Bank of America Merrill Lynch Securities Insurance Conference

Company Participants

- Brian Duperreault, President and Chief Executive Officer
- Mark Lyons, Executive Vice President Chief Financial Officer
- Peter Zaffino, Chief Executive Officer, General Insurance and Global Chief Operating Officer, AIG

Other Participants

- Analyst
- Jay Cohen

Presentation

Jay Cohen {BIO 1498813 <GO>}

That was entertaining. I enjoyed that. I won't get the same amount of story this time, but maybe a little bit more information. So let's move on to the next session. Very pleased to have two key members of AIG's management team with us today President and CEO, Peter Zaffino; and Chief Financial Officer, Mark Lyons. Together, they have about 70 years of industry experience and both have great track records with previous companies' value creation. The pace of change at AIG has always been elevated, I feel like today is at supersonic speed. The company has a great sense of urgency, is taking dramatic action to improve results. Obviously, most of you saw the results this morning. I saw the results, I did not listen to the call, because I was up here hosting. So I might ask him questions you guys have addressed publicly, but it might be a good opportunity for you to expand on it in anyway.

Peter Zaffino {BIO 15942020 <GO>}

Sure.

Jay Cohen {BIO 1498813 <GO>}

Peter, I don't know if you want to start maybe just with some big picture comments to open up.

Peter Zaffino {BIO 15942020 <GO>}

Thanks for having us first of all, and we didn't release earnings this morning. I guess really the highlights are and that we're really pleased with, we put out guidance about a year ago that we are going to make dramatic improvements within the underwriting portfolio and deliver underwriting profit, while it's a big milestone for us in terms of crossing under 100. I think what we try to impress in the detail of the earnings call is just what's really happening in the underlying portfolio. So we talked about some of the businesses that have reshaped the most dramatically some of the limits that we've been shedding and still offer quite a bit of limits, we can talk about that, and relevance to the brokers and clients, but the portfolio we inherited had way too much outsized risk in it. We talked about reinsurance, which is appropriate at January 1, because so much of the renewals come up, and then we outlined -- we've been talking for the last couple of quarters around AIG 200. And what does that transformational change mean how do we actually going to improve the company, more details, more financial guidance, so I gave some overused mark [ph], unpacked it in more detail, and then mark just talked through reserving and got a little bit deeper on the calendar year results, all which we were very pleased with and then provided some high-level guidance for 2020. And I think in a lot of the questions, Jay, we will probably go into it more detail.

Jay Cohen {BIO 1498813 <GO>}

Yes. Did anything surprise you about 2019 as you executed on this plan, you saw the results? Were there any notable surprises?

Peter Zaffino {BIO 15942020 <GO>}

Well, when you look at the year at least from my perspective is that the first half was a little slower, not necessarily for AIG, but I think the market. And we knew what we needed to do. The brokers, I think if you asked the large brokers, they haven't been through a market like this in a long time. And so, I think it took a little bit of time, probably a quarter or two for them to really calibrate to the market we were in. And I think that under no set of circumstances that we think that, when we started the year, every quarter would have sequential improvement in rate and it would be broad-based in terms of product and be broad-based across geography. It's not what we lead with -- I think you heard in the last with -- in the last panelist that underwriting is the most important. So how we re-position the portfolio underwrite terms and conditions, structure and then price. But I think that's probably one surprise this year, how much the price accelerated as we got in the back half of the year.

Jay Cohen {BIO 1498813 <GO>}

Yes. Of course, the ending point was kind of where you'd hoped would be, right?

Peter Zaffino {BIO 15942020 <GO>}

Well, it exceeded. I don't think we ever forecast we are going to be getting low double-digit across the world. As you usually see--

Jay Cohen {BIO 1498813 <GO>}

Margin goes down.

Brian Duperreault {BIO 1645891 <GO>}

And margin, yes.

Jay Cohen {BIO 1498813 <GO>}

Yes.

Peter Zaffino {BIO 15942020 <GO>}

That was -- and when you unpack the margin, it wasn't going to be one component. It was certainly -- it takes a while to earn through on the underwriting side. But we had underwriting improvement, we had expense ratio improvement, we had very successful integration of acquisitions and we had significant discipline on expenses. We took $0.5 billion out in general insurance during late 2018 and 2019, and that sustained and kept the ratios relatively flat, while the premium was decreased and reflecting the changes we were making in underwriting.

