

Q3 2020 Earnings Call

Company Participants

- Brian Duperreault, Chief Executive Officer
- Mark Lyons, Executive Vice President and Chief Financial Officer
- Peter Zaffino, President and Global Chief Operating Officer
- Sabra Purtill, Head of Investor Relations

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Joshua Shanker, Analyst
- Meyer Shields, Analyst
- Paul Newsome, Analyst
- Ryan Tunis, Analyst
- Thomas Gallagher, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day, and welcome to AIG's Third Quarter 2020 Financial Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Sabra Purtill, Head of Investor Relations. Please go ahead ma'am.

Sabra Purtill {BIO 1764408 <GO>}

Thank you. Good morning and thank you all for joining us. Today's call will cover AIG's third quarter 2020 financial results announced yesterday afternoon. The news release, financial results presentation, and financial supplement are posted on our website at www.aig.com, and the 10-Q will be filed later today after the call.

Today's remarks may contain forward-looking statements, including comments relating to company performance, strategic priorities, including the announced planned separation of our Life and Retirement business, business mix and market conditions, including the effects of COVID-19 on AIG. These statements are not guarantees of future performance or events and are based on management's current expectations. Actual performance and events may materially differ. Factors that could cause results to differ include the factors

described in our second quarter 2020 report on Form 10-Q and our 2019 Annual Report on Form 10-K, and our other recent filings made with the SEC, inclusive of the effects of COVID-19 on AIG, which cannot be fully determined at this time. AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Additionally, some remarks may refer to non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in our earnings release, financial supplement and earnings presentation, all of which are available on our website.

I'll now turn the call over to Brian.

Brian Duperreault {BIO 1645891 <GO>}

Good morning, and thank you for joining us today. Given the announcements we made last week, we will handle today's call differently with the objective to leave as much time as possible for your questions. I will focus most of my remarks on our leadership changes and the separation of Life and Retirement. Peter will expand on what the separation process will entail. He will provide an overview of our third quarter results for General Insurance and Life and Retirement, and give an update on AIG 200. Lastly, Mark will provide additional color on our financial results for the quarter. Kevin Hogan, Dave McElroy, Doug Dachille will be available for the Q&A portion of the call.

As you saw in our earnings release, AIG continues to manage through the ongoing global economic uncertainty. We're financially strong and well positioned to capitalize on the opportunities for growth. In the third quarter, we reported adjusted after-tax income of \$0.81 per common share, and we saw improvement in both the accident year combined ratio in General Insurance, and Life and Retirement's adjusted return on attributed common equity.

As we announced last week, the AIG Board unanimously elected Peter to become the next Chief Executive Officer of AIG, effective March 1. At that time, I will assume -- I will become Executive Chairman of the AIG Board. This leadership transition demonstrates our continued momentum and focus on AIG's future. It's an honor to serve as the CEO of AIG, and I want to thank our directors for their ongoing support.

I also want to congratulate Peter. I worked with Peter in several capacities for many years, and I'm extremely proud of him and the legacy he is building in our industry. He is joining me at AIG in 2017. He designed and executed on the turnaround in our General Insurance business, which by any measure has been historic. I greatly admire Peter's strength of character, leadership abilities, and willingness to take decisive action. He has a proven track record of building great teams and successfully leading them in times of significant change and growth. Peter exemplifies the rare executives who is both a hard working operational leader, and a strategic visionary. I know that he will be an excellent CEO for AIG, and the company will be in great hands.

FINAL

Turning to our second big announcement last week. As I stated before, we have continually examined the composite structure of AIG, and over the last several months, with the assistance from independent financial and legal advisors, we conducted a very comprehensive review to determine if a change would be in the best interest of our shareholders and other stakeholders. This review included examining strategic, operational, capital and tax implications, and the output of this review was very clear that is a simpler structure will benefit both GI and L&R. This is largely due to the significant foundational work our team has done across AIG to strengthen our businesses and position them as market leaders.

In addition, impediments to separation have existed back in 2017 have greatly diminished. For example, the tax benefits of AIG's current composite structure have decreased over time, and with a stronger capitalization of our core business, the capital diversification benefit has become less significant. We believe our businesses will be more resilient as a separate companies, with more appropriate and sustainable valuation, and each will continue to be market leaders in their respective sectors, with strong balance sheets, appropriate capital structures, attractive earnings, and cash flows.

