Q2 2021 Earnings Call

Company Participants

- David McElroy, Executive Vice President and Chief Executive Officer, General Insurance
- Kevin Hogan, Executive Vice President and Chief Executive Officer, Life and Retirement
- Mark Lyons, Executive Vice President and Chief Financial Officer
- Peter Zaffino, President & Chief Executive Officer
- Quentin McMillan, Head of Investor Relations

Other Participants

- Elyse Greenspan
- Erik Bass
- Meyer Shields
- Phil Stefano
- Tracy Benguigui

Presentation

Operator

Ladies and gentlemen, good day, and welcome to AIG's Second Quarter, 2021 Financial Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Quentin McMillan. Please go ahead.

Quentin McMillan {BIO 20877504 <GO>}

Thank you, Nora. Today's remarks may contain forward-looking statements including comments relating to company performance, strategic priorities, including AIG's pursue of separation of its life and retirement business, business mix, and market conditions, and the effects of COVID-19 on AIG.

These statements are not guarantees of future performance or events and are based on management's current expectations. Actual performance and events may differ materially. Factors that could cause results to differ include the factors described in our first quarter 2021 report on Form 10-Q, our 2020 annual report of Form 10-K and our other recent filings made with the SEC.

AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements whether as a result of new information, future events, or otherwise. Additionally, some remarks may refer to non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in our earnings release, financial supplement, and earnings presentation, all of which are available on our website at www.aig.com.

With that, I'll now turn the call over to Peter Zaffino, President and CEO of AIG.

Peter Zaffino {BIO 15942020 <GO>}

Good morning, and thank you for joining us. We have a lot of topics to cover this morning, as we made significant progress on many initiatives over the last 90 days. I will start today's remarks with an overview of AIG's outstanding consolidated financial results for the second quarter. Then, I will review results for general insurance and life retirement in more detail. Following that, I will provide an update on the progress we're making on AIG 200 and the operational separation of life retirement from AIG.

Next, I will provide details on the strategic partnership we announced with Blackstone in July, which represents a significant milestone for AIG, and a major step forward towards the IPO of life retirement.

And lastly, I will provide an update on our capital management strategy, where our near-term priorities remained the same as what I've outlined in the past, debt reduction, return of capital to shareholders in the form of share repurchases and investment in organic growth. Mark will provide additional details on the quarter, and we'll then take questions.

Starting with our consolidated results, I'm pleased to report that AIG had an outstanding second quarter. We have sustained the significant momentum we had coming into 2021 through the first half of the year and delivered exceptional performance in general insurance with strong top-line growth and significant improvement in our combined ratios.

Our pivot to growth and focus on demonstrating leadership in marketplace accelerated through the second quarter, as we continue to prioritize underwriting discipline, portfolio optimization, reducing volatility and growing in segments, where market conditions are favorable and fall within our risk appetite.

We also saw very good results in our life retirement business primarily driven by improved investment performance. Life and retirements adjusted pre-tax income increased 26% year-over-year, and the business delivered a return on adjusted segment common equity of 16.4%.

We continue to advance AIG 200 with the transformation remaining on track to deliver $1 billion in run-rate savings across the company by the end of 2022 against a cost to achieve of $1.3 billion. And as you saw in our press release, our adjusted after-tax income in the second quarter was a $1.52 per diluted share compared to $0.64 in the prior year quarter.

Turning to our financial results, I'll start with general insurance. Growth in net premiums written was very strong in the second quarter, accelerating from the first quarter and continuing the trend that began in 2020 as our heaviest remediation efforts were nearing completion.

Net premiums written increased 24% year-over-year to $6.9 billion or approximately 20%, excluding foreign exchange. Growth was strong across both global commercial and personal. Global commercial net premiums written increased 13% excluding foreign exchange, reflecting growth in areas with attractive risk-adjusted returns, improving renewal retentions and more than 25% increase in new business compared to the prior year quarter, and overall rate increases of 13%.

North America commercial net premiums written increased 15%, excluding foreign exchange, including strong growth in excess casualty, financial lines, retail property, AIG Re and Lexington. New business increased 25% from the prior-year quarter, led by financial lines and Lexington wholesale. And renewal retentions improved 300 basis points over the same period.

It's worth noting that Lexington had its strongest quarter of new business, since we fully reposition its operating model to focus on wholesale distribution in excess and surplus lines. This business has significant momentum, which we expect will continue for the foreseeable future.

Shifting the international commercial, net premiums written grew 10%, excluding foreign exchange. Primarily driven by financial lines across the UK, EMEA and Asia-Pacific global specialty, particularly marine and energy, and Talbot, our Lloyd's syndicate.

New business increased 26% from the prior year period, led by financial lines, marine, energy and Talbot, and renewal retentions increased by 500 basis points over the same period. It's important to emphasize that the growth we're achieving across commercial is aligned with our risk appetite that we've been executing against over the past three years.

We continue to prudently deploy limits, including with respect to new business with an intense focus on risk aggregation. In addition to strong retention, our growth is being driven by exceptional new business, which in global commercial was a $1 billion in the second quarter.

With respect to personal insurance, as we discuss on last quarter's call, the unusually high growth in net premiums written was largely reflective of the creation of Syndicate 2019 in the second quarter of 2020, when the reinsurance sessions associated with creating that syndicate.

Turning to rate. Momentum continued with overall global commercial rate increases of 13%. North America commercial rate increases were 13% with the most notable improvements in excess casualty, which was up 20%; Lexington casualty, which was up 19%; and Lexington wholesale property, which was up 15%.

