FINAL

Bloomberg Transcript

# Deutsche Bank Global Financial Services Conference

## Company Participants

- Mark Lyons, 'Chief Financial Officer'

## Other Participants

- Analyst
- Josh Shanker

## Presentation

### Josh Shanker {BIO 5292022 <GO>}

Well, thank you for joining us. We're pleased that we have Mark Lyons here from AIG Mark is the CFO and I guess that we're just talking still technically the Chief Actuary, but that will probably end pretty soon, hopefully. I assume, most people in room know Mark, before this Mark was working at ArchCapital, both as the CFO, and for time via had been insurance practice there. And I guess almost about a one-year anniversary move to AIG, maybe 11 months.

### Mark Lyons {BIO 6494178 <GO>}

July 1, so yeah.

### Josh Shanker {BIO 5292022 <GO>}

July 1, so that's been very fruitful, and so feel free, I mean open it up to the audience for questions. I'll try and get the ball rolling a little bit and I'm sure that I won't be alone. Something on everyone's mind, obviously which I think people know, but we can reiterate a little bit on where the guidance is for 2019, maybe what's going to be the thought about the practice of guidance after 2019, and has anything changed since December, when that guidance is put in place.

### Mark Lyons {BIO 6494178 <GO>}

Well, thanks, Josh. Thanks for inviting me here today. Yeah, a few things I could reiterate. Josh, I remember from all my days I hate guidance.

But I love giving insight, so I'll reaffirm some things. So Brian had talked about the 2019 year coming in, there was a lot of unclear definitions, I think of what it is. But for the full year and the accident quarter and the accident year is sub 100, even with AAL, which after we'll get into. So one that was accomplished in the first quarter, and we continue to feel that will be accomplished throughout the year, on the general chart side.

## Josh Shanker {BIO 5292022 <GO>}

And so that's in terms of premium volume and investment income, I guess?

## Mark Lyons {BIO 6494178 <GO>}

Yeah, premium volume. We said be roughly flat and we continue to say that, there are premium last year 2018 was $27 billion in change and continue this, I think it's the same thing.

## Josh Shanker {BIO 5292022 <GO>}

And with the premium volume, I mean you bought a lot of reinsurance this year to change the earnings profile at least the volatility and hopefully increase the earnings. Does that mean that on a growth return basis? There's AIG is now growing its business and able to offset the higher reinsurance purchases?

## Mark Lyons {BIO 6494178 <GO>}

Well, you saw a quarter-over-quarter that GWP[ph] basis about 10% to 11% up quarter-over-quarter, a lot of that was due to Validus coming in as well as more in Glatfelter.

But there were other areas as well. But there were I think to your point, you had that directional growth in gross, but in that it actually follow-up a couple percentage points. And some of that was due to direct underwriting actions, some of that was due to an increase in seated -- definitely increase in seated. So -- but you got to also think about how does that stuff work to get booked, and when you have quarter shares of course, it kind of maybe lagged 45 days, but it gets pretty much follows the growth.

But on XLOs, CATs, per risks, the booking, different companies do it different ways, the way AIG does it you get an annualized 411 contract which is what most of them were. You get an annualized estimate upfront you book it is written and then it's earned over a full year term, as supposed to having four written estimates that are earned over a quarterly term. So the earnings are seated earnings are unaffected, but the written recognition is different, more front ended.

## Josh Shanker {BIO 5292022 <GO>}

And so the reinsurance program will certainly having a bring down catastrophe volatility.

It should be -- the hope is it's going to help contribute as well as underwriting of course to improve profitability. Is there a trade-off between the loss profile of the reinsurance transactions, in the expense profile? And how they affect AIG?

## Mark Lyons {BIO 6494178 <GO>}

well, normally we revive for a couple of reasons and in any market, in any company I think AIG is skewed more towards volatility containment. If I the racket first, secondly was the change the net mix of business towards your better business. And third, is generally capital benefits or something, this was not done for capital purposes.

