Bernstein's 37th Annual Strategic Decisions Conference (SDC)

Company Participants

- Peter Zaffino, President & Chief Executive Officer

Other Participants

- Erik Bass

Presentation

Erik Bass {BIO 19920101 <GO>}

Good afternoon, I'm Erik Bass U.S. Life Insurance Analyst for Autonomous Research and I'm excited to have AIG joining us at the conference this year. The company has undergone an impressive turn around and transformation over the past few years and I'd like to welcome Peter Zaffino, who joined AIG in 2017 and became CEO in March of this year. Peter will kick off with a few opening comments and then we'll move into Q&A. If you'd like to ask a question, please click on the live Q&A feed box in the upper right corner of your screen.

With that, Peter, thank you for joining us, and let me turn it over to you.

Peter Zaffino {BIO 15942020 <GO>}

Erik, thank you for having me and look forward to being together this afternoon. Good afternoon, everyone, and thank you for inviting me to participate in this conference. I thought I would provide a few opening remarks and then we can turn to questions.

I think everyone here knows, I joined AIG in the second half of 2017. Since that time, we've been very focused on several key priorities, underwriting excellence, operational excellence, investing in world-class talent, fixing the core of AIG, reducing volatility and achieving more predictable outcomes across our businesses. Our first quarter of 2021 financial results, which we issued a few weeks ago, reflect the tremendous progress that we've made. As we noted on our earnings call, we had an excellent start to the year and have significant momentum across the entire company.

General insurance delivered outstanding results, especially in our commercial business and our international business in particular. We remain on track to deliver a sub-90 combined ratio, excluding CAT by the end of 2022. Life retirement delivered another solid quarter despite a persistent low interest rate environment and our investments unit also delivered very good results.

Looking back over the last few years 2020 in particular was an important inflection point for AIG. We managed through COVID exceptionally well with our global colleague showing resilience and incredible commitment to each other, our clients, distribution partners, and other stakeholders. The general insurance portfolio improved significantly and coming into 2021, we pivoted from remediation of growth. We also announced our intention to separate life retirement business from AIG and we made significant progress on AIG 200, our enterprise-wide transformation program, where we're investing in core processes and infrastructure.

We did this in a remote work environment and we even accelerated some of our AIG 200 programs. On the capital management side or liquidity capital balance sheet all remained very strong expect to complete our previously announced $500 million stock buyback by the end of the second quarter. Lastly, we continue to work hard on a minority IPL of life retirement, and are making good progress on this important strategic initiative. Overall, I'm pleased with where we are as a company and I'm confident about AIG's future.

So I think with that Erik, I'm going to turn over to you, to questions.

Questions And Answers

Q - Erik Bass {BIO 19920101 <GO>}

(Question And Answer)

Perfect, thank you. That's a great overview and maybe we'll start a little bit from the beginning and journey that you've been on over the past couple of years, maybe stepping back in time a little bit what attracted you to AIG in 2017. If you can talk about your observations early on, what did you identify as kind of a biggest issues at AIG that needed to be addressed and how did you go about fixing them?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, I think everyone knows I joined from Marsh McLennan where I had a terrific job with the terrific company been there for 16 years. I mean, I had been approached over time to pursue other public companies as a CEO, none of them were particularly appealing just based on what was being asked and so when I looked at the AIG opportunity one is it's an iconic brand. I think it had a leadership position of one point the marketplace and I was excited for a new challenge. Little bit I know how big the challenge was, I mean, I had a pretty good understanding but obviously not fully aware.

I think people don't remember, I didn't come in to run general insurance, I came in to be the global Chief Operating Officer run the global field operations for all of AIG, but within 60 days of doing extensive business reviews getting a clear picture of what was going on with a company I realize, we had some real foundational problems. So that's when I shifted into running our general insurance business in order to reposition in the marketplace, but I thought that AIG would be a terrific opportunity to apply sort of a skills I had in terms of turnarounds and repositioning it as an industry leader.

