Wells Fargo Financial Services Investor Conference 2021

Company Participants

- Mark Lyons, Executive Vice President Chief Financial Officer
- Sabra Purtill, Deputy CFO and Treasurer, American International Group Inc.

Other Participants

- Elyse Greenspan

Presentation

Operator

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Elyse Greenspan {BIO 17263315 <GO>}

Good afternoon, everyone. Let's start with Wells Fargo Financial Services Investor Conference. We're pleased to have with us AIG. Joining us from the company, we have Mark Lyons, CFO; and Sabra Purtill, Deputy CFO and Treasurer. So our thanks to both Mark and Sabra for joining us today. If you have a question that you would like me to incorporate into the discussion, please feel free to send it over to me via email. Before we get started with the Q&A though, I will turn it over to Mark for some introductory comments. Mark?

Mark Lyons {BIO 21746221 <GO>}

Great, Elyse. And thank you for inviting us once again. We always have a good time at your conference, so thanks very much for that.

So I want to spend as much time on the Q&A aspect. So just some really high level comments. First off, we thought the first quarter was a really great start for the year. For the company overall we think the results were good at an AIG Inc level, it were very good in GI, were good in Life & Retirement, even other ops had improvements on their side as well. So, when you think about GI, I think it's a clear point of inflection pivot point for us. We pivot to growth and we pivot to increasingly profitable growth associated with that increase in premium volume. And the Life & Retirement had north of 14% return on their equity, and NII across the board was really up by -- on an operating income basis as well as the GAAP basis. So, great start for the year. We're happy to start that way and happy to just segue now, Liz, right into the questions.

Questions And Answers

Operator

(Question And Answer)

Q - Elyse Greenspan {BIO 17263315 <GO>}

Great, Mark. And so may be where -- a great place to kick things off would just be starting with the Life & Retirement separation. In your conference call you guys gave us an update that the expectation is for IPO to take place either late this year or perhaps early 2020. What's the main drivers of the impact of whether this is a 2021 or 2022 event?

A - Mark Lyons {BIO 21746221 <GO>}

Well, we're still shooting on all cylinders to be in fourth quarter, but you have to allow yourself a little slack. But I would say a lot of it is -- there's -- both from SEC perspective and regulatory perspective there's a lot of underlying that you have to work through, a lot of TSAs, a lot of agreement still has to be reviewed. So I think it's more of a process of -- or a function of process then it would be of anything, a substantial way or a financial way. So that would be it.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then sticking with that on our separation. You guys recently filed a tender offer for some Life & Retirement debt. So you can you just comment on that and just your plans as you think about levering up L&R in advance of an IPO?

A - Mark Lyons {BIO 21746221 <GO>}

Well, let me intro that and Sabra then can comment or two. So yes, that involves about $774 million associated with tenders and consents. Around really debt -- we inherited before anybody else got here, dealt with the life companies like holding companies. And that's just another step along the way of separation and delineating between the remaining separation really at the end of the day on it. So let me ask Sabra to say few words.

A - Sabra Purtill {BIO 1764408 <GO>}

Sure. And really it's a consent solicitation and a tender, because these are very old dated issues that were done by American General and SunAmerica back in the day. So they have covenants and other terms in the documents that actually don't align with AIG's current indentures. So that's really the focus of the consent solicitation. And then the tenders, as I said, it's a market-based tender, so we'll buy in the bonds if people want to sell them to us as well.

I would just note, in terms of the initial capitalization of Life & Retirement, and as we had commented back in the fourth quarter earnings call, we did complete the initial review with the rating agencies and we did confirm that as part as part of Separation we didn't need to put additional capital into the operating subsidiaries. So it's really just going to be a debt leveraging exercise. And as part of that, we'd be looking at raising debt at the Life & Retirement holding company, yeah, consistent with its rating and its peers, so think about mid to high 20s debts to total cap ratio.

And that debt would be used to fund a pre-IPO dividend, which you have seen in some of these other separations. AIG can then use that pre-IPO dividend that it gets from Life & Retirement to pay down its own debt. So, it'll right size the debt stack, if you will, between the two holding companies. And I think the example that you could look at there is like very similar to what Equitable had to do when it was doing its capitalization as part from AXA. But that's kind of the process that's involved before we get to the IPO itself.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then one last one on just kind of thinking through the separation on, Mark, you had pointed in the past to using a portion of the proceeds for main-co [ph] for leverage management. Any kind of updated thoughts just surrounding leverage management, capital return, M&A and how you would think about using the proceeds from that IPO?