International commercial rate increases were also 13% driven by financial lines, which was up 21%; property, which was up 18%; and energy, which was up 16%. Across the global portfolio, the largest rate increases were in cyber, where rates were up almost 40% with the strongest rate increases in North America.

We continue to carefully reduce cyber limits and are obtaining tighter terms and conditions to address increasing cyber-loss trends. The rising threat associated with ransomware and the systemic nature of cyber risk generally.

Underwriting excellence, thoughtful risk selection, tighter terms and conditions, and improving rate adequacy have been core areas of focus as we transformed our portfolio. The General Insurance accident year combined ratio, ex-CAT, improved for the 12th consecutive quarter coming in at 91.1%, an improvement of 380 basis points from the second quarter of 2020, and an improvement of 990 basis points from the second quarter of 2018.

This improvement was comprised of a 160 basis point improvement in the accident year loss ratio ex-CAT and a 220 basis point improvement in the expense ratio at AIG 200 and the benefits of premium growth continue to contribute a profitability. Global commercial achieved an accident year combined ratio ex-CAT of 89.3%, an improvement of 500 basis points year-over-year. This is the best result commercials reported in the last 15 years.

In personal insurance, the accident year combined ratio ex-CAT was 95.1% of 70 basis point improvement over the prior year quarter.

Now just a quick comment on reinsurance purchased across general insurance, where we continue to evolve our reinsurance program to reflect our significantly improved underlying portfolio. In the second quarter, we were very active in the market with 25 specific layers on a variety of treaties placed. Notably, in nearly every instance, we were able to enhance our terms and conditions, and our placements were at equivalent or improved pricing in a reinsurance market that is experiencing tighter terms and conditions and rate increases.

With respect to our property cap program in particular, we took the opportunity in the second quarter to further reduce our per occurrence attachment point in North America through several by down CAT layers for peak zone exposures.

Lastly, on general insurance, we remain confident that we will achieve a sub 90 action year combined ratio ex-CATs by the end of 2022. Based on the progress that I've seen in our underwriting, the ongoing efforts and optimizing our portfolio, the terrific execution of AIG 200 and the significant momentum we developed, I'm optimistic, we'll get there sooner.

As we move through the second half of the year and get further into AIG 200 and separation execution, we will provide further comment on our combined ratio expectations.

Now let me turn to AIG Re, which oversees our global assumed reinsurance business.

Net premiums written across all lines increased more than 30% in the second quarter compared to the prior year period. Writings were balanced across multiple lines of business with risk-adjusted returns and underwriting ratios improving across the portfolio. Highlights of AIG Re's second quarter results include the following. In U.S. property CAT, we saw rate improvements across all U.S. property business sectors. Increases range from mid-single digits to upwards of 25% depending on geography and loss-affected accounts.

In Florida, Validus Re net limits at June 2021 were reduced by more than 40% in coordination with AlphaCat. Since AIG's acquisition of Validus Re in 2018, we reduced the overall limit in Florida by more than 65% or approximately $400 million of annual limit, demonstrating Validus Re's continued discipline and focus on volatility reduction.

Further, Florida-specific firms now represent less than 2% of Validus Re's total net premiums written. Our focus remains on regional and nationwide firms in the U.S. as well as international diversification.

In addition, in 2020 and through the second quarter of 2021, less than 25% of AIG's net premiums written came from property lines. Building on our retrocessional purchase on 1/1 of worldwide aggregate protection, Validus Re secured further retrocessional protections in June. Specifically, we purchased more peak zone coverage for U.S. wind, Asia wind and California earthquake for the 2021 season. Overall, we have substantially enhanced our portfolio despite heightened competition.

We're very pleased with how AIG Re has evolved. We have exceptionally strong intermediary market support as well as strong client relationships, which have resulted in significant renewal retention and signings.

In addition, we've upgraded the talent across the board and have broadened the skill sets of our leaders. We believe this business is much more prepared to assess and opportunistically respond to market conditions.

Turning to Life Retirement. This business once again delivered very strong results. Life and Retirement's broad leadership position across products and channels enabled us to take advantage of the significant rebound in retail annuity sales with total annuity sales up significantly across our entire annuity offering.

Our strong sales resulted in positive individual retirement annuity net flows during the quarter. Group Retirement deposits were higher compared to first quarter 2021 levels. And second quarter 2021 new plan participant enrollments increased 20% year-over-year.

As demonstrated regularly in recent quarters, our high-quality investment portfolio is well positioned to navigate uncertain environments. Our variable annuity hedging program has continued to perform as expected, providing downside protection during prolonged periods of volatility.

Finally, the strategic partnership with Blackstone further positions Life and Retirement to expand its distribution relationships, enhance its product offerings, and the business will benefit from Blackstone's significant capabilities.

Now let me turn to AIG 200, our global multiyear effort to position AIG for the long term. AIG 200 is continuing with a sense of urgency, with all 10 operational programs deep into execution mode.

We're 18 months into the transformation, and we have a clear execution path to $1 billion in run rate cost savings, with $550 million already executed or contracted, $355 million of which has been recognized to date in our income statement.

AIG 200 continues to build a strong foundation across the company and instill a culture of operational excellence.

Turning to the separation of Life Retirement. We made considerable progress in the second quarter with a focus on speed execution with minimal business disruption. Our separation management office has identified day one requirements for Life and Retirement to become a stand-alone company, and multiple work streams are underway. This work includes aligning our investments unit with Life and Retirement and preparing for the Blackstone partnership to close.