Q - Erik Bass {BIO 19920101 <GO>}

Perfect. And maybe digging into that a little bit more after you had spent some time at the company and probably when you transitioned to that general insurance role what were the biggest surprises you uncovered and where -- places you have to pivot your strategy or kind of change your approach?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, as the again the CEO of Marsh and running risk and insurance services, I had a pretty good seat in terms of what was happening at AIG. So I didn't walk in thinking that the underwriting strategy was particularly strong or the relevance from the market but I do have to say some of the biggest surprises were just the talent and I don't know if it's a talent range -- think the talent was there in terms of what was being asked. The strategy of this large limit was heavily flawed became very commoditized. Underwriting capabilities, no culture of underwriting excellence and so when we looked at deployment of limits and taking significant risk across the portfolio and not having any really reinsurance strategy was something that was very troubling and it lacked operational capabilities which on the end-to-end is really important in underwriting, in terms of data capture, and quite frankly, what the amount of scientists that existed within AIG in its past I was expecting much more insight on data.

That was the one area where I was expecting, I knew that the underwriting wasn't strong the strategy was flawed, no reinsurance unless that's fixable but like the data, and the data architecture, I was expecting to be significant and it just didn't exist in terms of being helpful. So that is why we -- once we got the underwriting turnaround moving we also had to get AIG 200 going because we needed to have a end-to-end process with capabilities extracting data, making really good decisions on the foundation.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. Just given that as the backdrop when was the point that you kind of knew you were on the right track and that the general insurance business had reached an inflection point.

A - Peter Zaffino {BIO 15942020 <GO>}

Well, there's not a particular like I wouldn't go to a specific month or quarter. I think the foundational work that was being done was all about positioning the company to actually thrive in the future. One of the things and I'm a proud of many things at AIG and our colleagues, but one of the best is the team we've been able to assemble. Early on Tom Bolt coming into design with me a lot of the underwriting criteria and how we're actually going to assess risk and Charlie Fry, who was an expert at reinsurance and having him come onboard, followed by Dave McIlroy and Mark Lyons, Chris Shaffer mean we I could not get better people in the industry if you gave me any draft picks at all, I think we've assembled a tremendous team. So that team coming together and assessing the problems in terms of what we needed to do.

I felt very good about the baseline in terms of how we were decreasing some of the risk. I mean, that's in the last earnings call and I almost wanted to pause because it's such a monumental number, but we have reduced over $650 billion of aggregate in a company and I don't know how any companies -- creates but we've reduced risk in the portfolio significantly since we started this and that can't go unnoticed. I think the other piece is the biggest validation is from reinsurers. They're in the business, they get it, they have a perch to look at every ceding company in the world and we were starting to do renewals and had more participation. More companies wanting to trade across multiple lines of business and multiple the multiple geographies. We felt very fortunate to have those relationships, but they entered by trusting the team that was here, knowing the portfolio is going to be challenged and then they continued to commit themselves as wanted to be strategic partners based on the underwriting that we are doing in the company.

So that was a real big validation, as we got to some of our big renewals and saw more reinsurers coming in, bigger lines being taken and the willingness to trade across, multiple relationships. So I think that was, for us a big piece and then, you start to see, the traction that we're getting the marketplace in terms of underwriting quality, leadership characteristics. I talk about ventilation and I think that sometimes is not fully understood but AIG not only took these massive limits but they did them in lead layers and so, taking the portfolio and spreading it out and getting away from first losses meant a lot. So like, when we were ventilating, we were just taking our lead capacity and taking some of that and putting it in mid access and high access and when you do that, you just get better balance and some of the high access becomes commodity but not if you're doing the lead pricing because they want to make sure that they have that capacity.

So as we started to remediate started to get acceptance in the marketplace and having come from the broker side brokers are greedy. Brokers ask for a lot of different things as they should and I would have done what I was there but the one thing they want the most is consistency because they have to also recommend insurance companies to their clients and so, one of the things we try to do is not only re-underwrite the portfolio and start to get a better balance, but we need to have that consistency. So we continue to get recommended and the renewal retention reflects that our new business -- reflects that and think that we have a lot of tailwinds as a result of the work that we've done.

Q - Erik Bass {BIO 19920101 <GO>}

Great. Now we have move to the other big strategic focus, which you hinted on your opening remarks and said last fall you announced the plans separate the life in retirement business from AIG, which is something that some investors I think of advocating for several years now but why do you believe this is the right strategy going forward and why is now the right time to pursue this.

