KBW Insurance Conference

Company Participants

- Peter Zaffino, President & Chief Executive Officer

Other Participants

- Meyer Shields

Presentation

Meyer Shields {BIO 4281064 <GO>}

Okay. Good afternoon, everyone, it's Meyer Shields of KBW and we are extremely fortunate to have for our next session AIG's CEO, President and most recently Chairman of the Board elect, Peter Zaffino. Obviously, anyone remotely familiar with the story has seen phenomenal turnaround over the period that Cedar has been at AIG. And the format for this session is going to be the same as what we've done for most.

We are going to have Peter make a few opening comments, and then we'll dive right into Q&A. As always we greatly encourage questions from our client. So, please feel free to submit them. By far the best format is to add them to the actual chat in the window there. I have very spotty access to my email over the course of the chat. So, questions you want me to ask I think are best presented there.

And with that, I'm going to withdraw for the background, and turn the floor over to Peter Zaffino for opening comments.

Peter Zaffino {BIO 15942020 <GO>}

Good afternoon. Thank you, Meyer. Thank you KBW for having me here today. Before we begin, let me provide a few opening comments on the recent progress, so we can jump in Meyer to like a fireside chat, and go through some of the questions that you and/or the audience would have.

Well, like you said, we've made enormous progress. I'm really proud of what AIG has been able to do over the last several years. And in particular over the last 18 months, given the backdrop of the pandemic. At this point, we've talked a lot about remediation, it's largely behind us. We have the portfolio that we like. You're always going to be pruning and finding ways to improve. But we have now found ways to grow looking at risk risk-adjusted returns and how do we demonstrate leadership in the marketplace? We're growing in many parts of our business and it's happening through the core fundamentals of strong retention that's client and premium retention, strong new business growth, and of course, what's always topical is growing through some increased rates year-over-year.

We've spoken a lot about our reinsurance programs that continue to get more and more refined each year. They reflect the improved portfolio and they really responded quite well to how we designed them. We have more predictable outcomes today, less volatility in the portfolio that is driven primarily by the underwriting, but also the reinsurance helps in terms of frequency, and in the event of severity.

One highlight I keep talking about it from the business that's undergone probably the most transformation has been Lexington and our access in surplus lines business is really performing well. We totally reposition, not only the portfolio and its risk appetite, but also its distribution. We now look at ways in which we can be very responsive to clients and distribution partners, but the limits are tighter, much more defined risk appetite. This has led to much more consistency in underwriting and that's been demonstrated throughout the past couple of years.

And while we've been in the process of doing the underwriting transformation, which was significant on its own. We've also been driving significant transformational change through the operations. And that is what we call AIG 200. So, we're seeing the results of that play through the underlying core fundamentals of the business are really going to benefit from that, and it's much more and then process, digitizing workflow, things of that nature.

When we think about the sort of financial start to the year, we feel has been exceptional in the commercial PNC business. Through the first six months, we've seen net premiums written grow by about 20%, while achieving accident year at cat combined ratios of 89.8 in the last quarter. So, really strong overall underwriting profitability.

The General Insurance business delivered double-digit adjusted return on common equity of 10.4% and Life and Retirement came in a 15.3% in the first half of 2021. The rate environment remains favorable. The market continues to calibrate to that. Rate is still needed in certain areas, particularly as we think about social inflation, loss cost inflation and the overall dynamics of the marketplace.

Having said that, we see areas, where the risk-adjusted returns are attractive and we're deploying capital there to grow. We mentioned on the last quarter call, our capital management position. We're in a very strong position from a capital liquidity and balance sheet perspective. We've updated our capital plan and we're going to be reducing debt by $2.5 billion and repurchasing at least $2 billion of shares in common stock that we intend to complete before the year-end 2021. We also increased our share repurchase authorization to $6 billion in total.

Blackstone at the end of second quarter, we entered into a strategic partnership with Blackstone. We are very excited about it. They purchased 9.9% of our Life and Retirement business for $2.2 billion or 1.1x adjusted book value. They also purchased certain affordable housing assets for us from -- for $5.1 billion. We also entered into an SMA agreement with Blackstone to manage an initial $50 billion of AUN for the Life and Retirement business and that will grow to $92.5 billion over the period of six years.

I want to address the recent catastrophic events that have impacted so many in Louisiana, Mississippi, and as the storm continued to be quite strong, going through the Northeast with hurricane Ida. Of course, our thoughts go out to those impacted. It's much too early to give any insight in terms of an accurate update on the recent losses, but it's clear that it's going to be a very sizable event. We've seen the ranges that are quite significant. So, the third quarter has been quite active.

Claims are coming in slow from Ida that's an observation. It's hard to get into some of these sites for the industry work at hard to do that with our claims colleagues and working with all of our partners.

The tight labor market, material, all of the things that complicate this catastrophe are going to be parts of the estimate. We're seeing a lot more claims frequency for what it's worth on the personal side than we are in commercial. But that could evolve and change, as we look to the next several weeks and we'll report out more details on the third quarter call.

The estimates as I said are wide-ranging. They seem reasonable. But again, I don't know how much attention is paid to the losses from the European floods. But in particularly in Germany, very sizable, still working through it. I think that will hit the reinsurance market more than hurricane Ida. But again, that will remain to be seen in terms of how that all plays out.