We also believe both will have sufficient financial flexibility to compete effectively. We do not anticipate that either will require additional capital -- equity capital in connection with the separation, and neither will be over-leverage especially when compared to their respective peers. We've evaluated various structural alternatives for the separation, and Peter will provide details on our initial conclusions. All the separation process will be complex and will of course require regulatory approvals.

We are confident that we will execute in a way that provides the best long-term value for shareholders and other stakeholders. We are committed to transparency and providing you with updates as the process moves forward.

Now, I'll turn it over to Peter.

Peter Zaffino {BIO 15942020 <GO>}

Good morning, everyone. Thank you, Brian. I appreciate your kind words and want to thank the AIG Board for the opportunity to lead this company. As Brian noted, we are living through a sustained period of global economic challenges. At AIG, we are well prepared as our purpose is to partner with our clients, especially during challenging times to help them solve complex risk issues, capture opportunities in all market cycles, and provide a consistent approach to providing insurance solutions in this period of uncertainty. We continually ask ourselves what are the things that worked well yesterday, we'll continue to work tomorrow and into the future.

This morning I will expand on Brian's comments regarding key areas we're focused on. I'll start with additional insight into our plan to separate Life and Retirement from AIG, then I'll provide an overview of the third quarter results for General Insurance and Life and Retirement, and lastly, I'll briefly outline our progress on AIG 200.

FINAL

With respect to Life and Retirement as Brian said, we undertook a comprehensive review of our composite structure over the last several months. We concluded that over time the value of full separation can create for our shareholders will be significantly greater than maintaining our current structure. Our analysis took into account many factors, including potential impediments and benefits. Among the more significant factors are: one, the progress we've made since late 2017 to strengthen the foundation of General Insurance, materially reduce risk and volatility in our portfolio, and position General Insurance as a market leader poised for sustainable profitable growth. A separation of Life Retirement from AIG would not be possible without a strong General Insurance business that can support itself and drive on a stand-alone basis.

Two, we believe that we can effectively manage any loss of diversification benefits in our capital model as a result of separation. Our current expectation is that no additional equity capital will be required given the improvements in our subsidiary capital positions over the last three years. This is especially true in General Insurance with the capital base is stronger than it's been in many years.

Three, the separation process will require us to implement a standalone capital structure for Life and Retirement. This will involve raising new debt at Life and Retirement and restructuring debt at AIG Parent. In the end, both companies will have independent capital structures in line with peers and appropriate financial leverage for their respective ratings. Both companies will also have strong financial flexibility to execute on their strategic priorities.

Four, AIG deferred tax asset is no longer an obstacle as it was in the past. With DTA, it is made up of net operating loss carry forwards and foreign tax credits. With respect to the net operating losses, we expect AIG to have taxable income post separation that is sufficient to utilize remaining \$6.6 billion before they expire. The foreign tax credit carry forwards have been significantly utilized in recent years, and we expect to utilize the vast majority of the remaining \$1.5 billion before we deconsolidate Life and Retirement, leaving only a small portion potentially at risk.

And five, there is a limited number of legal entity restructurings required to achieve the separation, as well as limited expense dis-synergies. In fact, we will leverage the important work we're doing as part of AIG 200 to facilitate operational separation. While the precise former separation will be subject to AIG Board and regulatory approvals, rating agency considerations and market conditions, we currently contemplate either an IPO or private sale of up to 19.9% of Life and Retirement, followed by one or more dispositions of our remaining ownership interest over time. We're proceeding with the sense of urgency to determine the initial step of a separation, and we'll continue to engage with regulators and rating agencies throughout the process.

Finally, we do not intend to break up Life and Retirement and sell it in pieces as a significant strength of the business is the breadth of its platform and diversified product portfolio and distribution network. Throughout the separation process, we will remain laser focused on continuing to position our businesses to deliver superior value to our clients, distribution partners, shareholders and other stakeholders.

FINAL

Turning to our third quarter. In General Insurance, we achieved another quarter of positive results in our core business. We've continued improvement in our underwriting margins. The accident year combined ratio excluding catastrophe improved by 260 basis points to 93.3% compared to 95.9% a year ago, and by 610 basis points compared to 99.4% in the third quarter of 2018. The improvement was driven by our commercial business, which improved by approximately 560 basis points year-over-year as a result of lower accident year loss ratio, excluding CAT and a lower expense ratio. The lower commercial accident year loss ratio ex-CAT reflects the higher quality book of business, driven by a better mix and portfolio management actions.