And I think what we'll see over time as the front end gross underwriting which any good company has to do is fix and have strong growth front and underwriting changes in our views, of it changes and as to what we're changing internally, the pricing we're pushing it certainly selected markets, I think gets outside of collaboration, that will affect our view of what we do with reinsurance. So, I would expect some of what we put in place would probably going to renew and some of it may be lessened a bit, so -- and there probably would start to be outside of CAT, a more quota share usage than XLO[ph] usage.

## Josh Shanker {BIO 5292022 <GO>}

And so, I guess on the topic of being done for capital reasons, which you're not doing it for so much. Where do you stand right now with the rating agencies? And what their demands are? And how that's directing your strategies for underwriting at this point?

## Mark Lyons {BIO 6494178 <GO>}

Well, we've gone through all of our meetings with all the four majors.

And I think fits already came out and reaffirmed S&P, took off still A+, but took off the negative watch which may have been a drag on the company, that's been restated sustainable for we're very happy about that. Moody's review, we haven't seen anything in writing, I expect that to be pretty much the same, but I can't really speak for any agency. And I think invest is still going through its analysis and deliberations, but we expect to hear from them in late June.



## Josh Shanker {BIO 5292022 <GO>}

And in terms of Capital Management, I think that look if we go back in time 6 months ago, the stock was below 40, now the stock's price 52 share today, 36 but its counting.

## Mark Lyons {BIO 6494178 <GO>}

Yeah. If we think about that sort of -- six months ago it was gone how we got to buy back so many shares we can, given the price, but price is different now. What sort of the calculation Brian wasn't really willing to give anything away in the conference call about his buyback intentions, although you have almost $2 billion authorization sitting out there if you want to act.

## Josh Shanker {BIO 5292022 <GO>}

I guess between debt retirement, share repurchase, M&A buffer capital, like how do we should think about what AIG's going to do with the cash that it's generating right now.

## Mark Lyons {BIO 6494178 <GO>}

You're sure they laid out the landscape. That's you're competing alternatives, as to what to do? The answer will likely change every quarter. Well, let me ask after it, first indirectly by saying, well looking at our debt to capital, it's too high for me. So, I think some funds need to be diverted to reduce it, not a penny, not a crazy fix it in one year, two year type area, but when you're pushing 30 points, no matter what rating agency, they have a little different definitional metrics.

That to me is on the high end, I want to make some progress on that, and you can do that overtly in the numerator or you can print the black ink like we did last quarter, and help it through retained earnings. So I think in '19, it will be denominator help and I think forward, except maybe some minor things. And on a forward basis like I'd like to be more overt about it. With regard to -- so I view that as a higher priority that may have been viewed in past years.

Share repurchases, as you've said, it's attractive will show on an absolute basis, on a relative basis not so much so because we're at 50 duration in plan. So that's always on the -- it's always discussed every quarter, all this stuff is it's not inadvertent. There might be some aspects of buffer maintenance and so forth, and there's no shortage of investment bank glossy books coming in but, I view that more that we still have Validus that we're integrating and there's some aspects of it that I think we've integrated with people and talent and giving broader definitions to some people, and some in CAT modeling and other strengths that they clearly had, we're using that, but that really needs to be what's the deal shut, the real work begins is not like the deals over. So, I want to make sure that is tight as well.

## Josh Shanker {BIO 5292022 <GO>}

And when you said the Deutsche capital is too high now, my memory on there's a lot of very long data debt with 8% coupons out there. I think since you've been at AIG and probably been planning these sort of things, the 10 year has fallen probably by about 75 bps I guess over that period of time. The best laid plans of might one, how easy it is to tender for and retire 20, 30, 40 year debt with an 8% coupon in a 3% US tenure treasury environment versus 2.3% tenure treasury environment.

## Mark Lyons {BIO 6494178 <GO>}

Yeah.

It does take a little bit of the year coming. But AIG has roughly billion -- $3.5[ph] billion of debt over the next few calendar years coming in June. And I think when I look backwards, AIG has done a good job of refinancing, take advantage of interest rates and cycles, but doesn't help that ratios, so the leverage helps the income statement aspect of it. So there's opportunities to come up from time-to-time in blocks.

