our shareholders
- AIG's adjusted ROE was 10.5% and is shown on Page 5
- And our core normalized ROE was 9.9% for the quarter
- Capital management, operating efficiencies, and Personal Insurance profitability positively contributed to the core ROE and were offset by increased Commercial loss picks from H2 2016
- The YTD core normalized ROE was 9.2%
- And we believe we are on track to demonstrate profitability in our core insurance operations for the full year

Consumer Insurance

- Consumer delivered another strong quarter and saw a 33% increase in pre-tax operating income relative to prior year
- Consumer's normalized ROE was roughly 13% for the quarter and 12% YTD.
- Nearly 90% of Consumer insurance attributed equity generated a double-digit return this quarter
- Commercial continues to execute on its strategy of mix shift and risk selection in a challenging market environment, which is evident in our reduction of net written premiums

- Y-over-y comparisons are impacted by H2 2016 increases and loss picks for U.S. casualty and programs, as well as an increase in Property and Special Risk losses
- Rob will speak to these items further in his remarks

Liability and Financial Lines

- During the quarter we accelerated the number of detailed reserving reviews we performed in Liability and Financial Lines compared to a year ago
- We completed reviews of reserves totaling roughly $16B, including primary and excess general liability, medical malpractice, and environmental
  - Historically these have been among our most challenging lines and had contributed roughly half of prior year development in the past two years
- Also note that typically these lines have been reviewed in Q4 in previous years
- Based on our reviews we recorded $21mm of net adverse prior year development in Liability and Financial Lines operating earnings, net of reinsurance
  - This figure primarily includes AIG's 20% share of development on covered reserves that are part of the ADC, offset by the $62mm in quarterly amortization of our ADC gain at inception

Berkshire Hathaway

- The adverse development on the 80% of reserves ceded to Berkshire Hathaway was $273mm and is reported below the operating line
- The development associated with the ADC and the deferred gain treatment are provided on Page 47 of our financial supplement
- Prior-year development for Liability and Financial Lines was due to adverse claim experience in U.S. primary and excess GL that related primarily to construction defects and multiyear construction projects that cover all contractors on-site, also known as wrap business, along with other large individual claims
  - This was largely covered by the ADC
- Based on the results of our detailed reserving reviews, we remain comfortable with our 2016 and 2017 loss picks in these lines

Property and Special Risk

- In addition, we also saw higher-than-expected losses in Property and Special Risks due to two large aviation losses and recorded $41mm of prior-year development in PSR.
- Historically we have had moderately favorable reserve development in these classes, which results in an unfavorable year-on-year comparison for Property and Special Risks

Balance Sheet and FCF

- Our balance sheet and FCF remain strong
- Current liquidity at quarter end was $7.8B

- During the quarter we received $1.7B of distributions from our insurance companies, including tax-sharing payments
- Parent also received a total of $1.2B in proceeds related to legacy asset monetizations and the sale of Arch shares
- Total proceeds from the sale of Arch shares was $652mm, of which roughly $400mm were received by the holding company
- Our remaining 4% stake in Arch is held in preferred shares in our P&C subsidiaries that are subject to lock-up until January 15, 2018

Legacy Strategy

- We continue to have commitment and discipline in executing our legacy strategy
- Legacy capital release in the quarter was $800mm for a total of $7.9B since the beginning of 2016
- Cumulative capital release and cash flow from legacy have exceeded our expectations
- We continue to project strong FCF to the holding company from insurance subsidiaries and the legacy portfolio

Share Repurchasing

- We returned $2.7B of capital to shareholders in the quarter
- While we have $2.5B remaining under our share repurchase authorization, as Brian stated, we'll be more opportunistic in our buyback activity and are no longer targeting an annual level of repurchase
  - We have already returned roughly $20B in capital over the past 18 months, inclusive of our Q3 dividend
- Going forward, our priority is to allocate capital to support profitable growth
- Our balance sheet strength is an asset we will use to maximize return and value to shareholders

Summary

To sum up, we are pleased with the second consecutive solid quarter

Our strong balance sheet and FCF profile distinguish us from others in our industry and leave us extremely well-positioned for the future