In Personal Insurance, not surprisingly, our portfolio mix continues to be impacted by COVID-19, which has reduced premium volumes by more than 80% in our travel business alone. The mix of business was further impacted in North America Personal Insurance due to the reinsurance cessions related to syndicate 2019.

With respect to CAT, third quarter was very active, with low to moderate severity per event in both North America and Japan, with an upper industry range of \$45 billion globally. As we disclosed last week, our third quarter CAT loss estimates, net of reinsurance, totaled \$790 million for the quarter. Included in this CAT number is \$185 million of COVID-19 loss estimates. With respect to COVID-19, the loss estimates primarily related to travel, contingency and Validus Re.

Our year-to-date COVID related net loss estimates are slightly over \$900 million. Our reinsurance program continues to perform as expected, with recoveries in our international per occurrence, private client group per occurrence, and other discrete reinsurance programs limiting volatility. Regardless of frequency and severity of natural CATs, in addition of COVID-19-related losses, we expect overall CAT losses for the remainder of the year to be limited due to various protections we have in place under our aggregate CAT covers.

Turning to rate, in the third quarter, our underwriting discipline continued as our team has pivoted to pursue premium growth, while not losing our focus on a CAT level decisions, risk adjusted rates and margin expansion. In commercial, there is continued momentum in our portfolio optimization strategy, and we're seeing sustained rate on rate improvement across most lines of business. For the third quarter, our Commercial business had rate increases of approximately 17%. North America commercial rate increases were 20% in the third quarter, compared to 12% in the prior year. Rate increases in admitted property were over 30%; in financial lines, they were over 25% led by D&O; in excess and surplus lines, they were over 20%; and in excess casualty, they were over 30%.

International commercial rate increases were 14% in the third quarter compared to 8% in the prior year, driven by financial lines in specialty. Rate increases in commercial property was 12%; in financial lines, they were over 20% led by D&O; and in UK specialty, they were over 25% led by energy, aviation and trade credit. It's important to note that the rates we're achieving are on a policy year basis and will take time to earn into our action year results. Additionally, we're confident that the rate increases we are achieving are outpacing loss cost increases in our portfolio.

FINAL

Turning to Validus Re, an upcoming 1/1 renewals, our team continues to be disciplined in deploying capacity and focused on acceptable terms of conditions, as well as appropriate risk adjusted rate changes. Double-digit rate increases are being quoted in most lines with tighter terms and conditions. Retro business is very active, with meaningful double-digit rate increases being quoted, with terms altering to model perils-only with the current covers being preferred over aggregate covers.

Before turning to Life and Retirement, I want to provide context for how we view the rate environment in the P&C market. Insurance carriers have faced challenging business conditions for more than a decade. Soft market conditions have gripped the industry since 2007 and had been coupled with historically low interest rates, and an increase in frequency and severity of natural catastrophes. As an example, we're looking at property, the expected agri industry natural CAT losses for 2017 through the third quarter 2020 are estimated to exceed \$400 billion, median annual losses over the last 15 years have been approximately \$65 billion. These amounts are nearly double the amount of expected loss. For natural catastrophes, pricing has adjusted in light of these new norms. And keep in mind, none of these numbers include catastrophe losses from COVID-19.

With these challenges and the increasingly complex environment our clients are looking to us to help them manage the work we do is becoming more complex. We believe our retention rates demonstrate the strength of our relationships with clients and distribution partners, and confirm that a flight to quality has, in fact, on the provision, particularly due to COVID. The momentum we have generated in General Insurance is significant, and we believe that we will achieve top line growth in 2021, and by the end of 2022, we'll achieve an accident year combined ratio, excluding CATs, below 90%. This will represent a 1,000 basis point improvement since 2018.

Turning to Life and Retirement. I've spent the last couple of months working with Kevin and his team to analyze this business. It is a franchise that is extremely well positioned in the market. It has a track record of delivering consistent performance. Third quarter adjusted pre-tax income was \$975 million, and adjusted return on attributed common equity was 14.5%. Third quarter results reflected strong performance in all lines of business, driven by recovering sales and strong equity market levels resulting in favorable impacts to deferred acquisition costs and variable annuity reserves, as well as higher private equity returns.