Mark Lyons {BIO 21746221 <GO>}

And as Peter always talked about on the calls here 18 months I guess, you just can't believe the volatility of the book. And so, to figuring out the re-sculpting that change in the front-end, the reinsurance structures, there is a lot of sweat equity. And now, it's bearing fruit.

Jay Cohen {BIO 1498813 <GO>}

I guess I was very surprised. I think Peter, you in one of your first calls, when you were talking -- in first call that when you talked about the limits that you had been offering and where you were going to, it was a dramatic drop. So -- when I was surprised the limits were that big. But the question I have is, are you done with that process? Is there still more de-risking that needs to be done in '20 and '21?

Peter Zaffino {BIO 15942020 <GO>}

There's still more to do, but I would say the majority of its largely done. We had to go through a couple of cycles, we inherited some of -- particularly the property portfolio a lot of long-term arrangements that had multi-year contracts. It just took us a little bit of time to bend the curve, which we will do in 2020. And I cited on the call, just this year, we shed $150 billion of property aggregate in North America, which is staggering when you think about it and drove -- again, rates start to pick up in the back half on the portfolio. So the property will have a little bit more -- the excess and surplus lines will have a little bit more some of the casualty in financial lines. But I would say the majority of the reduction in limits has taken place. So that's to earn through in 2020. But on a written basis, I think the predominant has been addressed.

Mark Lyons {BIO 21746221 <GO>}

On Peter's property example, I could just add for a second, Jay, is -- and he kind of mention on the call, which was Lexington as the call that you will hear. Using Lexington as a case study example, so all that shedded limits on the retail side are household name companies and gigantic limits and huge nets. And the transformation to open it up the wholesale channel for truly in us, probably 90% of that business needs $25 million or under in limit. They don't need this gargantuan limit. So it changes the whole complexion of a book those that [ph] informs and changes the reinsurance that you have behind it. So it's an ever evolving thing.

Jay Cohen {BIO 1498813 <GO>}

That was my other question in the ceded reinsurance program, which really changed quite material as well in 2019. Do you foresee material changes in '20 and '21 or is that program where you wanted to be?

Peter Zaffino {BIO 15942020 <GO>}

For the portfolio we have, we like the structure that we have. But with the improvement in limits management and peak zone management, we expect that will continue to get refined as we enter into 2021 and 2022. I mean we have -- part of it is the high net worth business has a lot of peak zone exposure. But when we worked with Lloyd's to form syndicate 2019, bifurcating that will take us this year in terms of what we do on the front end of the written premium, but also in terms of the reinsurance structure. We bifurcated the cat in -- at one-one, but there's other things that we need to do in order to de-risk that. So you start to see that evolve and then I think the refinement of the core property cat and property per risk will continue to get refined.

Jay Cohen {BIO 1498813 <GO>}

Got it. There's a lot of moving pieces, we've got our earnings model, we're trying to forecast things like premium. North American commercial premium, given all the moving pieces, 2020 up flat down. Any sense on that?

Peter Zaffino {BIO 15942020 <GO>}

So I sat Mark in the middle.

Mark Lyons {BIO 21746221 <GO>}

Nice. Well, North America commercial is -- let me answer a different question. Try and [ph] answer different question, which is there's revenue growth and there's underwriting gain growth, right? So we can focus on top or bottom. If I'm a shareholder, I want earnings per share. Our EP share [ph] is underwriting gain. So as we transition from evolving the book post cauterization on some parts of the book and, as Brian said on the call today, you get a book you're really happy with and then you're focusing on growth. There's so much change that with distribution changing as well that tends to not to be focus on this much, because they don't see that like in an earnings model. But the whole risk selection, the breadth of distribution that we have now and funneling down clearer risk appetites, I think

I've said this before, but you -- because of the broader spectrum of risk quality, you keep finding the same proportions. Your average rate accuracy goes up, because you got better quality risk that you didn't have before. And that's hard to measure but we know it's happening.

Jay Cohen {BIO 1498813 <GO>}

You mentioned distribution and you're right, it's is hard to model. Anything more you can add to that, what's changing and how it could help the numbers?

Mark Lyons {BIO 21746221 <GO>}

In terms of -- like with distribution?

Jay Cohen {BIO 1498813 <GO>}

Yes.