There's opportunities to come up in one, I can just be overworked and simply not issue new debt to replace expiring debt. And you might have noticed we get a small amount of NC preferred, professional preferred. We're very light on that the capital stack and you do get permanent capital and certainly from Moody's you get 50% stakes in equity credit for it. So, I think there's more place for that in the capital stack as well.

So by shrinking classic that overtime, pretty more profits and expanding the debt to include more preferred, I think it's directionally where we're going to go.

## Josh Shanker {BIO 5292022 <GO>}

Alright. And I think the warrants are now in the money?

## Mark Lyons {BIO 6494178 <GO>}

That's right.

## Josh Shanker {BIO 5292022 <GO>}

The ability to retire warrants and this is too illiquid versus retiring shares or is there any sort of thoughts on that part of the capital structure?

## Mark Lyons {BIO 6494178 <GO>}

Haven't given a ton of attention at this time.

But you're right. You got to be careful with it, whether you're in or out, but I'm more focused on what I just mentioned.

## Josh Shanker {BIO 5292022 <GO>}

Alright. And I want to open up the floor to questions, I mean I have plenty of questions, but if people want to ask them, will allow them to or I can just keep going.

See no one no questions, doing a great job. I think John has a question over here.

## Analyst

Hi. Can you just remind us, that reserve difference between the block of business your insurer of Berkshire and what you can say about that?

## Mark Lyons {BIO 6494178 <GO>}

The question is what can I do to --

## Analyst

The reserve differences between the business during the Berkshire apparently, they have a different reserve than you and is quite substantial difference and what -- and how you respond to that?

## Mark Lyons {BIO 6494178 <GO>}

Well, I can't completely speak for Berkshire, that I've never stopped me before.

So, first of I bet you're going to find mirror images of any sealing and assuming company. You just never see it because I thought this close so firstly. Secondly, there in a radically different put it this way if I had like 0.02214 in the surplus ratio, I would have more options as well. So any news that they find is going to be positive news, but it can go the other way.

So but -- over not that you have to excuse you.

## Analyst

So, look I'm happy to have you here. You tend to be very good at answering the technical questions, as well as the -- just get those answers that's the easier ones to. So, I was looking through the financials and last year I think GAAP 2017 versus 2018, the combined ratio or the loss ratios were generally flattish.

There might be a little bit difference, but ex cap basically more or less flattish. But if I look at the statutory financials, I see huge improvements in lines like workers compensation, other liability, commercial line and we're talking about potentially in some cases 500-600 basis points of improvements, I mean 1000 basis points of improvement. And can you talk a little bit about if someone's running through your financials line by line in the step filings? Why the improvements are so sizable on the staff side? And they're not coming through the GAAP side. And B, if there is something going on here, does that bode well for '19 results? Are we seeing that out earlier than we should?

## Mark Lyons {BIO 6494178 <GO>}

Okay.

I'll call that part of A through A of the SAT question. So well, first definitionally, the head the other than defense myself, when I got joined AIG Financial supplement information 10-K, information is the whole enchilada. And therefore, there's no intercompany reinsurance issues that matter. Schedule B is really a reflection of the US Pool, there's reinsurance that comes in and then the adjustments in schedule in the consolidated schedule peak, which I have to talk to him about because almost unreadable, need a magnifying glasses either that stuff, takes out the major, but not all of the internal reinsurance originated.

So when we step back and think about you got a couple of things happening and then I'll get into some of the line-by-line things is --

## Analyst

And by the way you supply these adjustments to shareholders, if they want to see them, you make them there easier to find and they're on the other two right even writing a small, that's right?

## Mark Lyons {BIO 6494178 <GO>}

That is true. You can download it and blow it up as legally, as big as you like. So you've got a couple of things happening as I'll call the US business is shrinking, I'll say the core here pre Validus US business in some areas is shrinking, you're having higher percentages in the internal quota shares that are coming in, some of them are removed it and those adjustments, but not all of those are removed. So you've got a little bit of that happening.