If we look at the loss activity, we have and we talked a lot about this and we can go into more detail if it's of interest in the Q&A is just on our reinsurance programs. We have significant vertical protections and the form of occurrence and we have significant sideways in the form of aggregate protection. So, we have ample reinsurance in place for frequency and we have ample reinsurance in place for tail events and big severity. So, we feel very comfortable with our position in the active cat season. We use reinsurance strategically.

We did decide and I mentioned on the last quarter call to purchase a little bit more in the second quarter. So, we did buy down on some of our Southeast and Gulf attachment points in North America. And I think that was just prudent relative to where the market was and again to try to reduce frequency and be able to respond to that. The overall program improved quite a bit in terms of our attachment points year-over-year and feel like we're in really good shape as we get to the back half of the year.

So, I'm going to stop there. I mean, I'm incredibly pleased with the progress that we've made to the portfolio. The underwriting culture that we've developed, the leadership aspects of AIG today in the global insurance market. Looking to make sure we're very thoughtful on lost costs and making sure that we're getting rate above lost cost to generate margin. This is the third year in which we've been doing that. And that also not losing sight of any of the volatility more predictable results that we want the portfolio to respond. So, I'm overall really pleased. The Group has done a tremendous job, and I still think there's a lot of runway for us.

So, I think, Meyer with that, I'm going to turn it back to you to go through some Q&A.

Questions And Answers

Q - Meyer Shields {BIO 4281064 <GO>}

(Question And Answer)

Fantastic. And just as a reminder, if you got questions from the folks that are watching us, please don't hesitate to submit them on the chat and then we can present those to Peter to make sure that we are covering the things that are important.

I want to start from some real basics. Peter, you spent a lot of time both today and in the past talking through the many changes that you've made since your arrival. So, let me start with the big picture question, not discussing the changes, but maybe a portrait of what AIG is now. So for example, in general insurance, we've got personal and commercial segments in both North America and International. They'll goes description could cover an awful loss of potential markets. And I was hoping you could explain to us right now, what you see as AIG target market in each of those each of those four segments North American, International and Personal, Commercial. What is it that AIG is actually underwriting in those segments.

A - Peter Zaffino {BIO 15942020 <GO>}

Thank you for the question. As you could imagine just the size and scale of our organization being over 25 billion in net premiums written on a 12-month basis. If you look at the last rolling 12 months. I mean, it's a sizable portfolio. So, I'll cover the highlights. One is I do want to say that throughout the remediation, we did shed a lot of business $650 billion limit switch is I keep saying it because I find it to be quite significant and it allowed us to reshape the portfolio primarily on the commercial side.

The other things just to know is that, we're a bigger international business and we are domestic. It's, 56 or thereabouts for international, 44% for North America and we are larger commercial insurance company, we are personalized, so it's like 70/30. So, that's kind of high level if you were to break it out.

So, let's just go through the personal lines quickly. When you think about North America, private client group, which is high net-worth business, travel warranty very good steady performers and we have accident and health. So, that's really what the North America personal insurance business is made up of.

If you look at international, again and perhaps we'll talk about it later is, we're very large insurance company in Japan, with a number one foreign insurance Japan, number four carrier overall, very big business there. And it's focused more on sort of the personal insurance side of auto homeowners, accident and health. So, that's a very big business. We also have some travel, some warranty that rounds that out.

So, if you look at the personal insurance business that's how I would break it out at a high level in terms of what the business looks like. Now I find some of those segments like accident and health very attractive for growth, very attractive for investment in terms of digital, B2C and digital workflow. So, we see a lot of opportunity to grow in our national accident and health portfolio.

Commercial lines, I would think of North America as a very specialized specialty business. I'll start with the Lexington, excess-and-surplus lines, industry leader has done a tremendous job in terms of not only reposition the portfolio, but now growing it. We also report AIG Re in our North America commercial. And then I would say our largest line after that would be financial lines. And again, we have a lot of strong specialty businesses that exist within North America.

That's how I would just frame out the larger ones. Now, of course, we have domestic retail businesses, which is large accounts, what we call AIG risk management, excess and primary casualty, and retail casualty. International, we have a very strong footprint on the commercial side in London. So, we have think about Talbot, Lloyd, Syndicate, a global specialty business that is managed from London as well as a domestic business. So, we have a lot of capabilities, we are a leader in financial lines in Europe and have a lot of very good businesses in Asia-Pacific on the commercial side. So, I could probably gobble up the rest of the hour talking about it, but that's kind of the sort of high level of how the businesses are built in the segments.

Q - Meyer Shields {BIO 4281064 <GO>}

It was tremendously helpful. And I really appreciate your sort of setting the stage. Can we think about adjacencies as potential avenues for growth? So, I made a couple of examples I don't know if these are realistic or if there are better examples. But is there a high-net-worth homeowner's market in Australia if their crop insurance, I know that was one of the businesses that valid, as was engaged in. If there an international crop insurance opportunity, that we should think of as natural opportunities for growth. Growth hasn't been a problem, I don't want to sort of misstate the context, but I was hoping you could help us think through maybe with the next phase of growth to date.