The speed with which our colleagues have moved would not have been possible without the foundational work that's been done as part of AIG 200.

As I've discussed on prior calls, an IPO of up to 19.9% of Life and Retirement was our base case since we announced our intention to separate the business from AIG last October. And we continue to believe an IPO will maximize value for our stakeholders and position the business for additional value creation as a public company.

I also noted on our last call that following our announcement, we interested in purchasing a minority stake in Life Retirement as well as our entire investment management group. One of those parties was Blackstone.

We ultimately decided not to pursue the original proposed transactions because we determined that selling the entire investment management group was not in the long-term interest of Life and Retirement, and some of the proposals also contemplated significant reinsurance transactions ahead of an IPO, which we didn't believe would optimize the outcome for shareholders at this stage in the process.

In June, Blackstone reengaged with us to determine if we could find a mutually beneficial way to partner that would further our goals for the separation of Life and Retirement. These discussions led to the announcement of the strategic partnership we entered into in mid-July.

We continue to work with a sense of urgency towards an IPO of the Life Retirement business. Following the 9.9% equity investment by Blackstone, the IPO will likely be the first quarter of 2022 event subject to required regulatory approvals and market conditions. We previously viewed the fourth quarter of this year as the earliest in IPO would occur with the first quarter of 2022 as a more likely outcome. So our time line is essentially unchanged even with the announced Blackstone transaction.

Additionally, the gain on sale of affordable housing, coupled with other factors, provides us with flexibility to sell down beyond 19. 9% as we now expect to fully utilize our foreign tax credits in 2022.

This development facilitated our partnership with Blackstone and as a result, made it more compelling compared to structures we considered since our separation announcement last October. We believe that we are better positioned to accelerate operational separation. And as a result, Life Retirement will be more comprehensively established as an independent company when the IPO occurs.

Now let me provide additional detail on the Blackstone partnership, which represents a significant milestone for AIG and provides meaningful momentum for the IPO of Life and Retirement. As I mentioned, this partnership represents the culmination of discussions that took place over the last year on several strategic initiatives, and we view it as very beneficial for AIG and Blackstone.

Blackstone's leadership has indicated for some time that insurance is a key strategic priority for their firm. And the investment Blackstone is making in our Life and Retirement business is the single largest corporate investment the firm has made in its 35-year history, and Life Retirement is now Blackstone's single largest client.

This substantial commitment by Blackstone highlights the strength of Life Retirement's business. Blackstone's belief in the value of the investment and it's a validation of Life Retirement's market-leading position.

Furthermore, John Gray, President and COO of Blackstone, was directly involved in the negotiations. He has been a great partner throughout and will join the Board of Directors of the IPO entity at the closing of the equity investment, which we expect to occur in September.

Let me recap some of the terms of the transactions and how we're thinking about future capital structures for AIG and Life Retirement as stand-alone businesses.

Blackstone will acquire a 9.9% cornerstone equity stake in the holding company for AIG's Life Retirement business for $2.2 billion in an all-cash transaction. The purchase price is equivalent to a multiple of 1.1x a target pro forma adjusted book value of $20.2 billion. The adjusted book value reflects the combined book value of our Life Retirement business, and a majority of our investments unit as well as the financing arrangements to be undertaken and the amounts to be paid from that entity to AIG just prior to the IPO.

As we look to the permanent structure of the IPO entity, we will be raising debt at this entity consistent with its ratings and peer leverage ratios. The new debt will be used to pay down AIG debt such that the debt stack at AIG and at the IPO entity will both be in line with each company's peers and what we view as the optimal debt to total capital ratio for each company.

Life and Retirement will also enter into separately managed account agreements or SMAs with Blackstone, whereby Blackstone will manage $50 billion of specific asset classes with that amount growing to $92.5 billion over a 6-year period.

Lastly, as I alluded to earlier, we sold certain affordable housing assets to Blackstone Real Estate Income Trust for $5.1 billion in an all-cash transaction, which is expected to close by the year-end 2021.

Turning to capital management. We ended the second quarter with $7.2 billion of parent liquidity. The net proceeds from the Blackstone transactions resulted in additional liquidity of $6.2 billion to AIG by year-end 2021. Through the remainder of this year, we plan to pay down $2.5 billion of AIG debt and buy back at least $2 billion of common stock.

As we announced in our press release, the AIG Board has authorized additional share repurchases, which, together with the remaining approximately $1 billion left on our prior authorization, brings our total stock buyback authorization to $6 billion.

Together, these capital management actions demonstrate our commitment to delever and return capital to shareholders. In addition, the strength of our overall capital position leaves us with ample capacity to continue to invest in growth, particularly in General Insurance, where market conditions continue to be extremely favorable.

Now I'll turn it over to Mark to provide more detail on the quarter.

Mark Lyons {BIO 21746221 <GO>}

Thank you, Peter, and good morning, everyone. For the second quarter of 2021, AIG reported adjusted pretax income, or APTI, of $1.7 billion and adjusted after-tax income of $1.3 billion. We produced an annualized return on adjusted common equity of 10.5% for AIG, 12.3% for General Insurance and 16.4% for Life and Retirement. The annualized return on adjusted tangible common equity was 11.6% for the quarter.

On a GAAP basis, AIG reported $91 million of net income with the principal difference between GAAP and adjusted after-tax income of $1.3 billion being the accounting treatment of Fortitude, net investment income and associated realized gains and losses.