Some of them like if I talk to commercial auto for example. Commercial auto, it is reduced, it's reduced to the still and it's unacceptably high loss ratio. What I have to double check whether it's less ratio or combined ratio that tells me something, right. So there's some of those that -- so and reason I'm bringing that up just to be brutal on this.

When your loss ratios are close to 80 or 100 percentile in the industry, it's pretty simple to institute some of the changes. If we were trying to go from 65 percentile to 50 or from 50 from top percentile, that's a lot more microscope have been showing together. There are big changes that we can make that have big impacts, only part of which would be felt in actually year '18, which to your question portends well and so I think actually year '19. So of course, a lot I would view that way depends on other lines would work which otherwise other abilities must be a big one that has that trend, even improvements in workers comp, but other liability in commercial auto is by far and away 2,500 basis points of improvement year-over-year.

## Analyst

And then the question, I would have is why on the GAAP triangles, when we don't have the same granularity, but also we have I guess more internal actuarial discipline on the GAAP financials. Well, why don't we see those numbers come through it all same year that come through on stack?

## Mark Lyons {BIO 6494178 <GO>}

So, let's look at the relative proportions between it. So AIG's net reserve, loss and loss expense reserves after ADC and everything else, that's about $50 billion. Daniel statement will be 35-ish, 33-ish.

So that's two thirds of represented there and that's the unadjusted numbers, right. And some of that then goes backwards, because to being undone, which will reduce that ratio even more, probably approaching 50%. So of the loss ratios, you're quoting like-for-like on that that's about 50% of the total action. So if you have -- I mean everything I declare you got something to improve.

Yeah it's totals the same you got some that have worsened. And you've got worsening in personal lines in a lot of areas, even CAT controlled, not only in the US I think we spoke to that on the call, but also internationally and you've had minor changes in other areas. So whether it is energy related businesses in and things like that, you see some movements. So -- but getting back to that, I think the core part of your question is because it were -- that's US pool with the bigger intercompany foreign business trip down.

So it gets back to the US business, so other liability also mixed, its business from year-to-year between primary and excess, with excess decreasing and at a quicker rate. And then the changes that started to come in only partially of which, because it's actually you're so concerned for it, would have been fell in 2018. But the changes in -- casually are just enormous. So when that try to understand this, the issues that we encountered AIG, it's not anything we've never seen before on the management team.

We've all seen it -- we did -- the difference is they are deeper and there's more of them simultaneously. So that's why you need a team that has a lot of experience on seeing these kinds of things and ranking them and going through and getting a team, I'd like to say that every area of general insurance was visited by medical practitioners. Some got RN, some got the doctors, some areas got a team of surgeons and that was North American commercial, that got a team of surgeons. But everything that medical attention, but that required a lot more.

So some of the changes I'm highlighting and you're observing, I think are completely reasonable, because of where they were, and the changes that have happened. And the kinds of things we don't talk about, because it's not as quantifiable, is the shifts of distribution and welcoming in the wholesale channel, which really had not been fruitful or actually being immaterial really fits that AIG The way Lexington is being re-stood up, if you will, creates a wholesale strategy, opens up a whole channel, and that was a really use before, as well as a whole set of new wholesale producers. That moves you downscale, also into the size of accounts that are there. Just AIG has a reputation of writing the big jumbos, and in fact that's altering and that's changing.

So that's -- there's distribution changes, risk appetite changes, gross underwriting changes, reinsurance changes, all by themselves were pretty massive. So as the funnel broadens and the risk coming in are more diverse from distribution channels, more tailored to the risk appetite, that's been overly communicative on the outside world of distribution, and that's coming in and even if you don't change anything on rate level, your rate adequacy increases, because the average quality -- the risk coming in is better. And interestingly and I'll you see I just gave me a stream of consciousness, so I apologize I'm going on too long here, but when we measure the rate adequacy, everybody talks about renewal rate change, right. And that's a standard measure and we do too.

But when you look at how the portfolio is changing and any cluster of lines of business or sub line, we look at the relative rate adequacy of new business coming in of loss business and of the business that was renewed, as well as what were the changes on that renewed business, and there's no requirement, this is the new AIG There is no requirement for premium volume to grow, margins that driver not premium volume. So even if premium shrunk, if operating income went up or underwriting gain or loss went up. But first that natural we're striving towards, so I would view 2019 as a another year of surgery. A portfolio construction that's continuing to I think reap benefits.