A - Peter Zaffino {BIO 15942020 <GO>}

A lot of what we've outlined in the past remains the same. I mean we took a comprehensive review of the composite structure and we concluded that separation was the right path to create value for our stakeholders and also position both businesses to succeed in the markets they compete in. There's very little overlap in terms of distribution, there's no overlap and product. So I think having independence is going to allow us to a portion capital to strategically move those organizations forward.

The other piece too is general insurance really couldn't stand on its own, until recently because of the profitability, volatility, and lack of track record. So I think getting a strengthened general insurance and having that foundation, with material reduced risk and volatility, and positioning it for profitable growth in the future was very meaningful. I think we've had effective management of the diversification benefits. We said no additional equity capital will be needed in the subsidiaries. So I think that was also another major fact. We talked a lot about the DTA -- foreign tax credits, which are part of the DTA need income life -- that need income from the life company and so we think we would consume a lot of that by the time, we would actually get to a majority sale and so like doing the minority IPO or minority at the time. If we were to look at a private sale, we would be able to preserve a lot of those foreign tax credits.

So that was less of an obstacle and just making sure we had no surprises within the life retirement, property and casualty businesses. And then last, I think investors like both sectors but sometimes they like to choose and they don't necessarily want to choose a composite. They may want to choose one life company, one property casualty. So I don't think we were getting all the interests that perhaps we would as separate entities and also as we reposition, general insurance we think we're going to be an industry leader across the globe and so we want to make sure that business is less complicated and the story is a little crisper. So those are some of the reasons why we decided to pursue it but we did a lot of work on it and that was not a -- in October like we should do this we we've been working on it for quite some time.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. And you've now determined that an IPO of the 19.9% stake in life in retirement is your preferred approach? Why do you believe that's the best -- to maximize value?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, we always thought it was the base case and we outlined it as the path we were likely to take and we said that we would entertain any private -- and they were very good companies and quality views in terms of what we should be doing with the 99 but we want to make certain that no matter what we did we preserved the value on the 80.1 as well. And so did not want a mortgage the future, by doing something that might have a very positive headline price, but would have us doing things that would compromise value in the future and so, I think we felt we reviewed, alternatives that were in front of us and decided that at the point in time, when we went through earnings that, the preferred approach would be the base case, which was the IPO of the 99.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. Can you walk us through the time frame for the separation and realizing it's not all in your control but what are the next steps in the process?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, we outlined some of this on the earnings call and we are working hard towards getting the S1 filed and getting the IPO launched. The two big ones that we had to work on, as components of that, we're getting our standalone financial statements for life retirement completed and so we've made enormous progress there and then getting third-party actuarial reviews to complete and validate the work that's been done with the AIG. So that we've made enormous progress there.

We built a separation management office as well as simultaneously so it's like AIG-200 in terms of having a transformation office but, so we're having work streams and actually how we separate life retirement from AIG with the minimal amount of disruption. So we've been working through that and that is going to be a critical part of making sure that we can execute on the 99 and then subsequent dispositions after that.

So like working towards the fourth quarter in terms of timing but as you said there's things out of our control like regulatory approvals and the market we're not looking to time the market but there's always things that come up in terms of timing that could make it slip into the first quarter but, we are working with a sense of urgency to make sure that we have all the details flushed out and that we have a bunch of different work streams that are pulling up all the floorboards to make sure we're positioning this business to be highly attractive than think the market will respond accordingly.

Q - Erik Bass {BIO 19920101 <GO>}

And maybe building off of that last point. What do you think for the life in retirement business differentiates AIG in the marketplace and why do you think it's well-positioned to be a successful independent public company?

A - Peter Zaffino {BIO 15942020 <GO>}

It's got size and scale. Well-diversified portfolio, has been a very consistent performer, its platform and distribution network are a key differentiator in our view and the business has leading market positions across the board. So, I think the position of AIG's life retirement business will be very attractive. Also with fortitude, which we talk a lot about is that we've limited net exposure to legacy blocks business and therefore have addressed some of the more complicated issues as we are getting ready to do the 99.