Peter Zaffino {BIO 15942020 <GO>}

We have spent a lot of time. You can imagine what's going through that dramatic change being able to articulate a strategy in terms of our risk appetite to brokers and do that across the globe just took a little bit of time. I believe that we are much more aligned with distribution in the back half of 2019 as we enter 2020 with a refined risk appetite. We're executing on where we want to grow, where we want to shrink opportunities in geographies in international as well as within the US real growth opportunities. So I think that I believe we will grow on a like-for-like basis. As Mark said, we had to turn the book over a lot, but excess and surplus lines, I mean our submission activities up almost 100% year-over-year. We've seen a lot of growth opportunities and believe that, that market is -- the market that we're in for a while and believe that there'll be some other discrete opportunities for us to grow in areas where we're probably a little bit more accelerated on some of the stuff that we've done in the turnaround. And the brokers have been tremendous and supporting us, and they've been tremendous in terms of aligning on risk appetite and have a lot of very good data analytics that they use to mine their portfolio and allow us to be more aligned. So I think that there's a lot of momentum there.

Jay Cohen {BIO 1498813 <GO>}

Let's talk about pricing outlook, I'm sure you came up on the call, but love to get your view of what you think will happen to commercial pricing '20 and '21.

Peter Zaffino {BIO 15942020 <GO>}

It's always hard to predict, I wish we had the crystal ball. But what I would say is the underlying fundamentals that exist in the market today, I have to talk myself out of it versus talk myself into it in terms of its sustainability, because I don't believe it's being driven by any one factor, and so there's multiple factors. And if I look at where it's happening, it's multiple lines of business and it's in multiple geographies. And so that is been accelerating in the back half of 2019. So I think that acceleration will continue in 2020. Hard to tell, but I certainly believe that the rate environment in terms of getting paid better pricing on a risk-adjusted basis will continue in 2020.

Jay Cohen {BIO 1498813 <GO>}

The other side of the margin claims. A lot of talk about social inflation rising claims, what are the trends you're seeing there?

Mark Lyons {BIO 21746221 <GO>}

I can start that. So a little different story in different areas and different lines of business, of course, and we're pretty diversified. So one good thing is there's a big international component, (inaudible). US have 70% of the world's lawyers. So what happens, so -- other 30% are scattered all over. So that's most stabilize the influence, limits are as big and so forth. And US related, I said this before, we've have pretty high loss assumptions in what we've had and some of that is probably due to AIG experience brought forward, which probably had increasing levels of adverse selection, so you really have adverse selection, mass torting [ph] severity trends, but that's never the case -- nevertheless the case, which makes it more art and science with such a radically changing book of business since Peter has driven the change. So the -- you got to look at it, but the importance of the past is now partial, because books no longer homogeneous. So it's radically different. So security [ph] class action suits are up, but that's just the high -- top-line, you got to look underneath it. A lot of that state court, where the cases -- the snowfall [ph] rates are huge on those. So it's almost like now business, you a lot of claims no pay, you have suits dismissals. It'll only give you a little defense costs. So that's the work it's way out. I think it's good to see and the macro (inaudible) really got in there has putting this in place that looking currently and backward of the proportion of times that AIG is hit, which security transaction suits. And is it -- full coverage is just side a coverage and so forth and managing that and that's been a very favorable trend for us. So you got all these things out there that are specters. And social placing is very hard to measure, litigation being represented by lawyers and outside funders. There's a lot of dynamic changing it, which makes the trend more uncertain. One thing we're pretty happy about though is the kind of rate changes that the peers been quoting. Pick your lost trend, we're in excess of it.

Jay Cohen {BIO 1498813 <GO>}

Yes. It was interesting when other companies began taking some reserve charges or having some issues over the last couple years, I would get the question what about AIG, they have exposure to all of these lines of business. And my view was you have sort of dealt with. In other words, when you came in as Chief Actuary and now CFO, you had a fresh look at reserves. So my assumption is -- and I want you to comment, you would have been addressing some of the issues that other companies now seem to be addressing with their reserves.

Mark Lyons {BIO 21746221 <GO>}

Well, (inaudible) before we got there are some of the things that you're talking about that could spread back the past actually years let's say. Probably under the covers, I think I alluded this our prior earnings call, there has been an accumulation of mass tort reserves, kind of a rainy day, but they were was designated as (inaudible) kind of book, kind of like Donald Rumsfeld, the unknowns' unknown. So there's a lot more than you think, firstly. Secondly, is on a net basis. Secondly because the average development cover, there is $8 billion still untapped. We have 80% of that sort of $6.4 billion, that's what we have in mass tort. So even if how we went through in the hand basket, I'd like where we're sitting.

Jay Cohen {BIO 1498813 <GO>}

Yes. And just I did look at the numbers this morning, before the conference started and you did have some adverse development in financial lines in the quarter, US commercial, what was driving that?