Additionally, lower interest rates and tighter credit spreads drove higher call and tender income, which is a short-term benefit that will be offset in the long-term in the form of additional base spread compression. The sensitivities Kevin previously discussed generally held up, recognizing the limits of sensitivities, especially in times of macroeconomic stress and high levels of volatility.

As we noted in the second quarter, reported base investment spread compression has been impacted by substantially lower returns on our tactical cash and short-term investment position. Excluding this impact, base investment spreads would continue to be in the 8 to 16 basis points range of annual spread compression. Excluding estimated COVID-19-related deaths, mortality experience was favorable and consistent with pre-pandemic trends. Risk management efforts and discipline in Life and Retirement have

continued to serve this business well. The hedge program has performed as expected and our balance sheet remains strong.

Additionally, we view our lack of large legacy blocks, such as long-term care, as a risk differentiator. As expected, retail annuity sales rebounded significantly from the historically low second quarter levels as our distribution partners became more accustomed to a new working environment. We also grew sales and group retirement and institutional markets where we successfully issued three large guaranteed investment contracts during the third quarter. Our total premiums and deposits decreased from second quarter levels, and we remain well positioned and confident to deploy capital as attractive opportunities arise across our business.

Now let me provide a brief update on AIG 200. Since we announced AIG 200 in 2019, we have been focused on investing in our core processes and infrastructure in order to be more competitive in the marketplace and make real transformational change at AIG. A few key points I'd like to highlight.

We are on track to deliver and will likely exceed our original guidance of \$300 million exit run rate savings this year. We also expect to come in below the \$350 million cost to achieve that we initially communicated for 2020. An important milestone we recently achieved was entering into a partnership with Accenture, whereby Accenture will acquire our existing shared services footprint. Working with the AIG global operations team, Accenture will help us to create a modern digital shared services platform, with true end-to-end processes that will improve the user experience. This agreement is subject to regulatory approvals and marks the first phase of our overall relationship with Accenture, which we expect will expand over time.

Our overall targets for AIG 200 remain unchanged. We still expect to deliver \$1 billion of run rate savings by the end of 2022 against the \$1.3 billion total investment. Lastly, we do not anticipate any delays or significant changes due to the planned separation of Life and Retirement.

Before I turn it over to Mark, I'd like to end my remarks where I started, and thank Brian for his leadership over the last three years. Since I joined Brian in mid 2017, we have navigated truly unprecedented conditions. Throughout, Brian has remained steadfast in his commitment to build a world of leading insurance franchise, with no shortcuts or quick fixes. I'm incredibly proud of what we achieved so far in our journey.

Our colleagues have demonstrated unmatched resilience and a commitment to excellence, and all that they do despite the significant disruption we've all experienced, full personally and professionally, due to COVID-19. I know I speak on behalf of all AIG colleagues when I say that we look forward to continuing to work with Brian as we close out 2020 and look ahead to a very bright future for our company.

Now I will turn it over to Mark.

Mark Lyons {BIO 21746221 <GO>}

Thank you, Peter, and good morning everyone. As Brian and Peter have already commented on the announced separation of the Life and Retirement business from AIG, I will briefly discuss the third quarter results in order to allow sufficient time for Q&A.

AIG reported adjusted pre-tax income or APTI of \$918 million, and adjusted after-tax income of \$709 million or \$0.81 per diluted share compared to \$505 million or \$0.56 per share in the third quarter of 2019. The key drivers of this increased earnings were: one, a general insurance underwriting gain, exclusive of the impact of catastrophes and prior year development, which improved \$135 million compared to the third quarter of '19. Second, a very strong Life and Retirement results, inclusive of the impact of the annual actuarial assumption update. Third, solid net investment income results, up \$271 million after adjusting the third quarter of 2019 for Fortitude, reflecting higher private-equity and hedge fund income in addition to fixed maturity securities. Fourth, reduced total AIG general operating expenses by approximately \$200 million.

Turning to General Insurance. Third quarter adjusted pre-tax income was \$416 million, down \$91 million from the third quarter of 2019, due primarily to the previously announced catastrophe losses of \$790 million pre-tax, partially offset by higher net investment income stemming from alternatives. As respect to prior year development, \$16.1 billion of reserves were carried -- excuse me, were reviewed this quarter, bringing the year-to-date total reviews to more than 60% of carried reserves. The net result was unfavorable development of \$13 million, which reflects \$53 million of favorable development from amortization of the ADC deferred gain, so the unfavorable development was \$66 million growth of this amortization impact. The areas reviewed were primary workers compensation, environmental, program businesses, western world, cyber, personal lines, property casualty, Canada and UK, Europe and Asia-Pacific casualty and financial lines, as well as European short-tailed lines.