Robert S. Schimek

Q2 Highlights

Strategy

- During Q2 we continued to execute on our strategy to improve Commercial's profitability by achieving a healthier balance in our portfolio
- We remain focused on disciplined risk selection, advancement of our pricing tools, and improving our mix of business as we work to create long term sustainable value for all of AIG's stakeholders

Underwriting Actions

- On Slide 8, Commercial's second quarter normalized ROE of 7.6%, which includes the full capital benefit from the adverse development cover, represents an improvement from Q1 and is in line with prior year quarter after adjusting for the increase in loss picks recorded in H2 2016
- The adjusted accident year loss ratio of 66.1% reflects elevated non-CAT property losses and higher loss picks in Liability and Financial Lines, which offset improvements in risk selection, mix of business, and strong performance in Special Risks
- We continue taking aggressive underwriting actions across the portfolio's poorer performing lines, particularly within U.S. casualty and global property
- The chart at the bottom of the slide illustrates our focus on risk selection and improvements achieved in our mix of business over the course of the last year
  - However, the pace of our progress is partially dependent on market conditions
- And as a result we do anticipate quarterly volatility as we execute our strategy

Liability and Financial Lines

- Turning to Slide 9
- Liability and Financial Lines reported a solid second quarter normalized ROE of 11.3%, which reflects the full capital benefit of the ADC and strong performance in Financial Lines
- The adjusted accident year loss ratio was essentially flat to the prior year quarter after adjusting Q2 2016 for the increase in loss picks recorded in H2
- During the quarter benefits from risk selection and business mix improvements were offset by more conservative loss picks and market conditions

Market Leadership

- In Financial Lines we achieved meaningful growth in segments where we're earning our target rate of return and hold market leadership positions
- That includes primary public and private D&O, where our claims capabilities have helped us to achieve above market rate increases, as well as Side A D&O, M&A, and cyber, where AIG's technical expertise is a clear competitive advantage
  - We continue to see opportunities in Financial Lines
- And we're committed to innovating and growing with our clients

Casualty

- Moving on to casualty
- We made progress on improving risk selection, enhancing the sophistication of our underwriting tools and achieving y-over-y above average market rate increases of 3% during the past seven quarters
- As Sid mentioned, this quarter we updated our reserve analysis on many of the most challenging classes within U.S. casualty
- Premium rate increases are lagging loss cost trends

- And we've been prudent in setting our loss picks
- Casualty is the long tail line most vulnerable to uncertainty within our portfolio
- And we recognize that we have more work to do

Property and Special Risks

- Turning to Slide 10
- Q2 normalized ROE for Property and Special Risks was 1.2%, reflecting strong profitability in Special Risks that was mostly offset by an underwriting loss in Property
  - We've shared our Property remediation plans with you in the past
- And we acknowledge that the business is not performing at an acceptable rate of return
- The quarterly increase in Property and Special Risks adjusted accident year loss ratio is attributable to Property's non-CAT losses

Loss Ratio

  - With respect to Special Risks, Q2 marked our best adjusted accident year loss ratio quarter for specialty lines in the last five years
  - The proportion of our business coming from Special Risks has grown 5% over the prior year quarter, highlighting a deliberate shift to areas where we see profitable opportunities

Property Business

- I'll make three key observations with respect to our Property business
  - First, CAT losses performed better than our average annual loss expectation and better than the prior year for the first six months of 2017
  - Second, while severe losses were elevated compared to the past few quarters, they're in line with our expectation for H1
  - Third, we experienced higher Property attritional losses in Northern Europe as a result of elevated claim activity relating to the 2016 underwriting year
- In 2017 we believe improved risk selection, which has led to Property's premium decline and significant enhancements to our tools will result in a stronger portfolio
- Looking toward 2018, you can expect further remediation actions, particularly in Europe, as we approach the important January 1 renewal season

Europe

- Shifting to some recent successes, I'd like to take a moment to recognize the significant progress we've made in advancing our modeling capabilities
- In Europe, we recently gained PRA approval of our Solvency II internal model, an affirmation that external parties are gaining confidence in our tools

- Our development of data, analytics, tools, and modeling has been a multiyear process, but our efforts are increasing in maturity and helping to improve our business decisions