Q - Erik Bass {BIO 19920101 <GO>}

Right. Now, maybe we'll pivot over to general insurance and so obviously the base of AIG going forward maybe before getting into some of the specifics for the business. Can you talk a little bit about how you're thinking about market conditions overall and the sustainability of the current hard market? Maybe what lines are geographies still need additional rate and where are you seeing pricing momentum slowing?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, we've been in this market of rate improvement above lost cost for I guess we're entering year three. It depends on how you look at it. I think the market that we're in now is the market we're going to be in for a while and there's anecdotes I mean, if you think about, if I go right to the reinsurance market where, deal were oversubscribed on capacity layers within -- for cap that's an indicator, but I don't believe that incumbents were impacted and I think that the new capacity is going to be challenged in terms of their relevance in the marketplace, as clients make choices and look at quality consistency and ability to trade across, multiple lines of business, and multiple geographies.

When we look at the, the current market, certainly, there's balance and so I don't believe in prior markets, you can pick a time and place that the rate increases or the condition of the global market was balanced as it is now. I mean, for instance, when we report our first quarters like getting rate increases in our international business on commercial being, very commensurate to what's happening in North America that typically doesn't happen so, I would say the balance has been in many geographies many products. Areas, where we're getting very meaningful rate increases have been driven by lines of business that -- I mean, some of the financial lines, casualty, property, making sure that we are focused on getting the right rate on a risk-adjusted basis which means understanding the risk components of how we underwrite. So, we've been very thoughtful on that and I guess the question often is like will rate slow down like, well, what are we trying to answer is that, are you going to get more margin this year, in terms of getting rate above lost cost than you did last year the answer is, yes.

If you're looking at absolute rate, I'm not saying I won't get it, but I think like looking at absolute rate and declaring victory on having the highest rates sustainable on every quarter, you better watch your portfolio because that starts to shift to we want to make sure that we're getting the appropriate risk-adjusted rates for portfolio that we like on our underwriting basis tightening up terms and conditions and making sure we're deploying capital in areas where we think those risk-adjusted returns are the strongest and that's what we've been doing in 2021 and will continue doing it 2022. So we like the market. We think the market is very balanced. I think our leadership position in the overall market is highly valued. Our underwriting consistency across the globe is very strong and expect us to see real opportunities for growth in the short and medium term.

Q - Erik Bass {BIO 19920101 <GO>}

Perfect. And taking up on that point, I mean AIG put up an impressive massive growth particularly in commercial lines in the first quarter, and it sounds like you expect this momentum to continue. So what gives you confidence that now's the time to start stepping on the gas a bit from a growth perspective?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, Mark Lyons gave a little bit of guidance that we would see growth in our personal insurance business in the second quarter that's different than some of the product orders and we can go into that if you would like but the reason I have confidence is because I think the underwriting that we've done as is with a portfolio that we like. I think the brokers have been great partners for us and are looking to find ways to grow with AIG. I don't -- this is an infomercial but the time -- number of times, I've heard that the industry wants a strong AIG and they really like the path we are on and want to collaborate with that and be a partner has been tremendous, we owe a lot to our brokers and clients in terms of giving, while this management team didn't have a name to do with the past I mean, giving us another shot to, recalibrate underwriting standards and to be relevant to them.

So I think that's been very well received. I think that, we have expertise and multiple lines of business and multiple geographies and if you think he's picked the UK is and example, when you look at global specialties known as a capability that we have the reaching, the network that we have across the globe, the ability and strong presence that we have in London, and also having a syndicate that we can use -- capacity to balance the portfolio. So we see it from a variety of different angles and then our strength, in terms of how we are reposition the North America business, we see lots of opportunities for growth but will be growth that we think drives profit and drives margin and is focused on consistency and improving the combined ratio.

Q - Erik Bass {BIO 19920101 <GO>}

Another topic we're starting to hear a bit more about is inflation. So can you talk about what you expect in terms of loss cost trend across different products are there any areas of particular concern?