Before I move to general insurance though, I'd like to add to Peter's remarks on the Blackstone SMA. This arrangement incorporates specific specialty asset classes comprised mostly of private credit alternatives and structured products, where Blackstone is a world leader in sourcing and origination and has a demonstrated track record of delivering yield uplift and not public fixed income securities.

The fee structure is 30 basis points on the initial $50 billion of AUM, increasing to 45 basis points for the annual new AUM of $8.5 billion, starting 4 quarters later as well as for the reinvested runoff AUM. Therefore, fee should rise from 30 basis points initially towards 43 basis points by the end of the initial 6-year contract term for Blackstone's share of the assets.

For this part of our portfolio, it's fair to expect that fees will somewhat precede the benefits of the impact of enhanced origination and differentiated asset classes and recognition of related yield uplift.

We believe this SMA arrangement is unique in that L&R maintains control over its overall asset allocation, asset liability management liquidity and credit profile and the nature of individual investment structures.

In addition, Life and Retirement has the opportunity to enhance overall investment management by focusing on improving efficiencies and asset classes that are not part of the SMA as well as optimizing performance across the whole portfolio. We believe the combination of these efficiencies, together with the Blackstone focus on maximizing the performance of SMA assets and growth opportunities on the overall AUM, should drive net yield uplift.

Before leaving the Blackstone transaction, I want to note that a GAAP loss on sale is anticipated with a 9.9% equity purchase by Blackstone as well as with subsequent IPO sell-downs due to the inclusion of OCI and GAAP book value. Given that OCI in future periods is subject to market fluctuations, the impact cannot be fully estimated at this time.

As respects affordable housing, note that the $5.1 billion purchase price to an approximate $3 billion after-tax gain on sale, which will benefit book value and provides approximately $4 billion of cash to parent with a minority portion held back in a regulated Life and Retirement entity to further strengthen an already historically strong RBC level. This transaction is expected to close by year-end 2021.

Moving to General Insurance. Second quarter adjusted pretax income was $1.2 billion, up $1 billion even year-over-year, primarily reflecting increased pretax underwriting income of over $800 million along with $200 million and change of increased pretax net investment income, driven primarily by private equity returns.

Catastrophe losses of $118 million were significantly lower this quarter compared to $674 million in the prior year quarter. Prior year development was $51 million favorable this quarter compared to favorable development of $74 million in the prior year quarter. This included $58 million of net favorable development in North America and $7 million of net unfavorable development in international, both of which reflect marginal changes in the underlying operations.

As usual, there is net favorable amortization from the adverse development cover, which amounted to $49 million this quarter. It's important to put in context, though, the recent strength of the property and casualty market and how General Insurance has executed within this environment.

As Peter mentioned in his remarks, the book has had nearly 3 turns at correction since 2018. Risk appetite and risk selection have been materially sharpened. Complementary and properly evolving reinsurance programs have been implemented. Certain lines and segments were exited or massively reduced.

Clear and broader distribution has been embraced, and Lexington has been stood up as a major E&S platform. All of this was accomplished while simultaneously achieving significant rate in excess of loss cost trends with materially better terms and conditions.

These actions form the foundation as to why General Insurance has shown material improvement in the underlying accident year ex CAT combined ratios in both the historically underperforming North America Commercial segment and the International Commercial segment as well.

North America Commercial has shown a 620 basis point improvement in the accident year ex CAT combined ratio over the prior year quarter. The International Commercial segment has continued to improve profitability with 370 basis points improvement compared to the prior year quarter.

This shows demonstrable margin improvement stemming from the totality of the actions enumerated earlier, and this level of global commercial improvement is noteworthy as Global Commercial made up 71% of worldwide net premiums written through the first half of 2021.

Additionally, the global commercial book is increasingly becoming a global specialty book comprised of below frequency, high severity coverages. As a result, General Insurance commercial, although large and global in scope, is not a mere index of the market, but instead an underwriting company, where risk selection and business mix are important factors in achieving profitable growth while mitigating volatility.

Turning to Personal Insurance. As we noted on our first quarter earnings call, our year-over-year net premium written comparison for the second quarter would improve given the timing of the initial COVID-19 impact and the distortions from Syndicate 2019 being reflected also during the second quarter of 2020.

Global Personal Lines net premiums written grew by approximately 45% or 41% on a constant dollar basis aided by the Syndicate 2019 comparison. Elsewhere within the segment, the second quarter of 2021 North America Personal Insurance saw premiums in travel and warranty business increase.

This was driven by a rebound in travel activity and increased consumer spending, but not yet back to the pre-pandemic levels. Our outlook for net premiums written for the next 6 months in North America Personal Insurance is between $450 million and $500 million per quarter.

We continue to anticipate earned margin expansion throughout 2021 and into 2022, resulting from AIG's favorable underwriting actions taken and global market conditions involving strong rate increases well above loss trend, improved terms and conditions and a more profitable, less volatile mix.

Given the specific market dynamics of where we choose to play, we don't foresee any material slowing down in a cheaper rate levels throughout the balance of the year.

Now I'd like to comment a bit on inflation, which one needs to think about in terms of both economic and social inflation. Based on the Consumer Price Index and the Producer Price which has accelerated since March. Some components of the indices have become worrisome such as used cars and trucks being up about 45% and energy commodities being north of 40%.

But medical care services, whose impact stretches across most casualty, auto, workers' compensation and excess placements, although higher are much more tame than headline inflation would indicate, with physician services up about 4% recently and hospital services up about 2.5%.