Product and Service Capabilities

- Turning to our product and service capabilities
- We're focused on bringing innovative solutions to our clients and brokers
- We recently announced that we successfully piloted the first multi-national smart contract-based insurance policy using block chain in partnership with IBM and our client Standard Chartered Bank
    - This is just one example of a broader body of work dedicated to learning and working alongside our business partners as part of the commitment to client service and innovation that spans across the Commercial organization

Strategy

- In closing, Q2 marked another step on our journey to improve Commercial's underwriting profitability
- Our strategy will remain focused on risk selections, underwriting discipline, and improving the mix of business within the portfolio
- We're extremely pleased to welcome and work alongside Peter Zaffino, who brings with him an accomplished track record and a fresh perspective from the broker community
- I have confidence in our strategy, our team, and its ability to execute as we continue through the year

Kevin T. Hogan

Q2 Highlights

Pre-Tax Operating Income

- As you can see on Slide 12, Consumer produced strong results for the quarter
- We earned nearly $1.3B in pre-tax operating income and expanded normalized ROE to 13.3%
- There were a number of positive developments in the quarter, which benefited our returns, including an unusually low level of loss activity in the Personal Insurance business and strong tail winds from equity markets supporting fee income in our Individual and Group Retirement businesses
- The strength of the equity markets helped partially mitigate the challenges and impact of the low rate environment on our results

Life Business

- Lastly, we had a one-time benefit from legal developments and group retirements and a positive adjustment to DAC in our Life business
- During the quarter, we continued to take further actions to enhance returns, strengthen our platforms, and pursue targeted growth opportunities

Individual Retirement

- Turning to Individual Retirement on Slide 13
- Uncertainties surrounding the impact and implementation of the Department of Labor fiduciary rule, as well as potential delays and possible modifications to the rule, have continued to significantly affect distributors, negatively impacting industry sales, in particular annuity products
- The impact from our distributor's focus on implementing the DOL rule along with more aggressive competition in the fixed annuity space led to materially lower Individual Retirement sales and net flows from a year ago

Pricing

- In the face of industry challenges we continued our disciplined approach with respect to product pricing, product features, and asset quality and continued to benefit from our broad product portfolio and diversified distribution network
- Net spreads remain strong, but are not immune to the low rate environment, while increases in policy fee income reflect tail winds from robust equity markets

Group Retirement

- Turning to Group Retirement on Page 14
- Our investments in VALIC to transform the planned sponsor and participant experience continue to pay off
- Deposits decreased slightly for the quarter but are up YTD, primarily due to increased new group acquisitions, which remain at a very high level

Net Flow

- Net flows declined for the quarter and YTD due to the timing of group surrenders
- Also despite disciplined rate management, net investment spread declined due to the run-off of higher yielding assets and reinvestment in the low yield environment
- Looking forward across Individual and Group Retirement, absent significant changes in the overall rate environment, we continue to expect our net spreads will decline by approximately 1 basis point to 3BPS per quarter

DOL Fiduciary Rule

- Before moving on to Life, let me say a few words about the DOL fiduciary rule
- We believe that we implemented the system changes and processes necessary to achieve compliance with the provisions of the rule that became effective on June 9
- We are also on track for full compliance on January 1, while closely following the DOL's ongoing review and assessment of the rule
- We are in constant communication with our distribution partners through this complex transition to ensure that we can continue to meet their evolving needs

Life Insurance

- Let's now move to Life Insurance on Slide 15
- Our Life Insurance business continued to make progress, executing our plans to enhance ROE and return to growth
- We have now transitioned the bulk of our new business processing to our modern administrative platforms and have outsourced administration of our legacy portfolios, allowing us to focus on current new business and further improve operating efficiencies
- In the U.S. premiums and deposits increased
- And we had strong growth in both term and universal life insurance sales
- Also overall mortality experience continued within pricing expectations