A - Peter Zaffino {BIO 15942020 <GO>}

There may be high-net-worth businesses in Australia, they won't be ones that we will be pursuing. I would start as one of those examples. But we do look at adjacencies and we look at our global footprint to see, where there are opportunities for us to expand market share and expand in products that we may have really strong expertise in underwriting that can be scaled in other parts of the world.

But I do think our first opportunity and the real opportunity is to grow in segments that were already in. So, I mentioned accident and health, we think that is a huge opportunity for us to grow, through investment we've been investing, it's probably been the single business, where we have spent the most time trying to digitize our client experience, product expansion, as well as digital workflow and that will be something that we continue to work through for the foreseeable future.

Really like the excess-and-surplus lines business. I wasn't able to join some of your earlier sessions, but I know you had some of the wholesale leaders and they are doing a tremendous job. I mean there are growing, they're grabbing market share. Their organic growth is significant, and we feel like we are a preferred insurance company partner that's going to benefit from not only our own recalibration, but the market growth, in general.

We have very clear defined risk appetites and believe that there's tremendous opportunities for growth. They're may be segments within the high net worth that are better suited for excess-and-surplus lines just because of the freedom of rate form, and rate and form, but also being more responsive in areas and being more agile. So, I could see that being not necessarily adjacency, but a different way in which we can grow our business in the high net worth.

We've talked a lot about our increased attachment points on a lot of lines of business and moving away from risk. But I think there's a great opportunity, when you're a lead underwriter to have opportunities to ventilate more in mid excess and higher excess, where it's not as commoditized because you're playing through the whole vertical chain. I believe that that's a great opportunity. We also look at getting even more organized in our global specialty business and the global specialty business we believe with our global footprint and being very organized the way we are structured allows us to have geographic expansion in the same product lines and take advantage of the scale we have and expertise.

I mean, so I think those are a few areas that I would cover. I would be remiss if I didn't speak a little bit about the reinsurance business. We had incredible one-one very strong retentions, tremendous new business opportunities and that one can be scaled based on opportunities that exist in the marketplace. I'd like to see us if we're talking at this conference in three years to have had more AUM in the ILS space.

I think that there's opportunities that we see through Validus Re because Validus Re is a part of AIG that will allow us to scale the ILS much faster and believe that, that opportunity will exist for us in the future and very much want to position Chris Shaffer [ph] and the leadership team for growth in the ILS. So, those are ones that I would think about. There's certainly more, but think that, where there's opportunities for adjacencies, but we do want to be dabbling. I mean, we've done too much work to get a core portfolio that we think is going to perform very well and want to make sure that we're maximizing value there and where does adjacencies will look to the future.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fantastic. Those tremendously helpful. You did use the word ventilate there in terms of limits. And that's the term that AIG is used fairly regularly. I was hoping you could clarify exactly what it is you mean by that. I know I have my impressions, but just in terms of absolute therapy.

A - Peter Zaffino {BIO 15942020 <GO>}

Becoming one of my favorite words and I do use it often. If you would go back to where like on lead excess casualty as an example, where we would have been lead underwriters. The balance of that portfolio when we arrived was totally opposite of what we want to do at AIG today. So, we may have led in casualty were 90% of our deployment of limit was done in premium in the first excess and did not really do mid excess or high excess.

And there's no about. So, if you have large losses, you have a lead 25, you are going to get a significant loss and a lot of volatility. So, we have shrunk our lead capacity in the first excess layer and try to ventilate in the mid-excess of high access. And so, we want to be in the 40% to 50% on lead and 40% to 50% in the ventilation of mid and high excess, just to get a better balance of the book and moving a little bit more away from severity. But still having the opportunity to benefit from doing that lead under writing and getting better balance in the portfolio that's really what we mean.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So, I'm thinking of it as layers of exposure that has space in between them.

A - Peter Zaffino {BIO 15942020 <GO>}

That's absolutely right.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. I want to spend a little bit of time talking about the Japanese market. Because frankly, it hasn't been an area that has needed anywhere near the amount of remediation effort that you put into the U.S. and North American to Europe. And my perception, I'm hoping you can either confirm or correct this. Is that the Japanese insurance market moves terrible somewhat slowly -- relatively slowly compared to North America, compared to Western Europe, and there's more of a focus on relationship. How does that impact the ability to attain adequate underwriting profits and to improve that when that's necessary?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, the Japanese market is very unique. You have the three largest domestic insurance companies that have about 85% market share. So, and there are sophisticated companies, they are, they do a very good job of capital deployment. You know, they perhaps you're not as balanced globally, but they do a very good job in the Japanese market.

We are the next largest and I think capitals fairly sophisticated, the insurance market in terms of looking at risk is very good, perhaps distribution is a little bit slower to move. So, when you look at the agency or captive agency that exists within the Japanese market, that may be a little bit slower to evolve. But I see a changing. I see opportunities for us that will emerge from a digital strategy. What when we look at, sort of opportunities there the loss ratio in our Japan business, as you pointed out is actually quite good. I mean, it's in the low 50s and so when you say you're operating a business and you have aspirations to be below 90 in that business and there's some cat from typhoons and tsunamis and other things of that nature.

I think there is great opportunities for us to focus on digital in terms of workflow, the infrastructure needs to evolve and so we're working through that in terms of really just more digital capabilities on the front end of the business as well as through workflow. It doesn't sound all that exciting, but it will generate improved combined ratios. It actually improve value to our customers because a lot of the distribution in Japan doesn't have the same digital capabilities as other distribution brokers, agents that exists in more mature parts of the world that have sophisticated insurance marketplaces.