Costs involving labor, materials, construction and related services are up and will impact property coverages and CAT claim costs in the near term. These indications demonstrate that the inflationary impact on any given insurer is a direct function of the products and the mix they write and where they play within an insurance program.

Social inflation, however, is much more of a U.S. centric phenomenon, driven by a highly litigious culture. Social inflation also has correlations to social change initiatives, including income inequality and changing sentiments towards business, to name a few.

Being further away from risk though, is a meaningful inflation counter, and AIG's General Insurance has taken strong preemptive action in that regard by minimizing lead umbrellas in favor of higher positions within insurance programs.

For example, our excess casualty average attachment points for national and corporate U.S. accounts have increased approximately 3.5x and 5.5x, respectively, since 2018. This significantly increased distance from attaching is a key overall portfolio benefit. Taken all together, a U.S. view towards a total inflation rate of 4% to 5% is arguably reasonable for the near to medium term. Our second quarter rate increases, together with our view of pricing for the rest of the year, provide continued margin in excess of this loss cost trend.

Now turning to Life and Retirement. When compared with the prior year, favorable equity markets drove higher alternative investment returns, principally higher private equity returns, which reflect the impact of the 1 quarter lag on the period. Life insurance continues to reflect the COVID-19-related mortality provision that has dropped relative to the prior quarters.

We estimate our exposure to the population is approximately $65 million to $75 million per 100,000 population death. Mortality, however, exclusive of COVID-19 continues to be favorable compared to pricing assumptions.

Within individual retirement, excluding the retail mutual fund business, net flows were positive for the quarter and favorable by over $1.2 billion when compared with the second quarter of 2020, led by index annuities, rebounding to be higher by approximately $700 million with variable annuity net flow being about $365 million stronger year-over-year.

Group Retirement premiums and deposits were up with net flows being relatively flat while also experiencing an improved surrender rate sequentially. The Life business has seen consistent premiums and lower lapse surrender rates over the last 4 quarters than prior.

And for institutional markets, prime and deposits were up compared to the prior year and sequentially. GIC issuance was also higher both sequentially and year-over-year, and we executed several large pension risk transfer transactions during the quarter. The pipeline for pension risk transfer opportunities, both direct and through reinsurance, remain very strong in both the U.S. and in the U.K.

We continue to actively manage the impacts from the low interest rate and tighter credit spread environment, and our earlier provided range for expected annual spread compression has not changed, as our base investment spreads for the second quarter were within our annual 8- to 16-point guidance.

Further, new business margins generally remain within our targets at current new money returns due to active product management and a disciplined pricing approach.

Lastly, post June 30, we closed on the sale of our retail mutual fund operation. As you are aware, retail mutual funds has contributed negative net flows over the last 2 years, and the drag from this will now cease.

Moving to other operations. The adjusted pretax loss was $610 million, inclusive of $94 million from consolidation and elimination entries, which principally reflect adjustments offsetting investment returns in the subsidiaries, which are then eliminated at other operations.

Before consolidations and eliminations, the adjusted pretax loss was $516 million, $184 million worse than the second quarter of 2020, but that quarter included 2 months of Fortitude Re results of $96 million. In addition, during the second quarter of 2021, we also increased prior year legacy loss reserves by a net $65 million driven mostly by Blackboard exposures, and we increased our incentive program approval to reflect the strong performance year-to-date whereas in 2020, we began adjusting our incentive program accrual in the third quarter. After applying these adjustments, the comparison is actually favorable year-over-year.

Shifting to investments. Overall net investment income on an APTI basis was $3.2 billion, virtually flat from the second quarter of 2020. But again, adjusting the second quarter of 2020 for Fortitude net investment income over that 2-month period, this quarter's net investment income was $362 million higher than the prior year, reflecting strong private equity returns and an annualized 27% return rate for the quarter and hedge fund results at a 21% annualized return rate for the quarter, along with stable interest and dividend income.

Turning to the balance sheet at June 30. Book value per common share was $76.73, up 7% from 1 year ago. Adjusted book value per common share was $60.07 per share, up 7.5% from 1 year ago, driven primarily by strong operating performance. And adjusted tangible book value per common share was $54.24, up 8.1% from a year ago.

As Peter noted, at quarter end, AIG parent liquidity was $7.2 billion. During the second quarter, we made a $354 million prepayment to the U.S. Treasury in connection with certain tax settlement agreements emanating from the pre-2007 period as well as completed debt tenders for an aggregate purchase price of $359 million. Our debt leverage at June 30 was 27% even, down 140 basis points from the end of 2020 and down 360 basis points from June 30, 1 year ago.

Our primary operating subsidiaries remain profitable and well capitalized. For General Insurance, we estimate the U.S. pool fleet risk-based capital ratio for the second quarter to be between 460% and 470%, and Life and Retirement is estimated to be between 440% and 450%, both above our target ranges.

Lastly, as respect to tax, I want to reiterate that the remaining net operating loss or NOL portion of AIG's DTA at the time of deconsolidating L&R for tax purposes, will still be available to offset future General Insurance and/or AIG taxable income through their natural expiration. As of June 30, that portion of the DTA totaled $6.3 billion and is available to offset up to $30 billion of taxable income.

Upon tax deconsolidation, what will cease is the ability to utilize up to 35% of life insurance company income against NOLs or any remaining FCC.

With that, I will now turn it back over to Peter.

Peter Zaffino {BIO 15942020 <GO>}

Thank you, Mark. Operator, we'll go to question-and-answer.