Personal Insurance

- Turning to Slide 16
- Personal Insurance produced very strong results this quarter
- The significant increase in PTOI was driven by an unusually low level of loss activity, including no severe losses and minimal catastrophe losses, strategic actions to reduce expenses, and higher net investment income
- Our Personal Insurance results reflect our focus in markets and customer segments where we have a competitive advantage and favorable growth prospects
  - We are executing on a number of unique partnership arrangements and expanding our multi-national offerings
- While this quarter represented unusually favorable experience in Personal Insurance, we are moving our focus from margin expansion to growth at targeted margins

Japan

- Finally, in Japan we continued to make progress on our transformation, while producing strong operating results
- We are successfully conducting business under FSA-approved pre-merger status and remain on track for the legal entity merger on January 1, 2018
- During the quarter we also completed the sale of AIG Fuji Life, allowing us to focus on our strong P&C position going forward
- To close, I'm pleased with Consumer's results this quarter and the progress we are making across our business

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: First, congrats to both Brian and Peter for your new positions. My first question is on reserve. You took another $400mm gross charges before the reinsurance recoverable. I'm wondering, Brian, because you started as an actuary in AIG many years ago, what's your reserving philosophy? And do you see – continuing the near term – see some slow bleeding in term of reserve charges? Or another sort of kitchen sink quarter in Q4?

<A - Brian Duperreault>: Well, hey, Kai. Thanks for the congratulations, to start with. And thanks for reminding me I was an actuary at this company once. Look, in reserves you have to be realistic. You've got to be conservative. You have to take facts on when they come in that change your opinion about it. And you have to have a consistent approach to your process.

So what I've seen is a process that I mentioned in my remarks is sound. I think the positions they're taking are reasonable. I think there's a conservativism in their approach. But that doesn't mean that you can't have movements both up and down in old years. But what I've seen in this quarter doesn't give me pause. It doesn't increase my anxiety about anything.

I think it's – the process has been reasonable and there are some movements. But as I said earlier, I think the current years are put in a reasonable position. Even though they're green, I think they're reasonable. Didn't have much activity there. That's probably all I'd say about it. Thank you. Next question.

<Q - Kai Pan>: Okay. My follow up…

<A - Brian Duperreault>: Okay.

<Q - Kai Pan>: Yeah. If I may, on capital management. You said you would take a more balanced approach. You no longer give sort of any target for annual buybacks. I'm wondering, what's the balance between buyback – in your mind, between buybacks and investments? How do you value the return on buybacks, buying at below your book value, vs. potential growth opportunities out there?

<A - Brian Duperreault>: Thanks, Kai. Yeah. So with the buybacks, that's a capital management tool. It's not a strategy. It's not a growth strategy in particular. And so if you set yourself as a company that grows and increases its profits over time in a sustainable way in developing franchise value, then you have to take that capital that you're getting every quarter and deploying it. So that means that a buyback process has to be blended in with deploying the capital in some ways that gives you long-term value.

So that's what we do. I mean we've got the capital. As management in this company, we've been given that responsibility and charge to do the best with it to create long-term shareholder value. And as I said, my priority is to take this capital and find ways where we can increase the franchise value of this company. If we can't, obviously we would return it. But that would be something I would prefer not to do if I can find something better to use it for. Okay? Good. Next question.

<Q - Ryan J. Tunis>: I had a question and then John Nadel had a follow-up. But I guess my question is just in terms of the improvement in D&C. How long should we expect this to take? I think you mentioned that some of the problematic lines of property, I would imagine that those are a little bit faster to fix than some casualty lines. And where should we see the improvement? Should it be more on the expense ratio side or on the loss ratio side? Thanks.

<A - Brian Duperreault>: Okay. Well, that's always a great question. It's like how long is a piece of string. It takes some time. And certain lines – takes longer in some than others. And you've pointed that out. They've been working on the casualty for some time. Look, and I applaud the work that's been done here, frankly. I mean, it's not easy to do what they've done. And I like the fact that they've been intellectually honest with themselves about what's good and what's not good here. And that's terrific. I mean, that's another hallmark of a great company. So this casualty business, it takes time to earn out. It takes time to yield its secrets. Those things are evolving. I think a lot of that work has been done.

But as I said in my remarks, there's still some of those positions that we have, they're still not producing a good result. And this market's not going to let us fix it through price, terms, and conditions. Not going to let us. So that means it's selection. And that means reduction probably. So if you reduce, you're going to have that premium earn out over time. So you're just going have to let that play out and have to watch us continue to deploy the discipline that has been deployed.