I mean, Japan is the fourth largest in the world behind U.S., China and Germany. So, we think that there's a lot of opportunities to scale we have, improve efficiencies on the expense side and have a digital go-to-market strategy that will allow us to grow organically. And you think about our overall market share, there's plenty of opportunity for us to grow in a meaningful way over time, if we have those capabilities.

Sorry for the longer answer, but there's just a lot there.

Q - Meyer Shields {BIO 4281064 <GO>}

No, it's, I'm saying really appreciate it because, it's an area that again as it needed the same sort of emphasis and hasn't gotten it. And, on a go-forward basis, I think it's important for me and hopefully for our clients to understand what the goals are. So you mentioned again today, $650 billion of limit reduction that's and I imagine that the top 20 insurance company itself that's gone away. And you started off saying that in your view the mediation efforts are laws as you behind us. So, what is the potential and we touched on this a little bit. What the potential for maybe increasing limits going forward. Now that the structure and the underwriting (inaudible) has been better to find and I'm going to presume that AIG's ability to underwrite is better than it was before your controls are better before. How should we think of limits growth from this point forward?

A - Peter Zaffino {BIO 15942020 <GO>}

This is a very good question. And we have focused a lot on the reduction over the past several years. Because as you said it's been substantial, it's put a lot of limit back into the marketplace to absorb and we thought it was important highlight. We have a lot of dry powder in terms of limit deployment and looking at whether it was a conversation that we just had on ventilation, more opportunities in the excess and surplus lines, more ventilation I think even in some of the financial lines on some of the excess layers. There's great opportunities, we have put together a growth limit stratification strategy that were very comfortable with across the world. The underwriting guidelines have been put in place and enforce have been dramatic and have been adopted by our underwriting culture and community and that coupled with the reinsurance. We've never really changed our philosophy, it wasn't about using reinsurance to reduce limits and then just increase net it was giving us opportunities, where we thought we had a lead position in the marketplace to be able to balance that gross and net.

So the combination of shrinking to grow, the combination of being very disciplined on the pricing terms and conditions, risk selection, and now the pivot to growth, win over $1 billion new business in the second quarter and I looked at the retentions to make sure we're not just winning in the marketplace through new business from were retaining we had an international 400 basis points of retention improvement. So, were retaining clients through their client experience and offering value for finding ways to acquire new business and believe that we have ample capital to deploy in terms of growth, and we have a limit profile that allows us to coordinate up if we like the economic terms in terms of, growing in certain areas of our business where we think the underlying probability is very strong. So, I think with have tons of opportunity, and the underwriters have been getting that message from Dave McElroy, John Hancock and where there's opportunities for growth that's be relevant to our distribution partners and clients.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fantastic. Another point that I want to revisit maybe go one level deeper on is on the higher layers of exposure in the ventilation strategy because one key component. And again, I think there's been tremendous success on this one has been reducing volatility. As you move into more remote layers, I guess, mathematically, I would in assume that -- that means lower frequency of lost, but maybe more volatility associated with the severity. But this is all being done in the context of a drive Ford's reduce severity was hoping you could sort of close that circle for me and talk about how you how you've been able to accomplish both.

A - Peter Zaffino {BIO 15942020 <GO>}

Yes, so there is a couple of data points on that and we have tried to give, relevant updates every quarter. Again, not to go back in history and tire but AIG was will in the take in a $100 million plus net on casualty our deployed gross limits and that was not something that Brian, myself, anyone was comfortable with when we arrived and we significantly reduced and we got down to a net on a gross limit of a $100 million to $12 million or less. And so, as we have worked through the gross underwriting strategy, we really have an increased that net underwriting risk appetite that much. We have the capability and flexibility to do that. But through ventilation like you said, you end up getting more predictable outcomes just because it's more balanced. Mark Lyons, who we all know loves mathematical statistics are did reference on his last earnings calls of repeated as would Mark sometimes they're like really good and you just need to hear him a couple times. But when you look at the average attachment point for our national and corporate US accounts, they've increased by 3.5x and 5.5x respectively since 2018.

So, I think the point he was trying to make is, not only are we only are we ventilating, not only getting balance -- better balance we're moving away from risk where when we took these lead layers we attach much lower. So I think the combination, if I could trust try to boil it down is that, we don't take as much of the lead layer. We've moved our attachment points up dramatically. We use limit deployment to ventilate in mid and high excess or other excess layers and we use reinsurance in the event that there's a big vertical loss that is not going to be volatile on the net results and overall the execution has been tremendous and we're really very positive on what we've seen so far in terms of the results.

Q - Meyer Shields {BIO 4281064 <GO>}

Yes. That's very helpful. I appreciate it. I remember hearing Mark, make some comments and thinking that I need a little help actually understanding what he was driving at. So thank you for clarifying that. Moving to a more basic term, maybe basic. I don't know social inflation is clearly catalyst for higher insurance rates. But it's not that concrete of a term in terms of what it means. So from AIG's perspective, how do you measure social inflation? And what tools are you using, we talk about some of them. What truly using within policy terms and conditions specifically to protect underwriting results when social inflation is running hot?