Next quarter's focus will be our US financial lines and some casualty areas. This quarter's PYD showed favorable development in North America, driven mostly by primary workers compensation, a California 2017 wildfire, subro and short-tailed lines, and unfavorable developments internationally, driven mostly by financial lines, large losses, and UK and Europe Casualty, mostly in prior accident years.

As Peter mentioned, the General Insurance business has continued to improve with an accident year combined ratio as adjusted of 93.3% in the quarter, a 260 basis point improvement from last year. North America was 96%, 250 basis points better than last year, while North American commercial lines was 630 basis points better than the prior year. 560 basis points of which emanated from the approved loss ratio.

International improved the accident year combined ratio as adjusted by 240 basis points to 91%, with international commercial lines better by 410 basis points, with 170 basis points of this emanating from an approved loss ratio. The global expense ratio was 180 basis points lower quarter-over-quarter, driven by an improved acquisition ratio. The General Insurance also reduced their GOE by \$76 million. The margin momentum in commercial lines reflects the hard work of the past several years, with the added tailwinds of achieved

rate in 2020 above our initial expectations, both will drive a margin improvement through 2021.

I would also note that on a global basis, Personal Insurance results are not really comparable to last year due to the significant drop in travel business, the formation of Syndicate 2019 for North American PCG business discussed last quarter, and higher North American catastrophes including the COVID impact on the travel book. International personal insurance accident year combined ratio, as adjusted, improved by 80 basis points, with favorable frequency in Japanese auto at a lower expense ratio.

North American Personal Lines accident year combined ratio, as adjusted, was significantly higher to 118.6% due to the approximate 60% drop in net earned premiums from the segment, led by travels nearly 80% reduction, as well as the noise associated with the changes to PCG that was discussed on our prior call. Warranty, personal A&H, and Canadian personal lines, all continue to perform well.

With the commercial lines re-underwriting largely behind us, we are now pivoting to growth, which will become evident in early 2021 as near-term top line results are still impacted by personal insurance. Global gross premiums written were \$8.3 billion in the quarter, down approximately 4% before the impact of currency and net premiums written and earned were both down approximately 11%, principally due to personal insurance, as well as the impact of reinsurance and portfolio management on the North American commercial lines book.

In North America commercial, net premiums written decreased by approximately 5%, reflecting the impact of reinsurance as stated, portfolio management actions in COVID, but retention and new business levels have improved the specific areas, for instance. Our Lexington property business grew by 20% year-over-year as a result of increased flow, continued rate increases, and new business momentum.

International commercial's net premiums written increased by approximately 5%, reflecting significant rate momentum and growth in financial lines specialty in Talbot. North America personal insurance net premiums written was impacted by business mix shift due to the lower travel premiums, and the changes to PCG. As we enter 2021, we will retain approximately 25% of the PCG business, and the syndicate structure will reduce the volatility of the overall personal lines book as was the case this quarter.

International personal insurance net premiums written were down 10% on a constant dollar basis, principally because of the reduction in travel premium. Aside from travel, most of the international personal insurances in Japan, which had a slight decrease in premiums due to lower new business, also was the result of COVID.

Now turning to Life and Retirement. Adjusted pre-tax income was \$975 million for the quarter, up over 50% compared to the prior year, with strong performance in most businesses. Third quarter adjusted return on attributed common equity was 14.5% as Peter noted, and 12% on a year-to-date basis. Also, as Peter mentioned, Life and Retirement's retail annuity sales rebounded significantly from historically low second

FINAL

quarter levels. Sequentially, fixed annuities were up 144% to \$942 million from the second quarter, low of \$387 million. Variable annuities were up 44% to \$670 million [ph] and indexed annuities were up 38% to \$942 million. Life and Retirement also grew sales modestly in group retirement, and in institutional markets, some of our guaranteed investment contracts were issued during the quarter, totaling approximately \$1.2 billion.