Property is usually a little easier to fix. I mean, you can see the results quicker, because it's really the last couple of years of activity that's going to be affected. There are some idiosyncrasies in the Property book. It takes that a little bit longer, like this 1/1 renewal in Europe as an example. Maybe we just got some multi-line businesses.

So yeah. So where does it – where do you see it? Okay. If I reduce business, if we stop writing premiums, the loss ratio go down, your expense ratio is going to go up. Okay? Net-net, you're better off. So that's why I say, don't put – don't force me to give you an expense number and a loss ratio number, because it's a very complicated nuanced process.

If the Property is going to be attacked, your loss ratio is probably going to go up, because Property tends to have lower loss ratios. And I think that's occurred already in the portfolio management that Rob has been doing. It's going to continue.

So what we're trying to do is make an underwriting profit. And that's a combination of those two. And they're going to be in balance. And that's really what you have to look for. Are we improving the underwriting profit of this company? And that's the real indicator. You got a follow-up?

<Q - John M. Nadel>: Yes. Good morning, Brian. This is John Nadel.

<A - Brian Duperreault>: Hi, John.

<Q - John M. Nadel>: I think it probably comes as little surprise to most folks who have known you for most of your career that you talk about an interest in inorganic growth on the Property casualty side. But I was curious about your comment, about some interest on the Life Insurance side. It seems to me in an environment where you could actually monetize pieces of the Life portfolio at very high levels, given some irrational exuberance, maybe in long term or long dated liabilities. I'm just curious as you think about how to bolster either strategically or directionally the Life side of the portfolio, what areas geographically or product sets might you be interested in?

<A - Brian Duperreault>: Well, I'm going to start this. But I might ask Kevin to help me out here.

<A - Kevin T. Hogan>: Right.

<A - Brian Duperreault>: But I think if you looked at the Life business we have, it is localized. It is substantially the U.S. But in the U.S. it's quite balanced. We've got a nice balance in what we describe as Life.

So my philosophy is always that balance is a wonderful thing, because you can shift from one to the other as markets present themselves. So if I'm, and I am, after more balance, I think the Life business needs to be expanded outside the U.S. But it should have those same characteristics as we do in the U.S. Kevin, you want to add to that?

<A - Kevin T. Hogan>: Yes. Sure. John, first of all, just as a reminder, we have a very unique position in the United States. In the Individual Retirement space we're a major player in all three of the relevant products, variable, index, and fixed annuities. And there's a little uncertainty in the market right now. But there's going to be a new normal that emerges after the regulatory environment settles down and distributors understand how to respond. And nobody's better positioned than we are to be able to serve the needs of that market.

And the Group Retirement business is also a business that is extremely well-positioned for us. We are in the top three position in the major segments of K-12, upper education, and health care that are our focuses there. So there's tremendous franchise value in these businesses and the spectrum of the entire retirement space that we participate in.

And in our Life business we've worked in the last couple of years to dramatically evolve our distribution. And our new business is back to the quality that we expect. And it's growing quite robustly at this point.

We have the opportunity to expand outside the United States in attractive markets, according to where our skill sets are and where the opportunities are. And a few years ago we made a small acquisition in the U.K. as example, that's actually doing very well. When we started with that business, it was entirely in the independent financial advisor space. We just expanded to our first bank partnership with the Royal Bank of Scotland, a program we just launched in the last couple of weeks. And we see a lot of upside with that business, which is a very attractive albeit relatively modest sized business.

There are plenty of other opportunities for us in various places around the world. We don't provide direction in terms of specifics. But we're certainly in a position to evaluate entry into markets which are attractive, which have appropriate legal and structural foundations, and which are growth opportunities for us in the medium and long term.

<Q - Jamminder Singh Bhullar>: I had a couple of questions partly related to things that have already been addressed, but just a little bit more detail. First on – just for Brian on your comfort with loss picks and reserves. I'm just a little surprised. Just wondering whether you're basing your views on a detailed analysis of reserves or just a preliminary look. Because for the past several years, management's been assuring investors that the company is becoming more conservative with risk selection, more conservative in setting loss picks. But we've seen continued adverse development even on recently sold business.