Mark Lyons {BIO 21746221 <GO>}

Well, I kind of guided it in the call a little bit when you really focus in on it's private not-for-profit business, which is overwhelmingly primary. It was a D&O side more than the EPL side, which is much more manageable in a frequency-base in corrective sense. So I think we're in good shape there. We write a fair amount of mergers and acquisitions, the old referent warranty businesses. So we put up some provisionals there, there was some severity being seen. But those two that I just mentioned are 80% of the what drove it. So there's a little spots here and there, a little spot on the cyber, a little spot on miscellaneous, the totalities, stuff like that. So -- but that was the real driver. It wasn't really the public.

Jay Cohen {BIO 1498813 <GO>}

Got it. Okay. I'm going to make sure we get some questions from the audience. It's a big group. So if you do have questions, just raise your hand and we'll -- just wait for the mic. I guess I'm the only one investor on call this morning. So I'm wondering just quick question on the quarter.

Analyst

Thanks.

Jay Cohen {BIO 1498813 <GO>}

Well, there is one, sorry. Go ahead, Ron [ph].

Analyst

So your dramatic underwriting actions have really reverberated across the whole industry. And I expect sort of a reasonable expectation that there will be a point at some renewal, whether it's a segment or at the account level, but there'll be a point at the renewal where the market will present the opportunity for you to continue to get rate in excess of the acceptable margin and return that you'd like to get on any particular account or book of business. And you'll be sort of present the opportunity to sort of seek premium at the expense of excess margin. What would the posture be to the underwriting teams at that point in time when if this reverberation and sort of amplitude that's resulted from your past and current actions play out?

Peter Zaffino {BIO 15942020 <GO>}

The guidance to the underwriters will not be to drive revenue at the expense of getting the appropriate profit. I mean, so they're focusing on bottom-line, focusing on re position the portfolio and finding opportunities if there are growth that are consistent with making sure that we continue on that path of improving underwriting. I mean one of the things that's interesting too to note, and again this is an antidote. But in some of the limit reduction that we've done and, again, it gives you the scope and size of the insurance industry taking sometimes 20 to 25 markets to fill in the limits that we shed. So it's not as though a couple of insurance companies are coming up and just taking the aggregate and this is not an industry issue. And quite frankly, it is not just property, it's on casualty. And then also there's been a pullback in terms of just limits deployed by the market in general. And so I think that you see placements being done on excess or limits that are more stresses just takes more companies to do that. So there may be opportunities for us to find ways to ventilate better. So where we might have been focused on, leave layers and that's where our capacity was. We pulled that back and we'll wait a second, we're driving the program, maybe there's opportunities in the mid access or high access to do if we think that appropriate risk adjusted returns are there. So those are some of the things underwrite, so looking at just getting better balance in the portfolio, but we won't be sacrificing margin to focus on top-line.

Mark Lyons {BIO 21746221 <GO>}

Let me just add a little something there. There's the individual underwriter that Peter continues to be improving the quality of the underwriters, all the ranks, all the way through, but then there's also steerage. So we can get up there any company, we can get up here and talk about a rate change. So hypothetically, let's say they got 20%. All it happens to be in the exposures sets invoking New York (inaudible). They need 150%. So 20% means nothing unless the relative measure needs an absolute measure with it, right? So it's a dog, 20%, it's just that dog that barks less often, but it's still a dog, right? So we need that steerage from the top as to where we think the margins are thick marginal or negative.

Jay Cohen {BIO 1498813 <GO>}

What other questions do you guys have? Yes, I was hoping you could talk a little bit about AIG 200. I'm not sure how much detail you got into in the call, but it might be a good opportunity to reiterate what you're talking about.