A - Peter Zaffino {BIO 15942020 <GO>}

I think we've done a very good job of looking at our portfolio optimization work in terms of going by line of business by geography, access at all different stratifications and making sure that we have taken a very conservative position in terms of how we're building in lost cost in the -- year. So we work very closely with the underwriters with claims actuarial mark lines leads the portfolio optimization work and so together with making sure that we understand the marketplace that were we're in and that not getting a false positive on some of the rate increases but make sure that we're building large in the book is really how we apportion capital and we look to grow.

So we are watching it very carefully. It's not something that is going to be looked at the beginning of the year and not get updates throughout the year. We make sure that as we learn what's either happening post-COVID if there's going to be some trends that start to emerge that were on top of it, and can anticipate, the future and as best we can. But also our reinsurance strategy is one that is not there to drive results other than to protect volatility and making sure that we don't have the pendulum swinging in terms of now we can take significantly more net because we feel really comfortable portfolio. We want to make sure that we maintain that risk appetite and deploy capital very carefully and watch lost cost inflation and lines of business that would concern us with a great amount of scrutiny.

Q - Erik Bass {BIO 19920101 <GO>}

Perfect. And you mentioned reinsurance we have a question coming in from the audience on that topic probably makes sense to go there now. In one area you've made significant changes over the past few years, is your usage of reinsurance. So can you talk about your philosophy around reinsurance more generally and how you see the program continuing to evolve going forward?

A - Peter Zaffino {BIO 15942020 <GO>}

Absolutely. I mean, we said from the beginning that we would be consistent buyers of Reinsurance, and that consistency is synonymous with buying Reinsurance that reflects the growth portfolio that we have today. So, what we had to buy in terms of protecting from a property and casualty perspective, you got to remember, I mean, AIG was taking substantial nets everywhere. Property, casualty, I've not seen that limits like that in the past, and so we needed to reduce our net position across the portfolio and so we did that immediately. And then simultaneously, we began the re-underwriting and so that takes a little bit of time.

So, as we look to the future, meaning in 2021 and 2022, we still need as much Reinsurance on an absolute basis even though we're not changing our risk appetite. So, we've been able to improve all of our Reinsurance treaties, whether it's in terms of limits purchased. If you look at the property cap, we lowered attachment points in North America on an occurrence in an aggregate basis. On our risk retention -- for risk programs, we eliminated all of our annual aggregate deductibles. So, there's a lot of ways in which we've improved the portfolio and have improved the Reinsurance at the same time where we're just not taking as much risk and volatility.

So, Reinsurance is a very important component and we have some unbelievable executives that have Reinsurance backgrounds. And I would say, if you're an investor, please don't do this, but if you were to start in terms of a Reinsurance company in terms of billing executives, I think actually AIG has some of the best Reinsurance minds in the business. And we have five to seven people that have done incredible work in the Reinsurance field. So, we are looking at very different ways in which we can approach our Reinsurance strategy that's every year. I mean, so like while we made enormous improvements in 2021, we were already in the planning stage for revise and what we want to do in 2022 to improve it. Again less volatility, more predictability and making sure we have a Reinsurance portfolio in terms of how we purchase that reflects the gross underwriting that we have in the portfolio today. We've certainly spent a lot of time on it.

Q - Erik Bass {BIO 19920101 <GO>}

Thanks. Another question that's come in, just a couple people asking about reserves, which is another area where you've done a lot of work on the past couple of years. It's -- how are you feeling or are you feeling well positioned to handle any emerging areas of higher losses or claims inflation and if you can go through some of the puts and takes that we've seen in recent quarters?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, look, Mark Lyons gives updates on this every quarter. We've looked at the portfolio and the back years and have done a very thorough review of that. I would say, the way in which we approach things is to recognize bad news when we see it and let good news, if there is good news, emerge over time. So, we are constantly looking at the different trends, the portfolio that we had, and making sure that as we look back that we're very confident in terms of how we have looked at the reserve adequacy of AIG. And so, again, it's something that we spent a lot of time on, it's not just the actuaries, it's claims, it's underwriting, it's taking a review, and getting into the details. And so, that's going to be a discipline. I mean it's not anything new that I'm telling you.

But in terms of how we're going to be disciplined on taking a look at that, don't forget, we also have the Adverse Development Cover, now that's a -- that's not a backstop to prevent us from doing things that we need to do on the balance sheet. But it is still there and one that in the event something did emerge, we do have that in place.