And then secondly on M&A. Are there any specific – you mentioned what you're interested in. Are there any special financial targets besides just being a good strategic fit that the deals would have to meet for you to be – for you to execute on them?

<A - Brian Duperreault>: Okay. Well, let's – yeah, the reserves. Look, and I can understand your questions around reserves. Look, and I'm not the actuary here. So I'm not going to go through the details that the actuaries would do or the finance departments would do. But I'm knowledgeable about the business and the process. And so I spend a lot of time with them, understanding how they do it, what they do, what their assumptions are, what the discipline is around the process, how they get their data. And I think what they are doing is sound. And I can't really comment on what happened before. I can only look at what we're doing now. And as I said, I think it's reasonable and sound.

<Q - Jamminder Singh Bhullar>: Okay.

<A - Brian Duperreault>: As far as M&A is concerned, yeah, look, I like accretion. Who doesn't? I mean I think things should be accretive. It should start with being strategic. I mean we don't want to double down on things we already do. We want to balance what we're doing with other things. So I'm going to be primarily looking for strategic balance that gives us ways to deploy capital when the things we do have issues.

Accretion is a – it's a wonderful thing. Financially, you'd like to see it improve your profit short term. But you certainly better make it improve the profits long term. But I also like accretion in terms of people and capabilities and spread. And so that accretion has to be more than just a number. Can't just be the profit. It better give us a whole lot more capability than we have now. Okay. Next question.

<Q - Jay Gelb>: On the merger and acquisition front could you give us some perspective on whether you're looking more for bolt-on size acquisitions? Or perhaps something larger or transformational?

<A - Brian Duperreault>: Well, Jay, look, if I could find something transformational, who wouldn't do that? Playing the odds, the more likely scenario are things that are smaller than what might be described as transformational. Yeah, I wouldn't mind doing both. So but if you're playing the odds, you got a better chance of doing a series of acquisitions than one large one. We'll see what happens.

<Q - Jay Gelb>: That's helpful. Thank you. And then my follow up on capital management is, I know you're not giving targets or guidance. But in the scope of share buybacks, should we think of a small fraction of annual earnings as something earmarked for buybacks in absence of being able to deploy it in other opportunities?

<A - Brian Duperreault>: Well, Jay, if I say I'm not going to give you guidance, I'm not going to give you guidance. So let's leave it at that. But thanks for the question. Next question.

<Q - Thomas Gallagher>: Brian, I know it's early in your tenure there. But just as you're evaluating things and you look at results in the Commercial business, why do you think AIG has underperformed peers by so much? Is it the right strategy, just not enough reserves? Is it too much growth in Property? Does something need to be changed with the execution or the strategy? Pretty broad question. But just curious what your evaluation is there.

<A - Brian Duperreault>: Thanks, Tom. I guess I could give you a very detailed, expansive discussion about all the parts that could cause this. But I'd say in its simplest form, if you're going to outperform the market, you need some maneuverability in that. And I think we got to be a very, very large player, particularly in the large Commercial space, such that there really wasn't a lot of room to maneuver. And therefore your ability to select goes down. Your ability to get price that you want goes down.

So what I've seen them doing is the intelligent thing, which is to cut back on those areas where they didn't select with the same professionalism or didn't price with the same professionalism. That naturally produces a smaller book of business. But that book of business should be sound. And the underwriting process around it should be sound going forward. And that drives the need to redefine what Commercial is. So it's not just the largest or the large risk, but it's a balance of the full gamut of Commercial business, particularly in the United States.

<Q - Thomas Gallagher>: Got you.

<A - Brian Duperreault>: Okay, Tom?

<Q - Thomas Gallagher>: And then just as a follow up. The – you said the $16B of reserves that were reviewed this quarter were related to some of the more challenging lines. Would it be fair to say that in response to evaluation of reserves from the time you joined through into the future, that you feel like that was the hardest part? That you'd feel pretty good overall about the reserves as you think about balance sheet risk in aggregate? Or is there still more wood to chop with evaluation of reserves?