Total premiums and deposits increased from second quarter levels, and net flows, although still negative, having material rebound sequentially of over \$612 million for fixed annuities and fixed index annuity flow.

The balance sheet remains strong with a solid investment portfolio, with limited exposure to large legacy blocks on the liability side, such as long-term care, pre-financial crisis variable annuities or long duration payout annuities. While low interest rates in the last year will drive additional spread compression, the diversity of our product portfolio is a strength in this environment. Our annual actuarial assumption update which lowered our 10-year forward 10-year treasury assumption to approximately 2.8% from 3.5% previously will generally benign as we also updated our lapse, mortality and policyholder behavior assumptions, resulting in an unfavorable impact of \$120 million to adjusted pre-tax income and a net unfavorable impact of \$42 million to pre-tax net income, mostly from revised lapse and policyholder assumptions.

Shifting to investments. Net investment income on an APTI basis was \$3.2 billion or \$277 million lower than the third quarter of 2019. As a reminder, due to the sale of Fortitude, the prior year included the full quarter income on the Fortitude portfolio, whereas it is excluded on an APTI basis this quarter. Adjusting the third quarter of last year's net investment income accordingly, this quarter's net investment income on an APTI basis actually grew \$271 million compared to the prior year, reflecting stronger income on both hedge funds and private equity.

Turning to other operations. The adjusted pre-tax loss after consolidations, eliminations was \$562 million, \$62 million higher than the third quarter of 2019, principally due to additional interest expense from our May 2020 issuance of \$4.1 billion of senior notes to pre-fund upcoming maturities. Current and service company GOE declined \$50 million pre-tax, reflecting AIG's continued focus on expense reduction. Our legacy segment, where adjusted pretax income no longer reflects Fortitude at \$89 million of APTI in the quarter, slightly down compared to the third quarter of 2019, due to lower income as a result of Fortitude sale, offset by higher gains on fair value option portfolios within the legacy investments. Legacy results also reflected a favorable impact of \$13 million related to the annual actuarial assumption update.

Now turning to the balance sheet. At September 30, 2020, book value per common share was \$73.86, down 1% from the prior year-end, but up 3% from June 2020. Adjusted book value per share, which excludes AOCI and DTA, and net cumulative unrealized gains on the Fortitude funds withheld assets, was \$56.78 per share, up 2% sequentially from June 30.

FINAL

At September 30, AIG Parent had cash and short-term liquidity assets of \$10.7 billion after third quarter dividends of holding company expenses, as well as the August debt maturity of \$638 million. Looking into next quarter, we expect to pay the balance of the IRS tax settlement on cross-border transactions that date back to the 1990s.

During the second quarter, we had prepaid approximately \$548 million related to principal and penalties. We recently settled the litigation associated with that case and are awaiting potentially by year-end the final interest calculation from the IRS. We have requested interest netting which may lower the total amount below our remaining settlement estimate, which we have accrued at \$1.2 billion. As for debt leverage, we reduce that ratio by approximately 100 basis points in the third quarter, driven by maturing debt, which had been prefunded and growth in retained earnings.

Finally, our primary operating subsidiaries remain profitable and well capitalized despite the continuing impact of low rates, credit experience in COVID. For General Insurance, we estimate the US pool fleet risk-based capital ratio for the third quarter to be between 430% and 440%, and Life and Retirement is estimated to be between 410% and 420%, both above our target ranges, and both providing a good buffer for the uncertainty of the current environment.

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

Brian Duperreault {BIO 1645891 <GO>}

Thank you, Mark. I guess it's time for the Q&A portion of this. So, operator, why don't we start?

Questions And Answers

Operator

Thank you. (Operator Instructions). We can now take our first question from Elyse Greenspan of Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks. Good morning. My first question, Peter, is going back to your comments on Life and Retirement. You mentioned the option for the separation will be in IPO or hybrid sales? But then in reference to Board, it sounds like you mentioned 19.9%. So I guess, I'm confused on what a private sale? Could you go down the route of a private sale of 19.9% is L&R with subsequent sales after that. If I can just get some clarity on that comment, please?

A - Brian Duperreault {BIO 1645891 <GO>}

Peter, go ahead, and take that please.