A - Mark Lyons {BIO 21746221 <GO>}

Well, to a large extent that letter, that is still true, and as Sabra already kind of referenced in her general description. Because increasing debt in anticipation the IPO is sooner than later, right, when you think of it. I hear something else, so it's kind of blended. But you'll notice that our debt ratio, at least on a GAAP basis that we put out, didn't move, it stayed at 28.4%. Because although we had a maturing issue that we had pre-funded from our debt raise last year, AOCI because interest and spreads movements dropped that off. So on a GAAP basis that didn't really move. And it had been improving since then.

So we would still anticipate to the extent we can. But between now and the second quarter of next year, though, Elyse, we don't really have anything maturing, second quarter of next year. So if we're going to drop it, it's really a function retained earnings that will drop it. But one thing to elaborate a little bit more what Sabra said is, the target -- I'd say pure consistent capital structures with debt as a part of this, that she cited, is more after the dust settles. If we do a partial sale, I mean, R&D [ph] sale, we're still going to be consolidating the entities. So you could have a year-end blip that looks odd because you still have the prior debt, and you have the existing debt, it's just transitory, it's just -- the artificialness of crossing a calendar year end or quarter year end. But longer term is exactly what she said.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And now maybe moving on to general insurance. You highlighted Mark, at the start of this conversation, that you guys had a pretty good quarter in the first quarter from an underlying basis. So, as we think about the next seven quarters and looking towards that sub 90% target within general insurance, can you just kind of -- what's the -- what helps you get there between the loss and the expense ratio? And how dependent is this on of the casualty pricing staying at the levels we've seen?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah. Well, I'd take a couple questions there. I think on the first one, I would just note that it isn't necessarily just underlying, the quarter we had at 98.8 with all CATs inclusive. I think it's good to say, AIG was not a CAT outlier, which I really can't say that would have been true in the past. So, the calendar quarter was also a good result as well.

Well, I think of few things. First off, and high level, we would expect more margin expansion to continue in commercial and personal lines. I think we've highlighted in the past, but I'll reiterate, that on the personal line side, you don't have that same elasticity of price. So it's much more of an expense ratio improvement initiative there. But on the commercial line side, both international and in North America, it's going to lead with loss ratio improvement, with the expense ratio improvement too, but it's going to be led by loss ratio improvement. And we're not dependent on a market if you need to accelerate or to continue to maintain the existing level of pricing which we've got.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And then maybe sticking there for a second, right? In terms of loss trend, that's a topic that's come up with the past couple of days at this conference and really since earnings people are just concerned, right, inflation could spike, what happens when courts start to reopen. So what's just your view on inflation in general? And just how you think about that trending when you kind of think about getting sub-90?

A - Mark Lyons {BIO 21746221 <GO>}

Well, it's always a risk, clearly. I think I've also signaled in the past that there's individual pricing aspects and then there's portfolio aspects. And as Dave McElroy and his team, Peter and all have moved the portfolio away from primaries and lead umbrellas and lead positions, to be more distributed in a customer stack, it moves a whole portfolio up. And you can try to price for that and you do the best you can. But when push comes to shove, being further away from risk is the best way to not have it influence you, whether its economic or social inflation, that finds its way up.

And ultimately, when you look at inflation, to me, you've got the shorter term things that are price of lumber, construction services and things like where you can see impacting property lines and catastrophe head lines and things like that. But the more insidious one is what's happening with medical costs, and whether that's prescription drugs, which I think is more minority, it's hospital services, doctor services and associated legal services associated with that. And when you look at either the recent CPI results or you look at (inaudible) over the last few years, that really hasn't moved that much. And why do I focus on that? Any liability line, general liability, product liability, the medical side of workers compensation, excess liability, right, they're all heavily oriented towards medical costs. And therefore, it hits many lines of insurance. And that has not seen evidence of spiking as yet.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then sticking with GI from a premium growth perspective, you guys set a target to return on to top-line growth, and we saw some good momentum in the first quarter, and you kind of highlighted some metrics for the second quarter as well. But how do you think beyond that time frame when we think about exposure risk levels rebounding as we come out of the pandemic? Just how do you think about the global levels pending within commercial? And then also within personal as we think about perhaps travel and some A&H business bouncing back?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah, it's a great question, because you do have both things happening, right? You got same store exposures, then you have more stores, that we're still afraid to insure. And a lot of what you've seen historically hasn't rebounded yet, we're not seeing big increases in payroll, not seeing increases in sales. And they are inflation sensitive, so if they move up your base upon which you rate moves up, so you get more premium associated with that exposure, assuming that's an honorable line of business or along the policy.