<A - Brian Duperreault>: Well, look, and I think you have to have a disciplined process around this. You don't save everything for the last quarter. So they chose these. They chose them I think wisely because they were some of the more challenging lines as I said.

That doesn't mean that there isn't a review of the entire portfolio. It just means that there was an in-depth review in one quarter of a certain segment. But you are looking at all of them, because we have to set all the reserves. And so as we look at the rest of the portfolio, there wasn't anything that would have caused us enough concern to do an earlier in-depth review. Let's put it that way. But we'll see what happens in Q3. But I think I would take that as some comfort. Next question?

<Q - Jon Paul Newsome>: I was wondering if we could maybe just kind of review where you did end up at the end of the day relative to the old target of the capital return and such throughout the period. I realize that's not prospectively what you're focused on. But I think some general thoughts as to whether or not you think this thing was ultimately successful and – the original strategy was ultimately successful.

<A - Brian Duperreault>: Yeah. Well, hey, Sid. Why don't you answer that question?

<A - Siddhartha Sankaran>: Thank you, Brian. Paul, as I said in our remarks, we've returned over $20B of capital in the past 18 months with the announcement of our dividend. So we've done that. And the most important thing that we've alluded to here is we have an extremely strong balance sheet and are well-positioned for the future. So $7.8B of parent liquidity and extremely good cash flow projections. So I think I can leave it at that.

<A - Brian Duperreault>: Okay?

<Q - Jon Paul Newsome>: The follow-up – yeah. I'm thinking of capital allocation prospectively. Am I right to think that we should end up with more capital allocation towards the Life businesses in general? And maybe you could talk a little bit about that.

<A - Brian Duperreault>: Well, I think this is a – it's a great question. I mean if the Life business was going to be the area where we felt we had the strongest chance of delivering superior returns – and by the way they're doing pretty well – then the answer would be yes. I think everybody is presenting me with ideas about where we could deploy it. And the best story wins. Next question.

<Q - Meyer Shields>: I think my first question is for Rob. I'm just trying to understand, given the cutting of so much really, really bad business in Commercial, why we didn't see improvement in the underlying accident loss ratio and financial liability?

<A - Robert S. Schimek>: Hi. What I want to emphasize within Liabilities and Financial Lines is that we've had a lot of efforts to improve our risk selection and business mix and reduce the reserve volatility. And just remember, we've achieved an 11.3% ROE this quarter. And so what I – the first thing I would say is, if you just pause on that, we believe that we've got a clear path to an ongoing double digit ROE, which is sustainable. And that's really reflecting the quality of the mix of business that we've achieved.

I think we had a great quarter with respect to Special Risks as I mentioned. So actually Q2, our return there was even better than Liabilities or Financial Lines. And so it really brings you back to Property. And I think Brian talked a bit about that. I think what I would emphasize for you is there's really three elements to us for Property. We've done a very good job of managing our CAT exposure, both with improved modeling, risk selection, and use of reinsurance. Our severe losses as a percentage of the premiums that we're earning in Property and Special Risks have continued to come down y-over-y. And that leaves us with improving the attritional loss ratio in the Property book. And as Brian mentioned in particular, we've got our sights set on Northern Europe. But there's timing issues associated with when you can actually make those moves.

So just to put it in context for you, 55% of our Property book in Continental Europe renews on January 1. So the next bite at the apple is not until January 1 of 2018. And the two most challenged countries in Northern Europe are Denmark and Germany. And 70% of their book renews on January 1. So there's just structural impediments to being able to move it faster. But if you asked about the confidence in the actions that we've taken, I'm completely confident that we've been taking the right action to achieve the result.

<A - Brian Duperreault>: I might add that, look, it's a very competitive market. So you can have a very nice piece of business portfolio today. And then it's attacked in price and terms and conditions. And you got to react to it. So it's a constant fight. But this isn't the kind of market where you can just go out and write a whole bunch of new business and declare success. So I think Rob is fighting the pressures of the market at the same time to continue to keep his Liability business in particular in a position of returning those good returns on equity. Do you have a follow-up?

<Q - Meyer Shields>: Yeah. Just a quick one, Brian. You mentioned in your introductory comments – and I think you're right – that AIG no longer should qualify for non-bank SIFI status. Can you talk about what that would imply if that designation was removed?