So that will continue to reap benefits in '19, it's going to continue to reap in '20. But that's -- I think I have incomplete thought there. The rate adequacy difference of new business coming in first of what's being lost at the door is enormous, not marginal, enormous. And that's to me, the implicit rate increase on the book of business.

## Josh Shanker {BIO 5292022 <GO>}

And that business going out the door I mean they're certainly talk about. We are now in a town called a micro hardening market, I'm a big skeptic that there's anything more than losses out there, that sound like there's -- but also there's some pricing improvements out there, and people say, "hey, it's because AIG is got religion and they're putting less prosperous", but this business that you're letting go isn't that attractive, I'm guessing or at least someone's going to write it I suppose. Like how do you think about the business going out the door with some price -- at some price it's good business or maybe I've actually heard it sometimes at no price, there's some business that's good at no price.

## Mark Lyons {BIO 6494178 <GO>}

Well, it's going somewhere, you know here big crisis of big self-insured retentions or that there's an insurance crisis and nobody can find coverage.

So clearly going somewhere. If I break that into two chunks, let's say large commercial risks and DNO risks, so large commercial AIG was writing multi-billion dollar policies out there, sometimes multi-year. Big nets, I will go through all that you've heard Peter Zaffino, will talk about that. But huge nets up big nets.

So when AIG either doesn't renew it, or stays on it at a much smaller capacity for grins, let's say was $2 billion expiring in $100 million and $150 million renewed, they have a -- workers have to go out and find a lot of markets, and they might need seven or eight to fill in that gap to capacity which means they had -- probably had to go to 25 to get it done. So initially, we weren't really sure of how much broker receptivity we would have, because they're really having to work a lot harder to get it done. And we got a few phone calls on that regard. But ultimately on the ones we've retained, when we have dropped our limits gargantuanly like that our GWP was almost negligible difference.

So that followed two things, it's either we raise our price for that, or what we are charging in the past for the capacity was woefully inadequate and the answer is both on that side. So on the DNO side though, AIG has always been a top two or three primary DNO market, an 800 pound gorilla[ph]. When we were out at Arch competing against it, we could see that they were influencing terms and conditions, but not really price. Now the 800 pound gorilla[ph] attitude is being brought up on the front end.

And prices being pushed materially. And to your point, I would say AIG on the DNO front is leading the increases and I would say some in property, and some areas were benefiting from the actions of others, but in most areas I think we're being self-determined and others are benefiting from us. So we go back to the broker analogy, like I made on the property side. Brokers now find that their placements are getting a little easier now, because with the stronger AIG primary in place, it's easier to complete the lead access and what follows.

And on DNO, there's higher switching costs than you might think, everybody likes to talk about national account business, three-line deals comes a lot of, all the collateral, TPAs, it's tough to switch. In DNO, there's legal contractual stickiness. So a lot of manuscripting going on, a lot of those -- there are bigger accounts anyway are very complex, years and years have been brought into integrate something attractive to the customer, attractive to the insurer, and you don't want to throw that out and start over again. So there's a lot of motivation to stay, and so it's actually been very heartening inside the company, I mean being able to push like that, see that it's sticking, sister lines of businesses are looking at that and we're telling them to look at that.

And see what they should be doing it to, that they can move the market, our AIG has shrunk, but it's still a force and let's use that force.

## Josh Shanker {BIO 5292022 <GO>}

And expense ratio, I mean looking you guys have a lot of businesses in international lines and some of your warranty lines that are high expense ratio businesses. If we look at US Commercial, it doesn't look that out of whack with the rest of the market, but there's clearly some extra expense in there, although talking to people I know work for AIG feels like the expense -- the thumbscrews are on pretty tightly. How much more can AIG do on the expense side, when what's the timeline?

## Mark Lyons {BIO 6494178 <GO>}

Well, it has been a lot of I think strength around cost containment and expense management.