Questions And Answers

Operator

(Question And Answer)

Thank you, sir. Ladies and gentlemen, (Operator Instructions) We'll take our first question from Elyse Greenspan from Wells Fargo. Your line is open. Please state your question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks. Good morning. My first question, Peter, you said you guys to get to that sub-90 margin target, within General Insurance perhaps sooner than expected. I was hoping you could expand on that just in terms of time frame, and when you make that comment, are you assuming stable pricing and inflation kind of remain around 4% to 5% based off of what Mark said into 2022.

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks Elyse. I've talked about in the past that there's many components that are going to drive improved combined ratio. The first is the absolute underwriting performance and we're seeing that come through and what Mark covered in his script in terms of severity, attritional losses, and just less volatility. In addition, we have seen strong top-line growth and believe that's in the commercial side, we're in that market now and see that continuing, we need less reinsurance, that we once needed because of the makeup of the portfolio.

For those are all tailwinds, and then in addition to that, you have AIG 200 which I gave some numbers on my prepared remarks that we have real tailwind they're not only are we going to continue to have a clear sight in the overall path to $1 billion, but it's starting to earn through in the income statement. And just our overall expense discipline.

So, we don't have heavily rely on one component. There's four to five that drive it. And no, it does not require us to be in the same rate environment. I mean, have to be in the range on the social inflation and loss cost inflation. But we watch that all the time and believe that we have a lot of momentum. And I'll give more guidance, specifically, in the next couple of quarters. I mean, the momentum I've seen and the excellent job that Dave McElroy and the entire leadership team have done in General Insurance is a real differentiator, and the momentum they have is tremendous. So, it just leaves me with a lot of optimism.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Great. And then my second question in terms of Life & Retirement now that you did this initial sale with Blackstone and you emphasize using most of the foreign tax credits. So, it sounds like tax considerations won't impact the amount of L&R that you guys playing to the public market. Did you have a sense of how much you're going to bring on to the public markets? And then, in terms of the proceeds you guys get there, since you're paying down $2.5 billion of debt now, will the majority of the proceeds from future transactions to be used for a buyback and organic growth?

A - Peter Zaffino {BIO 15942020 <GO>}

Yes. Thanks, Elyse. In terms of the timing, as I said we're targeting, a first quarter IPO, we're working really hard on the operational separation, we will close with Blackstone, who's going to be a tremendous partner for us, we hope in July. And so working over the next six months to position life retirement to have a very successful IPO is the primary focus.

Second is we have to, think about I said in my prepared remarks of like the regulatory environment, and the market itself. So, that will really dictate in terms of how much we do, and it just gives us a lot of flexibility to, according it up, if there's really favorable market conditions or just to go in with a, we wouldn't go to an IPO with a 9.9%, we will do something larger than that. But the size, timing, we will continue to give you guidance as we get further along in the year, with the progress that we're making.

I don't know Mark, if you want to add anything in the capital management and the debt?

A - Mark Lyons {BIO 21746221 <GO>}

Just I think the core point was to emphasize that this removes the constraint. So, rather than on the specifics of the sizing, which is Peter said was very market sensitive and contingent. But having that ability now to not have such a constraint is the main point we really wanted to push over.

A - Quentin McMillan {BIO 20877504 <GO>}

Thanks. Next question, please.

Operator

We will take our next question from Meyer Shields from KBW Investment Bank. Your line is open. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Pardon me thanks. First question on the Blackstone partnership. Can you give us a sense of what the internal expenses are that are comparable to the 30 and 45 basis points that will constitute the fees?

A - Peter Zaffino {BIO 15942020 <GO>}

Yes, Meyer, thank you for the question. I'll turn it over to Mark in a second. But I think that, when we looked at the partnership with Blackstone, there was a variety of factors that went into it, certainly then making a commitment on the equity investment, making certain that life retirement still maintained, its authority and ability to shape the investments with Blackstone. So, we've contained that. A lot of the assets that we have or will transfer, our class is that they have exceptional track records on. And so, we're working through that. We do believe that the AUM will grow over time with life retirement. And so, this will become a smaller percentage. And the base case was that not only with Blackstone partnership that our overall business model will evolve to be more efficient over time.

But Mark maybe you could fill in a couple of the details of that.

A - Mark Lyons {BIO 21746221 <GO>}

Yes. Well Meyer, as Peter said, the level of these specialty assets are usually much more labor intensive and are always on the higher end of the scale, if you think of it in a rate card. And so that card is completely within expectations of what we would say, within -- with our own internal structures, we would have also increasing costs, as you gradually up to the overall asset class categories that they are experiencing for us. So, there's some GAAP, but some of that cost accounting view is less clear than you think. But we know what the value we're going to be getting out of that is going to be more than worth it.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, understood. Second question, I guess, this is probably for Mark. I know the expense ratio of the North American Personal have been distorted up till the second quarter because of, I guess the first travel insurance and the Syndicate. Is the second quarter expense ratio run rate, are those representative of what we should see going forward?

A - Mark Lyons {BIO 21746221 <GO>}

What I think that you're going to, let me make a general statement first, and that is that, I think, Peter tries a position that's have been, we may have said this a little bit in past calls. But you should think of the combined ratio gains on the commercial side of being loss ratio and expense ratio driven. And on the personal line side more expense ratio driven. We've got a lot more stability in the loss ratios on there. So, you'll continue to see that. But to the extent it's roughly, I would actually say, you should anticipate the expense ratio to continue to improve in North America Personal.