A - Peter Zaffino {BIO 15942020 <GO>}

So as you said, it is an overused -- defined and probably too convenient label to put on a category. So, some of the key drivers are not all of them, but some of them, a well-appointed plaintiffs bar, they have access to getting information out in social media and other means, that's a part of it. A shift in public perception of businesses can be part of the social inflation. And then, significant expansion of third-party litigation funding globally and, that's certainly has commoditized the litigation process and also has driven some results that we kind of lump into social inflation. How we look at that in terms of how we can underwrite and how we're going to measure it is we covered some of it in our strategy on casualty, but it's being proactive and lead umbrella, shortening limits, utilizing reinsurance, increasing attachment points, identify the 3.5x and 5.5x.

But also really a strict adherence to terms and conditions. And those while they are described and we talked a lot about it from 2019 until the end of last year, almost 50% of our policies renewed had a lot more restrictive terms and conditions, and another 28% we had more restrictive terms than actually believe [ph], when we decided to not participate in lead [ph] so we are very focused. Not only on the map which is we talk about the social inflation loss cost inflation and getting rate above that need to really focus on the underwriting risk selection, limit deployment and the terms and conditions that we have been very successful on, bringing back in terms of making sure that we don't have a false positive in terms of, how we're actually executing on the other end. It's complicated, I think we have a very good feedback loop in AIG today which is claims actuarial underwriting and they work very closely together to share observations and translate that and not make its tail and only looking in the rearview mirror.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. So let's take one aspect of that where again, we've seen much more benign reserve development than was the case early on really I guess before Brian and you arrived at AIG. Can you take us through the current philosophy that AIG uses for setting reserves. We can clearly see that it works but I was hoping you could tell us what it looks like on the inside.

A - Peter Zaffino {BIO 15942020 <GO>}

Yes, there is two things. I'd like to point out. I will bring Mark into this discussion as well I think he's done a terrific job. He's been implementing a reserve philosophy, that's a lot more, recognizing bad news as soon as we see it. And perhaps, recognizing good news, a little slower, to make sure that, what's emerging is not a again, something that we recognize too early, so we've been very conservative on that basis. I would also say again not to go back to go forward. But, when I came here, we actually didn't even have a head of global claims reporting to three different -- three different places within AIG. So we totally revamped our claims organization brought in high-level professionals at the senior-most level, and they improved many areas within the sort of core claims practitioners and policies and controls.

And so, not only do we work closely with actuarial underwriting and claims, I think the process we have today there's one ahead of claims there's consistency in terms of how we approach all of our lives of business obviously, there's geographic differences based on, maybe a litigation environment or whatever nuances exists in that local geography. We have a much more consistent approach today that should lead to better analysis and better abilities for the actuaries to come up with their conclusion. So, I think it's really those two big things Meyer, in terms of the development that we've seen over the past couple of years, and being very discipline on the underwriting side.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Excellent. Thank you. Let's have a little time if we can on the reinsurance strategy. So, we look at results so far year-to-date. We're seeing net written premium growth, outpacing, grow certain premium growth. So that tells us that AIG is retaining more of its gross business. Can you talk us through what we should expect in terms of this strategy going forward? In other words that difference between growth certain premium growth and net written premium growth?

A - Peter Zaffino {BIO 15942020 <GO>}

The reinsurance, the AIG of the past didn't really buy the past. I mean, when we arrive at AIG didn't buy a lot of reinsurance and that just wasn't a philosophy that we shared. So, out of the gate, it was going to be a headwind in terms of buying more property catastrophe, property per risk, did not feel comfortable taking the big nets, they had on casualties. So that was going to be diluted. We also bought a quota share because we felt that would allow us to accelerate the re-underwriting faster by having a little bit less net are in the short run and then not having the volatility that comes with retaining $25 million net each and every on the casualty. So do we over index and I don't think so. I mean, we had it significant limits, you don't have the ability to shed $650 billion a limit and take that net while you're unwinding long-term deals and re-underwriting portfolio

So I think when we talk about the evolution of reinsurance, one of the big sessions we decrease as we didn't feel it necessary to buy a 50% quota share on our casualty tree. That's a big number, I mean, our casually books roughly $2 billion or thereabouts subject. And so if you're buying, a quarter share at 50%, that's a fairly large session. So we decided to do a 25% quarter share that's one data point. We did not need to buy as much property catastrophe because of the way in which we just improve the growth portfolio and one would ask if you're skeptic is. Okay, well does that mean you took larger nets, no its actually the opposite. We took lower nets on the occurrence and the aggregate and bought the same return period.

So it wasn't buying less reinsurance because we felt we could take more net, it was just looking at the return periods and seeing where those attachment points belong, based on the portfolio that we have. I think that's going to continue to evolve the gross portfolio continues to improve. There's going to be points of view that, we don't need to have maybe that much excess a lost who don't use those gross limit deployments as much as we used to. And there's going to be views that if we don't get the economic terms that we think we've earned by the incredible improvement in underwriting, that we absolutely have the flexibility to take significantly more net with our capital position and as well as matching our risk appetite. So, I think we have tons of flexibility, going into 1-1, where most of our treaties renew. Having said that, we haven't changed our philosophy and our strategic intent is to partner with reinsurers and make sure that we have that balance throughout the portfolio. So I think we've done a tremendous job on the reinsurance side, and think that the programs continue to get more sophisticated and they -- I believe tend to deal with what we want on frequency and severity.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, excellent. How do you think about reinsurance relationship? and that's both a broad question and I think as a particular components of it, with regard to maintaining relationships in reinsurance world, that seems to have ILS as the permanent component. So I guess the overall relationship and is it different in property cap in the ILS world?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, I take those reinsurance relationships very seriously as does AIG maybe as my background, maybe it's my philosophy. But those partnerships are incredibly important and so having, core reinsurance partners that trade across your portfolio for all their lines of business and finding ways to expand those relationships is a key part of what we've been able to do in improving the reinsurance programs for AIG.