Preceding this, I actually looked back Josh, at one of your notes that you said that turn around part 2 or when is this going to happen? And you may -- you did your C&A XL[ph] comparison, they've gotten an article role in certain right now. And you made the comment of CNA, I think have been 220[ph] bps to 225[ph] bps of GOE ratio improvement. And now AIG has been there, it's been to 40 to 50 for two quarters in a row, well 40 says a fluke, we've been -- we were saying at least since I got there into 3Q, that this was underway, but it wasn't self-evident yet, became self-evident in fourth quarter, I think became more sustainably self-evident in the first quarter. So that's about the only comparison I would make, would see and I could you -- that was something you would pushed out.

But there are still -- and leave you a lot of opportunities that won't be cutting into bone and muscle, so there are still a lot of process, there's a lot of manual process, there's a lot of checkers checking the checkers, which I think is a lot of opportunity for improvement in change. Some of which is automation related, some of which is just post say, let's re-evaluate how things are done in the company. And there's going to be real emphasis on that, but what you've squeezed out of that is not only cost, but efficiency. I think a lot what we've done to date has been caused first efficiency.

Second, we'll -- I think we've been looking more towards efficiency first class second. So, I still think there's more room for improvement.

## Josh Shanker {BIO 5292022 <GO>}

And if nobody wants to ask any questions, I have a warning we're going to go onto life insurance. So you can stop me from asking life insurance questions.

## Analyst

Just wondering around the competitive environment and what you are saying Lloyd's of London has scaled back a bit of volume over the last year. So is that making it easier for you to pick up business? So how are you seeing things?

## Mark Lyons {BIO 6494178 <GO>}

I think it's easier for us to push the market. Lloyd's has been disciplined and it's -- if you look out, you see trade press, and you do see Lloyd's AIG in the same breath and a lot of those. So, I would think it's good that to have the companion to help -- a sizable companion to push back on the marketplace, more than it's an opportunity for us to get business.

## Analyst

I can't remember, if it's you or Brian, but you've talked about the double-digit ROE within the next three years. Can you just talk about your confidence or visibility in terms of getting to that target and the key drivers behind it?

## Mark Lyons {BIO 6494178 <GO>}

So, it sounds a good question. So, yeah, I'll reaffirm that too back to your original question of double-digits in calendar 2021, so three years out. So interestingly, that also contemplates having I'll say our Legacy Fortitude at the current level of ownership, that doesn't comfortably getting any improvements or betterment in that.

## Josh Shanker {BIO 5292022 <GO>}

Let's say those efforts would not be written down to make that. That's right?

## Mark Lyons {BIO 6494178 <GO>}

That's right.

## Josh Shanker {BIO 5292022 <GO>}

Okay.

## Mark Lyons {BIO 6494178 <GO>}

So in order for that to happen, what really -- look at AIG big picture, you've got left retirement, you got GOE, you've got this legacy melting ice cube, and you've got corporate which is an amalgamation of expense, corporate eliminations interest expense.

So call it's a drag on our way, that's how I view it. So to hit 10, you got to have L&R and AGI both north of 10 for it to happen and that's part of the plan. I think you're focused probably mostly on AGI, that's been the drag on the operation. And it won't be linear, but it won't be back ended.

So when we go from '19 to '20 to '21, it's not like we're saying that's going to marginally improve 50 bps and then with the balance improvements going to be in 2021. It won't be linear, but it'll be better than that the first example. A lot of that is going to come from these massive underwriting changes that we're making, it's going to come from the increased GOE discipline that we talked about, that has opportunities not just in North America but elsewhere. And if you look at the -- as we look at the year of and even the quarter-over-quarter on international, you prove it felt there was all expense ratio improvement, the loss ratio, I had to get underneath that's right ,because competing mostly from a North American lands and say AIG's trying to get in low 20s and low 60s.

How's that possible? That's what travelers does. Travelers in North American Centric Organization, I look at it like this now. North America is 67, international is 57, and if they are perfectly weighted to be 62, we print the 61 A, it was weighted a little bit more towards international. But big picture, you've got a big slug been running a pretty consistent 55 to 57 actually.