So what we have really seen to-date, and I think some of the broader comments that Peter Zaffion made, which was at the balance of the year you're going to see increase in net written premium greater than what was experienced in first quarter, which was an FX adjusted 6, 6.5. I think that holds. And that did not materially contemplate increases, what I'll say, in same store. So the underlying employees being hired, more sales coming through, things like that, that could provide additional lift.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then another part of the growth story has been the gross net. Since you've been at AIG, Mark, there's been a lot of action in terms of changing reinsurance programs, it sounds like all that work is mostly complete and there even is a component of retaining more business. So, how do you see just the reinsurance dynamics AIG as a purchaser potentially changing from here?

A - Mark Lyons {BIO 21746221 <GO>}

Well, your first observation is right, I mean, there was an increase in reinsurance in many areas in many levels that needed to be done. And I'm going to say that's because it was changing AIG for insurance structure, except they had an inadequate reinsurance structure and they didn't buy enough reinsurance. So back to, I think, you either said or implied of correcting or fixing, so the balance sheet, which is kind of -- rather an income statement protection, balance sheet, we think we're in very good place with that. You're always going to fine-tune it here or there, we actually bought down early attachment points of it a bit and actually enjoyed a recovery in the first quarter. We wouldn't have gotten if we just renewed at its expiry, so that's beneficial.

But I think the ongoing tuning is what any good company should do, which is, you accordion some of your reinsurance as a function of your view of the underlying strength on the growth side of the house. So, as we see the level of profitability and the rate at which it changed, and we made the decision to keep more net at those two things, it helps with the growth, right, than the net written premium. But it also means our view is we're retaining more profit associated with it rather than exceeding it. And the rate changes we've been quoting have been, I won't say majority, but a material amount seeded to reinsurers, that is no longer the case.

Q - Elyse Greenspan {BIO 17263315 <GO>}

So maybe let's shift and spend more time on the pricing environment. You guys saw about 15% price increases in the fourth -- in the first quarter, sorry, which was stable with the fourth quarter, some movements by geography. But as you kind of think out, do you think you can maintain that type of price increases? And I guess do you think the market could stay at least in kind of a hard level through the end of this year and perhaps into 2022?

A - Mark Lyons {BIO 21746221 <GO>}

Well, every carrier is going to have a different emphasis by line of business and geography. I think an advantage that AIG has is, because of the global nature we're not U.S. centric, we have -- on the commercial side in particular we've got a half or more of the action international. So the fact that that started a little bit later, its trajectory is still steeper, helps weigh up the overall thing.

The 15% that you quoted in the quarter was down sequentially but not down quarter-over-quarter, and that's where the real renewal and the compound in it basically comes from. It was a marginal 100 basis points, it was 14% in the first quarter 2020. The constituent parts are a little different. I would say, yeah, I attempted to do this on the call, which was focus on a lot of pockets where we're seeing no slow down at all. In fact, the rate of the second derivative is a different question, 180 degrees. It's rate of increase continues to increase. Which also happens to be a lot on the line we're keeping more in that by the way.

So, I think I haven't seen no strong evidence in our portfolio of a slowdown. I can see a pocket here or there, but in the aggregate I don't see it. It's harder to predict what's going to happen in third quarter, fourth quarter. Everybody focuses on CAT, right? What happens in Japan season, what happens in Florida and things like that. Because it's more easy to measure and there's other ways you can triangulate on those on the outside, but that's still a minority of the action associated with the book of business. So in the areas that I think really matter, that are higher proportion of AIG's book, especially North America, I don't see any evidence of slow down as yet.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then as we think about the E&S market, right, AIG has a sizable presence there. Have you observed or have been surprised by just the level of business going in or leaving the E&S market relative to, I guess, what you would expect at this point in the cycle?

A - Mark Lyons {BIO 21746221 <GO>}

Well, I wouldn't say anything is still coming in. And you can always argue between E&S Carriers and standard market carriers who owns that business. In a hard market it seems E&S carriers own it and in software market standard markets own it. I'd tell you what side of the ledger I want to be on, on that. So it's -- we may be a little atypical at least, because Dave McIlroy kind of resurrected the Lexington.