Q - Erik Bass {BIO 19920101 <GO>}

Thanks. And so, commercial lines have gotten most of the focus for AIG. But you've also made some significant changes to the personal items over the past year. So, can you discuss how you've changed the business and how you're thinking about the goals going forward?

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah. I think, the one that's probably the most confusing is what we did in the high net worth personal lines. And if we start from the beginning which is you look at where there is density, it's in peak zone. So, I mean whether it's in California, Florida of Northeast and then even Florida in the Southeast. And so, we felt that in the portfolio over time, if we were going to be a property underwriter that the high net worth business was going to be a one that's going to require more frequency purchases of Reinsurance as well as tail risks, and felt that in order to look at the portfolio in a manner that we can position it for growth that we needed to find a different structure.

So, working with the leadership at Lloyd's and creating I think at the times large syndicate that's ever been created bringing in some strategic partners on the capital side as well the Reinsurance side allowed us to reposition the portfolio to where we're sharing risk, that we're dealing with the catastrophe risk as a consortium and that the positioning in terms of what we're doing to improve attritional loss ratios and better underwriting over the next 12 to 24 months was going to be critical for us, and so feel like we're in really good position to do that. We did get rid of our mass affluent book which is really the more commoditized homeowner business that's really below the high net-worth, and so we announced that last year and that gobbles up a lot of aggregate. And so, when we want to make sure that we would position the Reinsurance structure or getting the appropriate return periods to reduce, we need to be in the portfolio that we like. So, look at it, it's a re-underwriting, we have a really good portfolio that we think we can grow. What you saw last year was a lot of Reinsurance sessions, either going into the syndicate or going to Reinsurance partners, which certainly affect the net premium written.

So, we feel that two things. One is we'll be able to now pivot to a more normalized growth, second quarter, third quarter, fourth quarter, and then it's a 2022. And then our travel business was obviously a headwind with COVID because people weren't traveling, and so we'll start to see that pick up and start to see some top-line growth as we get to the back half of the year. So, those were two significant headwinds in 2020 that won't exist in 2021. So, I think we'll start to see growth on an underlying basis, we will adjust Reinsurance to fit that specific portfolio, and then the effects of COVID will start to subside and therefore will be able to grow the travel business, although I don't think huge growth in travel will happen, but we will start to see some growth.

Q - Erik Bass {BIO 19920101 <GO>}

You mentioned in your opening comments, the guidance for achieving a sub 90% core combined ratio in general insurance by the end of 2022. What are the key levers to achieving this from here? And what are you assuming in terms of pricing and market conditions?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, we didn't assume the current pricing environment. We considered one that was less than we're getting. So, I'll start there. That's a positive. There's a bunch of different components that will drive to a sub-90. One is, we'll start to see top-line growth, I mean, so I believe that momentum will come from a variety of different areas. It's going to be better retention, more new business and growing in areas where we think on the risk-adjusted basis that we can improve profitability. I think that goes into the portfolio work that we said we were doing.

The second is I don't think we're going to be buying as much Reinsurance just based on the gross portfolios. Again, no philosophy change, no strategic change, but less Reinsurance will have an impact and I think that's going to be positive. AIG 200, we're starting to -- I'll give you a bunch of numbers on the earnings calls, but we will have realized a sort of run rate that's going to start coming through the income statements and start to give us an expense ratio that will be better. And then just core expense discipline is going to be something that is part of the DNA in this company. So, in addition to what we're doing within an AIG 200, you should expect to see a lot of expense discipline and building bandwidth for own investments and believe that coupled with where I started the pricing environment strong and believe that the sort of underlying portfolio and (inaudible) base will continue to improve. So, there're those five components, it doesn't rely on all of them and doesn't overweigh one in particular, but think that there's a lot of tailwinds in order for us to achieve that as we exit 2022.

Q - Erik Bass {BIO 19920101 <GO>}

And maybe building on expenses which have clearly been a big focus for you, and you mentioned the AIG-200 strategy. Can you just talk a little bit more about the program's objectives and targets and how you're going about achieving them?