And there have been some volatility in that and created some of those spikes, so working on that to reduce that volatility and that mix and the same continuing what we do in North America. The acquisition ratios, little tougher, because that's a kind of just the consequence of your mix of business. But all of those are going to be worked out, but the net is the path is to have GI North of that, L&R North of that. So that it more than offsets the drag of the corporate operations, I'll call that.

## Josh Shanker {BIO 5292022 <GO>}

Life insurance, which I know is your specialty.

## Mark Lyons {BIO 6494178 <GO>}

Love it. I love the deal.

## Josh Shanker {BIO 5292022 <GO>}

So net flows are positive in the annuity business in 1Q, '19.

It's been a long time since that happen I think about 2.5, 3 years. I was on the strength of fixed annuity sales. How sustainable is a positive net flow environment for AIG's retirement business? And especially given 10 years lower now, maybe there was a surge in to fixed annuities in one cube, because of the fork you sell often people got scared. Is that a really a leading indicator of something positive to come or should the 1Q flow results be taken with a grand slant.

## Mark Lyons {BIO 6494178 <GO>}

Well you do have -- look, interest rates clearly are something people are going to look at. They are also going to look at spreads and market volatility. Market volatility from prevention from going elsewhere was helpful. I think the drag of that volatility in 4Q,1Q is still in the minds of an investor.

So, I don't -- short-term don't see that having that big of a negative impact. Historically, we've seen that what on -- when you have some pressure on inflow, on fixed annuities, you generally have a slowdown maybe not proportional, but a slowdown in withdrawals and other outflows, whether it's because the competing alternatives aren't that great either, or behavioral finance, people are afraid that to move it. But any reduction in inflow is not immediately, or correspondingly affected on our withdrawals the other way, so that's part of a buffer. I think the thing to keep in mind on AIG's book of retirement business, especially, in the IR section is as you mentioned.

It's just very well distributed, it's about a third between fixed index and variable. When I look across at the competitive landscape, pacific life has that profile, but they're half the size. Most of other carriers are dominated or predominant in one of those three. And therefore, I think they're more susceptible.

Our customers can choose a little bit more what it is that they want and not having one product pedaled. So, I think that place -- that part of it anyways going to be helpful.

## Josh Shanker {BIO 5292022 <GO>}

And on the group retirement side, it seems to me there's the business benefits greatly from economies of scale. There's a lot of competition out there too.

Is there a need to be this much competition? Will there be fewer competition? Is AIG a consolidator of this market? And given where AIG is currently playing in 41-K, 457, 43B, are there barriers or say most that AIG can defend its position without getting larger?

## Mark Lyons {BIO 6494178 <GO>}

Well, I mean TIAA[ph] and Fidelity of the 800-pound gorilla show. And they dominate the record-keeping space of that's asking them to about two-thirds of that market. And with that of course, you get else every business, but there aren't a ton of small guys to really double up. Just probably going to be continuing some level of consolidation on that, but when you can look at the competitive space, in the competitive space in which AIG operates.

When you go back to your 41-K, 403B[ph] and your 457, it's really different ballgame, 41-K is our corporate. That for years, I don't know five years anyway that flows have been negative out the door. You're getting boomers and others, either there's a lot more -- it's not in the accumulation phase, it's in distribution phase. And that's expected to continue, so those that continue to march head long and expand in the 41-K space, god bless them.

403B[ph] is the not for profit space, it's where we've really been focusing on. And yes we're in healthcare and some levels of governmental and schools, and there's different schools of segments and all that. But that on average is a younger workforce, so you're more on average and accumulation, more than distribution. And 457s are easy to think of them as like a top have plans or deferred comp plans, to some of the same spaces, those would get more the emphasis.

And AIG's strategy for what I can -- it can have gleaned from all the strategy documents that I've seen, is to really be involved -- attempt to be involved in the life cycle of a client. So whether it's group and you're in there early on and you got a lot of 20s and 30 year olds in there, and you make things digital, you make things more easy on a topic that you sell, not buy basically. It's helpful, so that when you get to roll over time your top of mind. And average age of rollers is about 55 years.