And when you look at industry reports like a invest report and so forth, I think they had always made Lexington equal to E&S. When in fact it was dominant retail, and the true E&S nature of it had gotten included over time. Now it's back to north of 85% wholesale business, it's not 90%, real E&S business. And the submission flowing in it had just been enormous. I think Peter commented, it was like 100% increase or more in submission flow.

So we're still very heartened by it and we also like the what it brings, it's completely different customer risk profile. You don't have -- one, they're not all masked like a retail business, generally 1 ones, 4 ones, 7 ones, 10 ones, they are effective throughout the year and they're much smaller. Take the property business in the U.S., I think the stats were something like 80%, 85% only need 10 million in limits or under, and the balance need up the $25 million, not this billion-dollar craziness that was done in the past. So it changes the whole risk profile and then it totally informs what kind of reinsurance you buy. So we still be that as a accelerator of growth and an accelerator of profit.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then maybe shifting gears to COVID. So on the GI side, you guys kept on your picks in the quarter. We did see some losses fall through the rope for life, but in line with your disclosed sensitivity. So as we think about going through the rest of this year, would your expectation be that we would still see some life losses and perhaps not necessarily additional losses on the general insurance book?

A - Mark Lyons {BIO 21746221 <GO>}

Yes. I think that's fair. The -- focusing on the life side first. I think the -- what Kevin Hogan had given was $65 million, $70 million, I think about 100,000 lives, and that's pretty much stuck. So, yes, we would -- let's just say if resurgence that happens, well, how things look now, we expect that to continue to taper off even in succeeding quarters. And on the GI side, we would expect the same thing unless there's a resurgence, but you can have a one-off here and there, you could have an event or something like that, in event of cancellation or something like that, but there should be nothing substantial.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then maybe shifting back on the capital for a second. You guys laid out $500 million repurchase plan for the first half of this year, but you're well on track for it. So how should we think about capital return beyond that, or is the plan on to just provide an update after we get through the second quarter?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah, I think Peter signaled that too, that we stay tune filming at 11. We'll update you with that on every quarter. But one thing, a support for that, that I would highlight is, you'll notice we gave, I think certainly on a relative basis, the past AIG commentary. We gave a lot more guidance than we would have in the past or outlook probably is the better word. And -- with no side focused on the numerator aspects of ROE, not the denominator aspects of ROE, and till there's a lot more tonality as opposed to clarity around separation and a few issues, we've had a lot of discussions with rating agencies.

But we still are obligated to really come back when the structures are really firm as opposed to hypothetical, because they looked in an array of possible things. So, we just think it's prudent and not really get into the capital side until we have more of that. But going back to your first question, we still view delevering as one of the top priorities. But different from what it used to be, which was the top priority, now it's one of the top priority.

Q - Elyse Greenspan {BIO 17263315 <GO>}

So, I guess keeping with those priorities, Peter Zaffino also did on your fourth quarter call, he -- when discussing priorities he I thought added M&A kind of back to the list. And so was that kind of to mention that down the road post L&R separation that M&A could re-enter the equation? And as we think about M&A, are there are certain areas that AIG is targeting? Is it more just depending upon what's in the pipeline at some point down the road?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah. Let's characterize that as a future tense comment.

A - Sabra Purtill {BIO 1764408 <GO>}

I would just add, Peter was very clear in that same commentary that that wasn't a near-term focus. Because at the end of the day, M&A is a tool, not a strategy and he has talked about there might be products or geographies when we get further down the road where it might make sense, but it's not a near-term focus.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. When we think about legacy issues, there's been reviver statutes passed in certain states, we've seen litigation come back from many, many years ago, not just impacting AIG but really impacting the entire industry, can you comment on AIG's exposure to some of these issues? And then if there are losses that go back many, many years, would they be eligible for recovery under the ADC that you guys have with Berkshire?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah. So let me do the second part first, because I think it informs the first part. So the answer is yes. By definition, reviver has re in it, right, that means again. So it really goes backwards and most things allege go back for us, I'm sure you pretty much are aware. So just to restate for everybody, the ADC is 80% of $45 billion, that's a $25 billion, so $20 billion part of $25 billion. And in that regard and that's a -- AIG has basically seated to Berkshire roughly $13.5 billion in that. So there's in rough numbers $6.5 billion left, irrespective of how far back in time they go to. That would be available for unforeseen unknown things. So if those things really do accumulate, yes, they will be subject to the ADC.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And then one question that came in from an investor. You guys said, when you announced L&R separation, before its gearing towards an IPO and then potentially a private market transaction, and now we're back down firmly on the route to an IPO. Could anything cause you to reverse course, if interest rates go up and perhaps there's different bids from the private market or you're just focused on the IPO at this point?