A - Peter Zaffino {BIO 15942020 <GO>}

And one thing I would add Meyer, in terms of Mark just noted is that, the high net worth space is changing dramatically in peak zones. We expect to see continued change in the excess and surplus lines as more alternatives was basically split in the second quarter between admitted and not admitted new business.

So, that's just something that we're going to watch. I mean, there's no specific trends that are going to be substantially different than the guidance we've given. But there is some change in that business that we want to make sure with the market leading position that we take advantage of solving problems for clients, but also reposition the portfolio to have less volatility.

A - Quentin McMillan {BIO 20877504 <GO>}

Okay. Next question, please.

Operator

We'll take our next question from Erik Bass from Autonomous Research. Your line is open. Please state your question.

Q - Erik Bass {BIO 19920101 <GO>}

Hi. Thank you. So, can you talk a little bit more about the asset management agreement with Blackstone and how you see this affecting Life and Retirement, NII over the next couple of years? It sounds like you expect some initial dilution. But when should this turn and start being creative to NII? And also will any of the assets, they managed be used to support new business and could this help to be even more competitive than your fixed index annuity offerings?

A - Peter Zaffino {BIO 15942020 <GO>}

Hey, Mark why don't you start and then turn over to Kevin in terms of talking about product.

A - Mark Lyons {BIO 21746221 <GO>}

Yes. Thank you, Peter. Yes, I think Kevin will have a few things to help you with there as well. So, on the asset manager, think of it this way Erik, you've got the uplift will come more delay than the fees to your point, firstly.

And secondly is, as the $50 billion of AUM is work through, we have been -- thinking about it mostly it takes seven years for that run-off to turnover, as that occurs it also shifts from 30 to 45 basis points. The $8.5 million annually that will also come in to take it to the 92.5 will be at 45 bps. So, you kind of have that curve that I was alluding to in my prepared remarks. So, as a result of that, you're going to have net yield uplift coming through as a function of when those investments can be made.

So, if you think of it, you're really at the end of year one, you still have 85% of the original AUM still not turned over, which is why you get the delay aspect. But it's we expect that to chip away and close a lot sooner than you might think. But that is the important point to remember is that L&R completely has that control. So, that the take off between the liquidity and the rating distributions, and the asset distribution, and capital trade-offs and so forth, is within the management discretion of L&R. Kevin?

A - Kevin Hogan {BIO 4650423 <GO>}

Yes. Thank you. So, Erik, I think, what's important is to keep in mind that this is not a change in our portfolio strategy. This is an enhancement of our portfolio strategy. Blackstone has tremendous origination capabilities. We believe that their ability to originate in these asset classes exceeds our current ability.

And in addition to that, they have a broader range of assets within the subclasses and the combination of their ability to originate with more capacity and also the breadth of their asset classes, we believe will allow us to create new products to support transactions. And our intention will be to work together to innovate strategies that will allow us to grow faster. We do not think of the balance sheet as static. We think about a growing balance sheet. And so, rather than focusing just on the yield of this part of the portfolio. I think about the overall portfolio strategy. So, again, this is not a change in our strategy. This is an enhancement of it and that's how we think about it.

Q - Erik Bass {BIO 19920101 <GO>}

Thank you. And then can you help us think about the level of new public expenses, Life & Retirement will have. And will these be able to be offset by savings elsewhere? And then, how should we think about the level of expenses that are running through other ops that will remain with the parent kind of the post-separation?

A - Peter Zaffino {BIO 15942020 <GO>}

Erik, let me handle that one. The guidance that I provided in the past and will stay with is that, there are meaningful savings for Life & Retirement within AIG 200 that will be tailwinds to them. We had set around $125 million, Life & Retirement achieved some of that, but there's a big number left for us in terms of earning through that over the next 18 months. So, think about roughly a $100 million of AIG 200 benefits, then there is allocations and parents service fees that goes over to Life & Retirement today, that will either dissipate or will still have those services, as we transition for Life & Retirement to become a public company.

So, that's in the range of $75 million plus. So, Kevin has a decent amount to invest towards building out the public company. And we think with other initiatives for expense saving through separation office that it should largely be neutral to Life & Retirement. And we think the synergies that exist within the remaining company AIG that it's neutral to beneficial. And will give more guidance as we get closer to the end of the year, when we've done more work in the separation office.

Operator

Thank you. We will take our next question from Phil Stefano from Deutsche Bank. Your line is open. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes. Thanks. Good morning. Looking at the General Insurance book and mostly focus on commercial, when we look at the gap in net written versus net unearned. I mean, it's clearly there is a runway just given, where the pricing is today for the continued improvement in the underlying loss is there? How are you thinking about rate adequacy the need to continue to push for rate versus just growing and dialing back the rate that you're getting now. How are you balancing these two dynamics?

A - Peter Zaffino {BIO 15942020 <GO>}

Thank you very much for the question. Mark put a lot of comments in his prepared remarks. We watch loss cost inflation and margin on everything we do in terms of portfolio optimization. That's really what I referred to when I talk about how do we position General Insurance, particularly in the commercial side to have an optimized portfolio.

We've had several years of rate increases, we're building margin in some specific lines of business have been getting more rate than others and that ones that need it. But it's something that, Dave McElroy and the entire team spend every day thinking about and believe that there is absolute runway to continue to develop margin.

But Dave, do you want to talk a little bit about how you're approaching it and some of the different segments of the business that you're focused on?