A - Peter Zaffino {BIO 15942020 <GO>}

Absolutely. And we've been talking about this for quite some time. So, when we look at the underlying infrastructure and end-to-end process and digital capabilities that existed in AIG when we arrived, it was really at the bottom quartile of businesses. And so, we took upon ourselves to go in deep on a variety of different work streams and talk about how we can substantially improve AIG's capabilities with end-to-end process, better data capture, using cloud technology, retiring a lot of either obsolete or technology that is no longer valuable to the underwriting process or operational capabilities. And again, I know like that part of the earnings transcripts is probably not everybody's favorite when I start going to the work streams of like what we're doing. But it's important because the things that we're undertaking as an organization that we're going to be reporting on for three years and we've done incredible work.

And when I think about like shared services that we talked about, where it was highly fragmented, structure didn't really work, didn't have scale, had very little digital capabilities and then partnering with Accenture to do shared services for AIG, they have enormous skill. There were 50,000 people in the Philippines alone. So, we were able to have enormous resource capabilities and 54 digital capabilities we didn't have. So getting KPIs, customer service, cycle time decreased, but also clarity in back office in terms of its service expectations in AIG. This is one example. We just have also entered into a big migration to the cloud, which again was like okay, that's not all that innovative, but it's we were behind. And so, in some instances when you're behind, you don't have to do things in a linear basis and you can actually leapfrog to get the real value.

So that's -- those are just a couple of examples, but the ultimate goal is to have great end-to-end process, customer service, better insight on data, better capabilities in terms of getting the type of underwriting risks to the top of the pile through, front office algorithms, getting to the underwriters to make better decisions faster, and also the optimization of the portfolio, looking at where you can actually do risks that are not adding, a lot of risks of the portfolio, like a property like getting in non-cap peak (inaudible). If I look at like anymore (inaudible)when you look at, we may have a little bit more European, but we've reduced Florida. So, doing things in a more digital enhanced way can only be done if you have foundational work flow. Again, I know it's boring, but it's incredible work. We're at the halfway point. We're hitting our milestone and believe that we will be a different company when we come out the other end. So, I'm really proud of what we've achieved there.

Q - Erik Bass {BIO 19920101 <GO>}

Great. Maybe another question on expenses that's come in is, do you expect any meaningful cost dissynergies as a result of the separation and setting up two independent companies?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, if you take -- let's just park aside like what we're going to have to do from a legal and banking standpoint doing a public offering. Our base case and we're working through it now would be that the investment that's required in life retirement will be net neutral to the benefits it would get from AIG 200. And so, like it's going to be neutral. And then when we get to, AIG and position it for the future, we expect and we have some work to do and expect to give a little bit more guidance on our next earnings call where we would expect expense benefits from a combination of what remains in AIG and what currently is general insurance.

I would expect in AIG (inaudible) expense benefit and our base case right now is expense neutral within life retirement would be additional investments, that will be required to get it to be a standalone public company. But we're working through the work streams now and be able to provide a little bit more guidance next quarter.

Q - Erik Bass {BIO 19920101 <GO>}

Okay. Maybe now transitioning a little bit to kind of the capital topic, we've got a few questions. First, just generally, can you talk about your philosophy on capital management and how you plan to balance investment in organic and inorganic growth with returning capital to shareholders?

A - Peter Zaffino {BIO 15942020 <GO>}

Okay. Well, I said we were doing the $500 million buyback in the first half of 2021. I want to get more specific in terms of our capital management strategy and intend to do so. But I mean, a big part of it is what we do with the 19.9% of life retirement because there's a base case there of what we need to do on the debt side and what capital we're able to raise in the 19.9. But generally speaking, Mark's outlined in detail what our intent is in terms of reducing debt. We expect to be focused on returning capital to shareholders in some form of buybacks for the near future. We need to talk more about the dividend and we need to position the company not a short-term, but eventually to have the opportunity to acquire businesses in the event there's something that complements the organization and allows us to position the company for longer term growth. I think that will be something in the future that we'll look to strategically. But first, the priority is the life retirement separation, then being able to outline with specificity in terms of what we intend to do with the capital and then also having regular updates in terms of how we intend to sort of manage capital and that capital management strategy will be something that we'll talk about with more frequency.