ILS I still feel that way as well and if I look at Amy their competitors of AlphaCat. But, we have always used ILS as a very meaningful for placement strategy for our property cap [ph] that will continue. The continuity through the major ILS players on our property cap [ph] program is significant and there's a lot of continuity year-to-year. So we very much focus with them on areas where they all have different risk return parameters, and where they want to attach and limit deployment, but that's a key part of our strategy and that will continue. And I do not look at them as commoditized reinsurance capacity, their equal partners as to your reassures that can deploy capital on the own balance sheet. They've been very important to us.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's very real helpful framing. I'm going to provide a little introduction to this question, because it's otherwise it sounds a little bit too pessimistic. We've seen AIG have significant success in improving its underwriting results over a period of time, when market-wide pricing was largely improving. And frankly, the way I look at it, I think AIG is much more a cause of that market pricing improvement, then simply a beneficiary of others people's decision making. So don't want to in any way take away the credit that I think you deserve for this improvement. This is still a cyclical industry. Right now we're seeing decreasing increases probably at some point in time in the future, we will actually be talking about decreases. Again, I don't think it's imminent. But I do think it's an inevitable part of this cycle. How should investors think about AIG's underwriting profitability. You've given, I think pretty concrete guidance in terms of expectations, but eventually things will be soft again. How should we think about AIG's underwriting profit over a cycle?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, there's a lot in that question. There's the element of -- we're in a market, right? So there's no doubt that there's competitors, brokers are very large sophisticated advocate on behalf of their clients, but the markets that were in there looking at AIG for underwriting expertise, we're not a capacity player that just follows other leads or offers capacity because available we want to shape the direction of terms and conditions, we want to shape the direction of how we're underwriting and I think that leadership has yielded rate increases but equally repositioning the underwriting portfolio and I think terms and conditions are as significant.

If not greater than the rates we publish in terms of what we've achieved to date. When I look at the rate, I mean how I look at it is am I driving more margin or less margin and so and so, I am very careful as we go into this market. If the rates, if we call decelerating rates meaning, I'm getting less of an absolute rate increase this year compared to last year, a bad thing. Then I want to reshape the exciting is a good thing because we want to shape the portfolio we want. If you just Chase absolute rate in a market that starts to go down, you end up getting a less than desirable portfolio. And so, we want to make sure we're retaining clients were getting rate above, lost cost inflation social inflation. We're repositioning the book, because you're constantly pruning, and you're also using those lead underwriting capabilities to drive outcomes.

And I think you said it is like, we were relying on others to shape the rate environment great environment that, we wanted to drive for our portfolio. I would also say this is a no disrespect to anyone in the industry, but we're not commit -- competing with the market. I mean we compete with large global lead underwriters, which they're not a ton. So, it's not as though new capacity is coming in that may want to do excess and surplus line. We're not competing the excess and surplus lines with new capital. We're not competing with them in our casualty or property portfolio is it may be filling capacity. They may be filling in some of the commoditize layers, but I think the market wherein is the market that needs to continue for a while. And, we are comfortable that we will continue to lead in driving rate above loss cost driving margin.

The last part of your question is, how should we think about or investors think about the profitability improvement. Our big driver in the future's going to be through expense. I mean, we like our loss ratios, we think that they're going to become world-class will continue to improve those. But when you look at our expense ratio and what we've outlined AIG 200 separation. Those are real tailwind for us as we continue to execute and improve the overall expense ratio the company that's going to improve the combined ratio. And then I do think that, on same-store sales will but probably need less free insurance over time which also to your question earlier can drive a little NPW to help some of the ratios with really not taking on a lot more risk related to the portfolio today. So again, we know insurance is very competitive, you got to earn your business, you got to work very hard with your partners, you have to continue to drive relevance for clients. But that's the DNA that's the underwriting culture we've developed and one that we really want to drive growth and continued to drive profitability.

Q - Meyer Shields {BIO 4281064 <GO>}

No. That helps. I think the phrasing of guidance. I get people say this all the time. There's not an insurance industry there 30 or 50 sub-industries and stuff like that. And it's important to know which four were talking about, but I think that really clarifies things. So 2017, 2018 and your team comes to AIG. Take some time to assess what's not working to fix it, and then all of a sudden the global pandemic comes along and so have worn off their game a little bit. When we look back, what changes to underwriting have you made, because of this individual? I'm saying this with a great deal of hope. This remote risk that hopefully only shows up once a century at most? And second more broadly, when you're underwriting. How do you incorporate the idea that maybe some other very remote risk is going to materialize. How does that manifest itself in the AIG underwriting process?