<A - Brian Duperreault>: Well, it would imply we wouldn't have the Fed as a regulator. We would be regulated again by the states. We're still regulated by the states. So we would lose the Fed as the group supervisor. Simple as that. Okay. Next question?

<Q - Brian Meredith>: Welcome back, Brian. First question is how long do you think it takes to get the platform in the Commercial lines space, Brian, to where you'd be comfortable and kind of growing organically profitably?

<A - Brian Duperreault>: Well, by the way, thanks. It's nice to be back, Brian. Well, the Commercial book is – it isn't just one thing, right? So you heard from Rob that the Specialty business has been performing well. And the financial part of Financial and Liability has been performing well. And so those are areas that we look to, to expand and grow, because the market and our – let's say our professionalism allows us to do that.

In some of the casualty business, I just don't see it. I really don't see it. And Property is a mixed bag. Property is a mixed bag, because there are some things that – like in Europe that we should be doing. We'll be doing those both to improve the book – and business that we can go after and attack in a greater way.

So it's a broad front kind of business. And again it's concentrated at the high end. So the other thing is to get into just down, kind of down the risk chain as well and expand into that area. You got a follow-up, Brian?

<Q - Brian Meredith>: Yeah.

<A - Brian Duperreault>: Okay. Go ahead.

<Q - Brian Meredith>: And going down the risk chain, that was my next question for you. Do you have the distribution relationships to kind of go down that risk chain right now? And is the platform there to go down? Or is there some buildout still needs…

<A - Brian Duperreault>: Yeah. No. The answer is not really. And it hasn't been an area that AIG has done well over time. And so we don't have the classic distribution channels for the small business now.

We have Seraina who's sitting here with us right now developing a portfolio of business and the technology around it, which would go after that business. But in a way where we would develop through technology the kind of distribution we would need. So that's at the lower end of that business.

We have Rob at the higher end of the business. And we do play to some degree in that. And that tends to then match our existing distribution channels, where the business is on the larger end of the middle market. Or it's business that has a certain characteristic in terms of its risk profile, where maybe it's not a large sales or a large employee population company, but it has certain characteristics that naturally fit our skill set.

So Rob will be working that area stronger. Seraina will be working her area stronger. And we'll see what else happens.

<Q - Jay A. Cohen>: Just a – I guess maybe one last try at this capital management topic. Brian, should we expect an outright pause in buybacks in the near term as you start to build up capital?

<A - Brian Duperreault>: I love this. This is great, Jay. Thanks a lot. Okay. So I would – look, I think I've said it already. Look, at the – let's just do it in probabilities, right? The chances that we would be buying at the levels that we've been buying are very low. Let's just put it that way. But that doesn't mean we won't necessarily use that tool. What Sid said is it's a tool. And you use the tool opportunistically. So if I see that it is the right thing to do, that the opportunity is there for us, I will deploy the tool.

<Q - Jay A. Cohen>: Okay. Understood.

<A - Brian Duperreault>: Okay?

<Q - Jay A. Cohen>: Second question maybe for Rob, maybe for you. On the Commercial side it sounds as if the premium declines are now likely to continue. And that makes sense. Will you have to take another stab at expenses as well, just to defend to some extent the expense ratio?

<A - Brian Duperreault>: Well, let me answer that. And I said it earlier. Look, an expense discipline is a way of life. I mean if you don't have – if you're not running your company – it's one of your levers. If you're not running the company with attention to your expenses in this kind of market, and this is usually the kind of market we're in, then you're going to fail eventually. So yes, expense will continue to be something we will look at all the time. All the time.

But I want to emphasize that we will spend money too. And if we have a rising expense ratio but an improving bottom line, I'll be a happy guy too. So I'm not – I want to put it – it is a balanced – it's a balanced situation where we will continue to reduce our costs, because our cost structure are high. But we're going to invest in areas that, one, will help us or bring people in that get us a growth area. And if I had to choose between reducing the volume, because it's not producing a profit but that would cause the expenses to go up, I'm going to make that choice all day long. Okay? So you got a – that's it? Anybody else up?