A - David McElroy {BIO 15192036 <GO>}

Yes. Thank you, Peter. Thank you, Phil. The rate increase story is one you don't you want to make sure it's calibrated off of all the other things you're doing in the portfolio. So, what we've done over the last three years is a lot of risk selection in terms of conditions and attachment point and account exposures and managing that. So, if you fall in love with a singular rate increasing number and you define your book, you ultimately probably end up adversely selected again. So, you actually have to put that in context.

And I always use examples it's like I might have got 10% rate increase on a contractor in New York and I'm still chasing New York labor law, I will lose. Okay. And for the industry, it's a little bit of like commercial auto. We've been getting rate increases in commercial auto for eight years and we still haven't solved that problem. So, rate increase can be a false positive. What we've done with a sort of technical understanding of it, looking at it, and aggressively under -- realizing that we have a large account book, upper middle market book and we need more rate to reflect the more complexity of that book.

So, that's we think that sustainable going into the latter part of this year, okay. We think we can accommodate what would be expected loss cost inflations. And we're at the same time and this is what I've observed in the last quarter is, there's more pricing to the account, the account characteristics, is it moderated? Yes, a little bit okay. But it's moderated off of still over loss cost trends. And what I would say, when I look at my dispersion charts, we don't have the same outlier plus 30% up, but we have a swell of more of a plus 5 to 10, plus 10 to 20, plus 20 to 30 type of accounts that are basically aggregating in that in terms of rate reflecting the exposure.

The other piece, and I -- we have to be careful with it, because we want to reflect our book and our clients. But we do -- we are in the multi-year phase of a re-underwriting and an influence in the market. And when you look at compounding and you look at the compounding that might exist in excess casualty or primary D&O, okay, or even programs okay. These are numbers that are plus 93%, plus 86%, plus 70%, over a period of time of starting in late '18 to the first half of 2021. It's not a panacea, okay. If you're -- if I was trying to write investment banking, when I got 90%, I probably would still lose. But I mean it's a good baseline for the progress that we've done with the business.

The last thing, I'd say is that, we had a lot of new business this quarter. I think it was cited on a couple of calls. And remember, this is also being priced now with an elevated rate/price structure. So, the same business, two years ago or three years ago is now up that 30% to 40%, when we can produce it as a piece of new business. And that's very much formed a lot of our success in this quarter was moving from remediation to an offense of point, capturing the quality of what AIG has with multinational claims reputation complexity and actually building off of that for the strongest new business we've had in a while.

So, that flows off of a technical rate increases and our consistent view of that. But it's important to sort of lay that all out. So, you understand that we're not -- we're really looking at this with the lens on all aspects of the business. So, with that, --

A - Peter Zaffino {BIO 15942020 <GO>}

Okay. Thank you.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes, thanks. That's very thorough. Look may be as a quicker one.

Operator

We'll take our next question from Tracy Benguigui from Barclays. Please go ahead.

A - Quentin McMillan {BIO 20877504 <GO>}

We will take one last question and then -- yes, thank you.

Operator

Yes. Please go ahead, Tracy.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Thank you. I see that if there is an IPO contingency in the Blackstone transaction, is that just a timing thing? Or is the IPO contingency also considering a pricing floor for minority IPO proceed or a minimum equity stake size?

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks, Tracy. No, -- the 9.9% is predicated on a strategic partnership that starts to accelerate all the things that we want to do to set Life & Retirement up to, to be a public company. And, we're really focused on getting that done within the first quarter and making sure that the organization is set-up to do that.

And again there's regulatory and market considerations that will always look at. But those are really the bigger ones than tying really what the cornerstone investor has brought to the table versus the eventual IPO.

As Mark mentioned, we have a lot more flexibility because of the consumption the foreign tax credits. And so 2022, we will start to outline, what we think will likely happen as we get closer to the end of the year.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Yes, I was just referring to some fine print in your 8-K. That if the IPO didn't happen, there were some recourse, so I didn't know if there was something else that I should also be considering?

A - Peter Zaffino {BIO 15942020 <GO>}

No.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Perfect. Look anyone could trade growth for margin expansion, but you're at a spot, where you're doing both?

A - Peter Zaffino {BIO 15942020 <GO>}

Yes.

Q - Tracy Benguigui {BIO 21808177 <GO>}

And I guess the only place, where I don't have visibility is your loss tax. So, can you conceptualize how your current loss rate [ph] that have been tracking, maybe relative to last year, and your five-year average?

A - Peter Zaffino {BIO 15942020 <GO>}

Mark, you want to cover that?

A - Mark Lyons {BIO 21746221 <GO>}

Sure. Hi Tracy. I guess a couple of things. First off, we are viewing, although we're showing substantial margin improvement on a quarter-over-quarter or year-over-year basis, we actually think we're being conservative in this. As I said I think on past calls, there has been a lot of change over the last three years, including some of the fundamental channels in which we get business.

So, we think we done every one of those correctly. Nobody match the thousand, so you wind up having a little bit of risk margin associated with each over the last several years. So, we feel -- feels good overall and we feel about the trajectory of the improvement and where it's coming from. And that we're not booking and displaying things without having an appropriate risk margin associated with it. I hope that's helpful.

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah, thanks Mark. And I wanted to thank everyone for joining us today. Before we end the call, I want to thank our colleagues around the world for what they've accomplished over the last six months, especially considering the challenges that have been presented in work remote environments. We've a talented hard-working colleague basis, executing on multiple complex initiatives simultaneously, which I think makes us very unique. Very proud of the team, remain very focused on ensuring quality and everything that we do, and delivering significant value to all of our stakeholders. Have a great day.

Operator

That concludes today's conference call. Thank you everyone for your participation. You may now disconnect.