A - Peter Zaffino {BIO 15942020 <GO>}

Very good question. Certainly COVID, we learned a lot about the strength of a policy language which was really important. Where coverage was offered making sure there was strength and supplements and so, it was a really good refresher reminded me, I'm starting to feel like I'm getting older in the industry because it's very much around 9/11, which as we 20 years, but we learned a lot about terrorism and how to deal with that now but the lessons learned can't be the aha moments, they have to be more in looking at deterministic outcomes on a portfolio.

Meaning, that you can't apply probabilities credibly to get the outcome. So whether it's terrorism, I think flood goes into to that category, pandemics. We have to focus on underwriting guidelines that restrict limit deployment on areas where there's not credibility lost cause to modeling which you've combined in property risks from time to time. Now and cyber, again, there's a systemic issue that very hard to predict. And so, what do we do with that? Is that, continuing to drive underwriting thresholds and improvement very close to clients in terms of working through risk management more clarity on data transparency, but also tighter limits. I mean, if you are in a segment that you're not certain of the systemic impact, because you can't scenario test everything you need to have smaller gross limits. We look at our soccer portfolio, the average gross women's around $4 million. So, okay, is that enough?

Q - Meyer Shields {BIO 4281064 <GO>}

No, it's not.

A - Peter Zaffino {BIO 15942020 <GO>}

So we also have found ways and areas like cyber to probably purchase a little bit more reinsurance to make sure we have a better balance in the portfolio and that comes in the form of quarter share and aggregate. And so I think we've looked at it not only the pandemic but said we got to look across the portfolio of areas where when we scenario tested there could be an outcome that looks like you said Black Swan but More out on the tail, we need to find ways to mitigate the volatility. The last piece, we spent a lot of time on this overall topic, but the other is, a lot of experts that will come on and talk about the credibility of, property cap modeling and getting, we can talk for a long period of time on that. Increased frequency is there more thickness on the tail.

The answer is yes all the above and certainly need to adjust your underwriting, but also your pricing and your risk assumption. So, I think there's real strain in terms of the credibility of the low return periods for property cap. 1 in 10s, 1 and 25, so just not credible. And so we've been thinking through that and apply those probabilities lower. And also being it's again, it's hard to always mathematically you arrive, but this demand surge or supply issues that are going to exist as a result of the pandemic, but that can go into (inaudible). So like if we have a significant loss beyond what just happened with Ida, but if it's something that goes into Florida or the Northeast of what could happen. Is there the supply and is there even the labor to be able to rebuild communities, homes, commercial buildings and that needs to get priced in as well and so, I think it's a constant sort of challenge, we have a very good risk sort of checks and balance and just looking at the entire portfolio to make sure we understand the systemic nature, but also the challenges with low return periods, and there's more on the tail than perhaps is actually model because it is very hard to do.

Q - Meyer Shields {BIO 4281064 <GO>}

So false choice here, is that a tool or is that a problem that can result through technology or that tool result through imagination?

A - Peter Zaffino {BIO 15942020 <GO>}

It comes through better data and I think you have to be a skeptic of model output, not that the models are not very good, just look at the probabilistic models are just taking a set of deterministic sets and not necessarily not necessarily calibrating everything that's changing in the world and then applying probabilities without not really being able to fully assess climate change, the more density you can just do the simple math of Palm Beach. What used to be at $3 million house is now $6 million this knock down for a $10 million in some cases the exposures have tripled in areas where those capacity shortages in terms of deployment and Pete's zone. So I think you just have to, really make sure that you're very cautious and modeling output and not managing to absolutes and have to have a healthy skepticism towards your overall aggregation on your balance sheet.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, understood. Thanks. I want to move to AIG 200 because you spent a lot of time describing what AIG 200 is. And then again, I don't know if I'm representative, the sell-side, we look at it. So it's an expense control program, it's clearly much more than that so let's do it in two parts if we can , can we get a brief update on the expense component of AIG 200 and second we talk about the other parts, the digitization, the streamlining of processes,. How should we on the outside expect to see that in the financials, will that make a difference ?

A - Peter Zaffino {BIO 15942020 <GO>}

well the financials that we continue to outline are a program cost of billion (inaudible) and a outcome of an expense benefit of a billion dollars when we are done with the program at the end of next year and we are on track to deliver those benefits, we realize over half the run rate benefit already have a line sight towards the full billion. So I think of financials, I would think of it that way. Billion dollars of run rate benefits three quarters of it goes to the AIG remaining company (inaudible) carve-out life and then, they'll roughly 20% to 25% will go to life and they've already earned in some of it.

So I think it's a good balance, very well run, very discipline, governed, extremely tightly, and we're hitting on all the financial milestones and outcomes. But they are outcomes. When we think about and again I could spend hours on this in terms of how we're improving the business? But when we think of if you think a back office the front and then front to the back, every part of it is getting improved. We've been able to--and again the pandemic, we accelerated and compress the transformation, we didn't slow it down. And so we were working through our shared service operations, and we ended up selling them to Accenture, and you say okay. Well that seems risky, because of the service elements and you don't necessarily own it. But the way we're able to design that is all of our employees stay for minimum three years within Accenture, they had 55 digital capabilities that we didn't have and we would not have been able to fund that capital expenditure and got those digital capabilities to enable better service from the back office.