Going out of that into the IRA market is you can clearly see that demographic happening and that's an area of emphasis as well. So, net-net, I see you minimize the negatives of the flows by choosing where you're going to be. And the more you stay in port -- your corporate 401K[ph], the flows are going to be outward and against you.

## Josh Shanker {BIO 5292022 <GO>}

And, I guess going full circle back to little guidance, I get some you're not going to get this guidance, but maybe I can get something.

Cash flow, how should we think about, how quickly you can monetize the DTA? And if we can think we can figure out what AIG's cash flow is on their earnings? Maybe you -- can we talk about little bit how much extra we can put on from the DTA? And how quickly you can monetize that, given new tax laws? And what not maybe what discount rate internally AIG thinks about it, is it appropriate for valid in DTA?

## Mark Lyons {BIO 6494178 <GO>}

Well. If you look at our 10-K, you're going to see 14 -- $15 billion of net DTA, but $4 billion of that roughly is probably record normal. That everyone has, it's not unique to AIG, it's not a result of the financial crisis. So, when we report adjusted ROE's, and ROE's on book value versus including AOCI versus AOCIs excluding DTA as well.

It's that really $10 billion that subtracted out. That's the typical -- the balance would be with any company has, so timing difference between GAAP and tax and this kind of reserves, all that kind of stuff that creates those timing differences. So that $10 billion, you should think of as being split 7 and 3, 7 and well 3 foreign tax credits. I think it's fair to say with the trouble GI has, that has been the life and retirement, that vision has been the consumer of it.

And the foreign tax credits largely expire in the next three years. And we expect those to be utilized. NOL's is much more a function of general insurance. General insurance improvements, so my -- if kind of these question, if we're going to be hearing to that 10% ROE by 2021, GI is going to be throwing off.

A lot of income that should be cash protected by consumption of the DTA, and that's what we're anticipating on that not -- I agree that chapter reverse of it, but it hangs together that we expect that to be consumed of those the -- I think it goes through -- I think 2028 is the line share of it. It'll extend longer than that, but I think that's the line share. But we expect to increasingly consume it.

## **Josh Shanker** {BIO 5292022 <GO>}

And in a normalized year, I guess not really -- but your mathematics on that, the foreign tax credits can be used by either departments and so therefore you have profit either one that can consume that and the -- but the NOL's only the P&C business?

## **Mark Lyons** {BIO 6494178 <GO>}

No, there's restrictions on like 35%, 65%, restrictions on what can be consumed.

So there's a higher life cut consumption of FTC's and on NOL's. So it will consume, but GI needs to step up to really eat them.

## **Josh Shanker** {BIO 5292022 <GO>}

And, I guess the goal that Connie[ph] was talking about will be on adjusted ROE, again excluding DTA.

## **Mark Lyons** {BIO 6494178 <GO>}

That's correct.

## **Josh Shanker** {BIO 5292022 <GO>}

Excluding AOCI

## Mark Lyons {BIO 6494178 <GO>}

And DTA, with consumption will be less the subtract.

## Josh Shanker {BIO 5292022 <GO>}

And you also, I guess have a -- not you guys exclude that but, there is a couple of billion dollars of equity in the deferred gain on the ADC, that also doesn't earn a return I guess?

## Mark Lyons {BIO 6494178 <GO>}

That's true. In fact that's what you'll -- that's what goes through the income statement that you see $55 million to $60 million, a quarter goes through on that recognition. On that recognitions of the deferred and recognitions for that amortization I should say.

## Josh Shanker {BIO 5292022 <GO>}

So if that is right, there's an earnings element although, some people exclude that from GAAP, and some people exclude that from adjust, I guess there's some different accounting for that. And there's really 10 seconds left. So that's it. I mean I gave all the chances and we're done.

Alright. Well, thank you very much.

## Mark Lyons {BIO 6494178 <GO>}

Thank you.

## Operator

Thank you.

Enjoy the rest of the conference. Thank you to Mark Lyons. Thank you to Liz Werner. And we'll see next meeting.