Peter Zaffino {BIO 15942020 <GO>}

So we did get into a fair amount of detail on the call of a strategic repositioning of AIG and we spent a lot of time over the past 6-months looking at the entire global operations and finding opportunities with really a lot of input from employees. I think we got over 1000 ideas that we digested and work through a putting into specific work streams that we felt were aligned with what we wanted to do strategically with the company. And so it's just taken a lot of time to make sure that we put that into key categories, and I'll give them to you in a second. And then also making sure that we documented everything in high level of specificity, because we have quite a few going on at once and how those intersect in the sequencing of all of AIG 200 is going to be very important. We started with three really an underwriting: One is putting in a more standardized commercial underwriting platform in North America, Continental Europe, and the UK, and that's really just creating better data architecture, end-to-end process, digital enablement through a policy admin system and we just had a lot of different standardizing one global model, but it is recognizing that workflow and data architecture matter and just going to allow us to do a much better job of underwriting, better insight in terms of our data capture and turning that into you know better insights with actually claims, and so it just connects the entire organization. The other one is Japan, which we have a terrific business, it's fairly sizable, with a largest non domestic insurance company in Japan north of $5 billion of premium and so digitizing that work flow in the SME, so just focusing on not only digital enabling through work flow, but digital enabling in terms of our connectivity to agents and to our clients. And so that'll really create efficiency and focus on -- again, we have an expense ratio issue there that just needs to be addressed through investment and then our high network business was the next one very similar in Japan, which is a more digitized workflow. But also, more self-service on with our agents brokers and clients of just getting just better insight on what high net worth individuals buyers instead of it just being more antiquated and snail model of going in and getting quotes. I mean, there's -- unfortunately, you have a lot of aggregation issues, because it's Southeast, Northeast, West Coast. But making sure that we put in a digitized platform that will allow us to do all the things we want to do to reposition the business. And it's a good business, because we have a great foundation to build on. The other ones we have two, in Mark's word on finance transformation, two in IT and that's really going to be modernizing. We have a lot of applications that need to be consolidated a more robust cloud strategy and IT and then a big one is going to be shared services, which we are converted to AIG operation. So it was an inefficient way of structuring shared services because we had a lot of horizontal reporting and it was not connecting the entire and unifying the organization to have better end-to-end process. And then the other two are just more tactical least in procurement. That one is just make, I mean we had a lot of places where you can negotiate with vendors and so we just consolidated that in maybe one global location believe that there's real opportunities to get synergies there. And then all of this will trail with real estate to make sure the real estate strategy matches the footprint of what we do on the transformation terms of our global footprint. So that's really what we outlined and said it was going to be $1.3 billion of cost to achieve $1 billion run-rate benefit at the end of 2022. And then, Mark went into more specifics around how that would look in terms of year-over-year.

Jay Cohen {BIO 1498813 <GO>}

And from a timing standpoint, when how -- over what period of time is this happening?

Peter Zaffino {BIO 15942020 <GO>}

Well. When it'll start? It's already started. We've launched one of them and we said we would be doing it in the first quarter of 2020. And so we are again finalizing all of the 10 different charters and we'll be starting to commence many of the work streams in the first quarter will give a lot more specificity Jay in the first quarter call.

Mark Lyons {BIO 21746221 <GO>}

But in terms of part of the end game like we said on the call, the $1 billion of run rate annualized run rate pierce talk about that's exiting 2022.

Peter Zaffino {BIO 15942020 <GO>}

Yes.

Mark Lyons {BIO 21746221 <GO>}

(inaudible).

Jay Cohen {BIO 1498813 <GO>}

And that $1 billion, this is a cost item or is it cost plus added revenue item?

Mark Lyons {BIO 21746221 <GO>}

Yes, we're looking at that as a cost item. You can get -- you can get loss in the source and justify revenue, or say, this is going to help the loss ratio and it was your kind of alchemy. So we're focusing on things that are trackable.

Jay Cohen {BIO 1498813 <GO>}

Do you see revenue opportunities or benefits from the program?

Peter Zaffino {BIO 15942020 <GO>}

Absolutely, we do, but not as Mark said, none of that is baked into the assumptions. It's about improving the organization, workflow, digital capabilities and enabling us to do things that we want to do better which is on the underwriting side. So you think about just use like a high-volume, like excess casualty. We're just building in with the data architecture and workflow. Just getting rid of business that we are not going to underwrite and just spend more time on matching our risk appetite with the distribution our clients today. It's much more of a manual process and so we've got a better a lot of that and just too much down time, and believe that we'll have better opportunities more consistency and risk appetite and more alignment with distribution.

Jay Cohen {BIO 1498813 <GO>}

It's amazing that about five, six years in the company was taking what we thought was pretty significant action to change the company and it just feels like there's still so much to be done. I mean you guys are on top of this, now but it's remarkable, the starting point was where it was.

Mark Lyons {BIO 21746221 <GO>}

(inaudible)

Jay Cohen {BIO 1498813 <GO>}

My next (inaudible). So at the end of this, how do you -- we're going to say either it was successful or wasn't. If we're saying it's successful, what are we seeing from this company as far as ROE, for example, longer-term.

Peter Zaffino {BIO 15942020 <GO>}

Mark went into a lot of detail on ROE today.