Q - Erik Bass {BIO 19920101 <GO>}

Perfect. And (inaudible), it may be a little bit premature, but we got a couple of questions as well on kind of the capital structure side and how you're thinking about leverage for both the AIG parent and the life and retirement business and capitalizing the different pieces. So, realizing it's still early, I don't know how much you can say, but any kind of review of how you're thinking about it would be helpful?

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah. So obviously, we've gone through it in great detail and the base case is all focused around our stakeholders and making sure that, we don't have issues with rating agencies, regulators, and again that we don't need to raise equity capital.

And so, making sure, I mean the base case is one, that we would raise debt for life retirement company. There would be dividend back to the AIG parent but our consistency in terms of reducing debt and making sure we have the leverage in a place where we feel comfortable, is the primary focus and with excess capital starting to outline what is the path forward on either share buybacks and/or reducing debt further, and then again I don't think we talked about the dividend for quite some time and intend to do that over a period. But I think the base case is really well thought. I don't think there's going to be a ton of variability, but I don't want to get into too much hypotheticals and really want to kind of get it away, but all the different things that Mark and I and (inaudible) have been talking about to the investment community still remains the same and one that we're executing towards.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. I'm assuming part of the reason for doing the 19.9% stake as opposed to a bigger chunk is that it allows you to continue to consolidate the business which you think is favorable from both leverage standpoint, but also, as you alluded to earlier, to protecting DTAs.

A - Peter Zaffino {BIO 15942020 <GO>}

Yes. That is correct, Erik. I mean the other thing too is at some point, the DTA for the foreign tax credits will become less relevant. And I think that's really in 2022. But yeah, the leverage and we've got to figure out the path forward after the 19.9, which we have a lot of different scenarios, but I think we want to focus everybody on the initial step.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. And then maybe coming back to you, I mean, commented a little bit about M&A and it sounds like it's sort of less of a near-term priority, but something you want to position yourself to consider at points in the future. But maybe you could talk a little bit about where you see potential areas of white space that might be interesting to fill in over time?

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah, as you said, it's not a near-term objective. I mean, it's our responsibility just to think about strategically positioning AIG for the future all the time. And so, obviously, we think through where there are opportunities. I like our business the way it is. I mean, like when we -- like is there white space sure, but we have a tremendous international business. We have an incredible position in Japan, which is again if you take the big three, where the next largest insurance company in Japan were, we are making investments in digital capabilities in the front end. We are finding ways which we think we can grow and have more relevance to distribution in Japan. We have a great UK business that we think have great opportunities for growth.

And again, we have a very good global platform. North America, we feel really well positioned to capitalize on the specialty businesses and we're going to talk a lot about it. But buying a high quality business like Glatfelter has taken us from the bottom decile of program performers to the upper quartile within one or two turns, and so building that underwriting discipline and high quality standards that a Glatfelter has in our ability to reposition our portfolio, we're not looking to grow substantially in programs, but it's a nice little niche business that we have consistency and core principles. And so, we think there's really good opportunities for growth and we will position the company. We've got to get through the -- when you think about what's in front of us, don't want to take our eye off the ball on the underwriting turnaround.

And again, the turnaround is largely behind us. But our industry-leading position is going to allow us to make further gains in the short medium term, so I want to be very focused there. We've got to make sure we don't miss any of our intervals on one AIG 200. And that's going to be critical not only from a strategic standpoint, but operational and financial outcome, then separating life and retirement and doing that in a very thoughtful way where we maximize value for our stakeholders, then articulate a capital management strategy in terms of proceeds and what's the structure of that capital in the future, huge talent agenda.

And then I think we'll come back to that, sort of capital management strategy as sort of a 2.0 as to where are other possibilities for us to find ways in which we would grow, perhaps through acquisition in the future. But I think that's down the road and something that won't be part of the talk track in the short term.

Q - Erik Bass {BIO 19920101 <GO>}

Perfect. Well, I think that's a great summary of kind of the road ahead. You've certainly got work to do, but are making nice progress. Appreciate all the comments today. And thank you for your time.

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks, Erik. I really appreciate the time. Take care.

Q - Erik Bass {BIO 19920101 <GO>}

All right. Thank you.