A - Mark Lyons {BIO 21746221 <GO>}

So, as Peter said, IPO was always the primary path anyway, that was the baseline. And we get entertained from highly respected companies, variant forms of things. But that's pretty much carterized [ph] I think at this point and there's a tonne of work that needs to be done on the IPO path anyway, much has been done but there's still a lot more to go. So that's the number one priority we're dealing with. One thing I've learned in this business is, you never say never. So is it possible some White Knight or somebody comes out of left field with deals that make it mandatory we bring to the board? Yeah. Do I think the likelihood of that is strong? No. So IPO is still where the whole company is organized around and marching towards it.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then going to AIG 200, AIG's expense program, that was obviously outlined before the pandemic, but there are some savings that I would think is coming back because of the pandemic and potentially some hybrid work environment that we go back to. So do you -- does the pandemic perhaps give you more conviction in the expenses that AIG could ultimately pull out of the organization?

A - Mark Lyons {BIO 21746221 <GO>}

Well, what Peter will tell you interestingly is that, we've actually improved the company over this disparity time rather than just trying to hang on and keep the status quo operations responding to customers and so forth and so on. So it's actually improved. So, that's why I think it's some areas were actually ahead of where we thought we'd be. So yeah, do you save on travel costs? Yeah, we save on travel cost. Will some of that be ultimately realizable? Yes, because we will never return to the full, expect to anyway. The full level of in-office that we had before. More is getting done. Initially everybody with the WebEx in your case, Zoom and others, in a defensive way. And it's turned into an offensive tool, everyone's got used to it. So, I think we'll be savings and footprints over time, we'll be saving some from travel over time, but most of what we would have anticipated in that run rate of $1 billion is COVID independence.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And maybe we have a couple of minutes left, one of -- one last question. Within Validus you guys have a sizable reinsurance presence. Give us a sense of -- some investors just want to get a sense of what are you seeing with the mid-year renewals? Do you have a sense of what's going on in Florida, and potentially if that could be an opportunity within that angle your business?

A - Mark Lyons {BIO 21746221 <GO>}

I don't have a great view at this point on that, those would be yet 6 ones and so forth as opposed to 4 ones in Japan. So one thing I can tell you though is that the organization in totality continues to drop PMLs across all meaningful return periods, inclusive of balance rate. And if we were going to think about still down in the aggregate but perhaps not down as much as planned, we would likely goes through Validus to do it. I think the trade off and the absolute limit as opposed to guessing it out of P&L basis, educated guessing it as opposed to a contract where you have a limited certainty, audits would be the way to go.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. I think we are approaching the end of the period, but before I end the session, Mark and Sabra, I think this has been kind of pretty thorough, but are there any kind of concluding remarks that you want to kind of leave investors with just in terms of thinking about AIG today and just kind of your short and near-term -- short and long-term goals?

A - Mark Lyons {BIO 21746221 <GO>}

Yes. Thanks for that, Elyse. I would say that we have both organizations are humming pretty well now. The days of L&R having the subsidized subpar GI performance is over. And there's been so much change and I think it's been slow coming, right? It's been -- we've had how many conversations at least over the last three years about when we're going to realize, when are we start to realizing it, there was so much of an incline that we needed to go in and address. It was the iceberg out of the water, we couldn't see it. And now you're seeing the fruits of all the labors. So that's why we're pivoting now towards, I'll call it compounded growth through the front end and relaxing some of the reinsurance, I believe. And L&R's position of broad distribution and product set, free set itself up pretty well. And so it's not an overweight in one line, and underweight in another, it's pretty broad based and there's a lot of pivoting going on in those product sets within L&R. So, on both respects they're humming quite well.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's great. I think that's a good place to end things. So, I do want to thank Mark and Sabra from AIG, for joining us for our financials conference. And thanks to all the investors on the line for listening in. Thanks everyone.

A - Mark Lyons {BIO 21746221 <GO>}

Thanks for having us.

A - Sabra Purtill {BIO 1764408 <GO>}

Thanks for having us.