And we have very tight SLAs, so that been a great outcome. We were 20% cloud user and we are migrating to an 80% or thereabouts cloud user and that just gives us enormous capabilities and flexibility and sort of cost certainty that we didn't have running data centers and are having unstructured data was not a good way to strategically get inside on your business. And so that was another IT infrastructure. What do we do with that? We had significant amount of applications that exist in the organization that were not governed the way they are today. So when you have a cloud migration you go through every single application, and we're retiring a lot of the applications that are no longer needed they're obsolete we can reinvest with better technology. So, all that's going to require work with those two parts of AIG 200 are already being completed, and so we're on our way of execution. On the underwriting side better data ingestion, more consistency and data architecture and it allows us to be able to quote business faster. And also triage accounts that, we may not want. And so we get right on it and spend more time on the businesses that we want to grow.

Well, we're in able to do that in the past. So we do that in North America. And the last one I'll cover, and it's like I speak about this for a great length of time is in Japan which I meant, I think that's tremendous opportunity. It's the business where we think all of the digital investment of whether its front end in a B2B, B2C or B2C will allow us to grow organically. But also the efficiencies that will be gained through digital workflow will be substantial for the Japan business as well as our international business and therefore AIG. So, if you get in each work stream same as a real strategic benefit, for AIG that will substantially improve its performance on each of the, ten work streams we did with an AIG 200. Though those the outcome is more efficiency, it wasn't a cost-cutting exercise because that's just not going to improve the business and that's not something that we were willing to do.

Q - Meyer Shields {BIO 4281064 <GO>}

Understood, thank you. That's very helpful. I want to theoretically soft topic and that's talent. People have been saying forever that the aggregate insurance industry is short on talent. Certainly relative to the number of organizations that exist, and I'm wondering whether in an insurer text era with a something assign your alternative to insurance. Maybe that makes it a little harder. What does AIG to do to recruit to retain and to develop talent in all the aspects that are necessary.

A - Peter Zaffino {BIO 15942020 <GO>}

While these are still tremendous talent in our industry and one that has continue to evolve to go beyond just an apprentice model on the underwriting side to having more structured learning as well as learning through an apprentice model, for AIG I needed to bring in a significant amount of town on the underwriting side because I didn't think the underwriting culture that existed was going to perform at the level that we aspire to perform. And so we ended up, I mean, the people that way. You know, Mark Lyons, Dave McElroy, Tom Ball, John Hancock. I could go on and on in terms of the quality of underwriting executives that we have added in. The best predictor of future performance is past performance and they all have decades of track records of driving significant underwriting, consistency and performance in the business. We built a bench that was going to be of the same type of characteristics, maybe not as much experience of those are 30 year -- 40 year veterans that I just named. But making sure that we were very thoughtful in how we're going to develop talent across the world.

We strengthened our operations capabilities. I mean we talked about AIG 200 those are not people that existed within AIG. We went out and hired people with real process experts that, we have built like kind of like a mark lines and a Dave McIlroy, Shane Fitzsimons. And a team that leads that has a tremendous track record in core operations with GE talks, on other major organization. So we're building the talent to complement what was here, but also bring in top performing talent, a huge issue is diversity for me and for AIG gender. Race and thinking through the implications from the senior leadership positions all the way through the organization. It's a huge part of AIG's culture we have over a 100 employee resource groups that exist within the organization. We are active recruiters and very talented apprentice models that come out of university. So we had a very strong and committed internship program that leads to an analyst program and so that is a big part, as good as your people and I'm really proud of the team that we've assembled. You're never done with talent, you're never done on the diversity agenda and making sure that we can continue to push that very hard and you'll continue to see us adding talent, developing talent and cultivating talent at the more junior levels as we start to really build the organization in the future.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you.

A - Peter Zaffino {BIO 15942020 <GO>}

We're not -- one thing I would say that you ask on the digital are part that we're not in segments that are easy to disintermediated. I mean, it's not as though we're in small commercial or more commoditized lines of business that are easier to come up with an underwriting algorithm that can disintermediate significant expense. It's not the business for in. So do I worry about, digitization of the business. Sure I do. But I worry about it in terms of our customer intimacy and making this more effective at making underwriting decisions in the markets that we participated.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. I'm getting the prices that we have about one minute left. So, I'm going to start my own contributions and say thank you very much. And ask you for final comments. What else do you want to take this opportunity to communicate to investors about AIG?

A - Peter Zaffino {BIO 15942020 <GO>}

I really appreciate the opportunity to speak to everyone today. The one last thing I would say is just that we're really excited about decide about the partnership of Blackstone, they are it's their biggest balance sheet investment in their 30-year history. They really like the life retirement business we hope to close shortly give us a lot more capital flexibility. We have a tremendous partner in helping us build the business for the future and think that the opportunities we have at AIG. We're all very optimistic and just greatly appreciate everyone's support and opportunity to speak with everyone today.

Q - Meyer Shields {BIO 4281064 <GO>}

Hey, Peter. Thank you so much for your time. Thank you so much for the information and wish you. The continued best of luck and that your successes continue. Thank you.

A - Peter Zaffino {BIO 15942020 <GO>}

Thank you, it's great to see you.

Q - Meyer Shields {BIO 4281064 <GO>}

You thought.

A - Peter Zaffino {BIO 15942020 <GO>}

I know.