Mark Lyons {BIO 21746221 <GO>}

Well, I mean that's really longer term. There's a lot of dimensions I think to that. I think one thing Peter pushes through the company is back to being not the, but a highly respected market leader, driving it as a thought leader and have consistent and strong financial performance and pick your metric, right, on that. Strong distribution broad -- I don't know, we don't necessarily want to be all things to all people I think will evolve, but some companies are in every market and every strata customer size and every geography and so forth. But it's a battle of all, probably that's the best I can say.

Jay Cohen {BIO 1498813 <GO>}

Separate topic. I'm not sure if it came up on the call or not. It's come up a little bit in this conference, coronavirus. What do you see as your exposure to it? Are there any like business interruption type contracts that might be exposed to this?

Peter Zaffino {BIO 15942020 <GO>}

Well, we're obviously watching it very carefully. Probably the -- three segments that we watch the closest would be in our travel business. So trip cancellation, there was a significant amount of -- we have a decent-sized portfolio. But again, there's no indications terms of the claims activity or there's anything that would amount to anything emerging that we're just watching it. So trip cancellation, travel, accident health, but that's more of if it spreads beyond China, we don't have a big accident health portfolio in Mainland, China, but that's another segment. And then looking at the business interruption is another one on property, and what is the language, what would be covered and then as it supplemented and then do we have clients that actually had China exposure. So those are three that we've been watching very carefully, but it's early days and there's nothing that's emerging that's concerning.

Jay Cohen {BIO 1498813 <GO>}

Did it come up in the call?

Peter Zaffino {BIO 15942020 <GO>}

It did not.

Jay Cohen {BIO 1498813 <GO>}

All right. Got a new question thankfully. You do have this other business, small little business called life and retirement, which we've ignored so far, but just a couple things on that. I know it hasn't been a big focus of investors, but as you look at 2020, outlook for, let's say, annuity sales as an example?

Mark Lyons {BIO 21746221 <GO>}

Let me start with that. So, the really good thing about AIG, when it comes to the annuity, there's really -- they're evenly distributed between fixed annuities, variable annuities, and indexed annuities. So if interest rates are lousy, that's how we've been living with for a while. Fixed annuities aren't this attractive. So people might look at equity market. Equity market has been gangbusters. So the net flows for index annuities o $4.7 billion positive in 2019, right? It's a growth product.

Jay Cohen {BIO 1498813 <GO>}

Right.

Mark Lyons {BIO 21746221 <GO>}

To the extent that they both go out of same the same time, interest rates are low and equity markets go the other way, okay, that's a problem. But as long as you give more choices and people can flip from one to other group (inaudible), lots of different on group than it is on individual, but I think that balance provides a competitive advantage. When we look sideways, we see specific life having a similar balance, but they're half our size. Everybody else is more concentrated in one and the other.

Jay Cohen {BIO 1498813 <GO>}

Yes.

Mark Lyons {BIO 21746221 <GO>}

So I think that bodes well, but if you tell me the economic situation like that which one we will respond.

Jay Cohen {BIO 1498813 <GO>}

No matter what the environment, you've got a product that you'll be able to sell and probably grow in some parts.

Mark Lyons {BIO 21746221 <GO>}

Yes. They do. They do pretty good marketing job to (inaudible).

Jay Cohen {BIO 1498813 <GO>}

Yes. Any other questions from the audience before we wrap up. We have one down here.

Analyst

This is the question on the accident year guidance. So if you normalize for crop, it was like 95.5 for the year, which implies 1 point to 1.5 point of improvement in 2020, but you've had written pricing well ahead of lost cost trend for a couple of quarters. So why isn't it more, because part of that improvement is AIG 200, right? So why aren't we seeing more improvement in 2020?

Mark Lyons {BIO 21746221 <GO>}

A couple of things quickly come to mind. One is we generally measure rate changes on a growth versus return (inaudible). And then, (inaudible) on a gross basis not net with reinsurance changing pretty radically from year-to-year or product-to-product, it kind of changes that. Secondly, for some of the reasons we outlined, severity trends are really not clear, rather be safe than sorry in (inaudible) and with the underlying changes, just as Peter highlighted, so radical. You hope the T&C changes are doing it, but time will tell, so we just think that's more prudent approach.

Jay Cohen {BIO 1498813 <GO>}

Any other questions? Going once, all right. Why don't we end it here, guys? Thank you very much, and I've got a busy day, so--

Mark Lyons {BIO 21746221 <GO>}

Thank you.