FINAL

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks, Elyse. Good morning. Yes, the 19.9% was referencing to the IPO. And we said that there could be -- we can't predict the future, but there could be an approach for a private sale, but it would be for the same percentage, the 19.9% or less, that we would not consider anything that would be above that. So I would think about whether it's the IPO or in the event if something came from a private party that it would be the 19.9% or less as an initial first step.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then on -- so if it was 19.9% to a private party, I guess then which is we looking for subsequent sales down the road. Is there a time frame if it was a private seller gets the IPO for the -- as you think of the 19.9% option for -- for the full disposition of L&R.

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Peter.

A - Peter Zaffino {BIO 15942020 <GO>}

Okay. Yeah, so really the timeline, at least, I'd think like whether we pursue a minority IPO or sale, we're going to make that decision in the near-term and we'd like to communicate that properly. I mean, the ultimate closing of an IPO or sale will depend on regulatory or other required approvals, and we like to think we can close on the first step of separation in 2021, but of course, we'll have to see how the process unfolds.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thank you, Elyse. Should we go to the next question please.

Operator

And we can now take our next question from Josh Shanker of Bank of America. Please go ahead.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah. Thank you very much. So the first question was the general guidance around growing premium volumes next year. Is that exclusive of what happens with travel and accident premiums?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, I think, that's Peter's question. Peter?

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks Josh. It was not exclusive. I mean, we believe that we can grow the top line for General Insurance even in those conditions where we would have a prolonged headwind and travel, but we think that we can grow the top line without caveats.

Q - Joshua Shanker {BIO 5292022 <GO>}

And for those who looked at the third quarter liability, premium numbers down in the low-double digit range given where pricing is. Does [ph] that gives them concerns about your appetite for liability business assets price. You've obviously run a lot of liabilities business for the last couple of years. How does that reflect on your confidence on the last couple of years of books in the attractiveness of writing liability business on-- in November 2020?

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Peter.

A - Peter Zaffino {BIO 15942020 <GO>}

Well, we've been doing re-underwriting of the liability lines for a couple of years now. And so, we've seen the shift in the portfolio in a very positive way. I think what you'll see on the net premium written is just a lot of reinsurance cessions just because we put in excess of loss and quota share. In this particular year, we had even more cessions on the quota share, but we feel very good about the way in which we are positioned in that portfolio. We do think that we can grow that portfolio on the top line, and the rate on rate increases that we're getting in the casualty and liability lines are meaningful, and we believe our above loss cost. So I wouldn't read into it. I would say that it's part of the remediation, it's part of reinsurance, and we think that we are in a position to grow it.

Q - Joshua Shanker {BIO 5292022 <GO>}

Would you (Multiple Speakers) accounts premium growth?

A - Peter Zaffino {BIO 15942020 <GO>}

Would you say that again, Josh?

Q - Joshua Shanker {BIO 5292022 <GO>}

Would you care to share an idea about the gross written premium growth in liability, whether it was much less than down low double digits?

A - Peter Zaffino {BIO 15942020 <GO>}

I wouldn't. It's the same comment. I think we can grow the top line on a gross basis as well.

Q - Joshua Shanker {BIO 5292022 <GO>}

I'll take it offline. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Thanks Josh. Next question please.

Operator

Our next question comes from Brian Meredith of UBS. Please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Peter, (inaudible) the guidance with respect to the below 90 underlying combined ratio, and I assume that's kind of run rate that you go out end of 2022. How do we going to think about that expense ratio kind of loss ratio as you kind of think about it? How much is going to be AIG 200 related?

A - Sabra Purtill {BIO 1764408 <GO>}

Go ahead, Brian -- go ahead, Peter.

A - Peter Zaffino {BIO 15942020 <GO>}

Yes. It's end 2022 run rate, and we just thought about as we start to exit 2022. But I think all of the variables will contribute to the improved combined ratio. So I gave you some guidance on -- in my prepared remarks on AIG 200. So we remain committed to the \$1 billion, and so we'll recognize \$300 million of that as an exit run rate this year. So you could think about a couple of hundred basis points contributing to expense improvement during that period of time. We feel very good about the opportunity to grow the top line. And so, we will start to see top line growth, which will help the ratios.

We think we will have a revised reinsurance program that will reflect the portfolio that we have today. And so, the best re-underwriting to pivot to where we are today, we will have a different reinsurance structure going forward, and we will likely not need quite as much. And then the last piece is just the rate increases above loss cost will start to earn into the portfolio. And so, I think, all of those four variables will contribute to an improved combined ratio below the 90s.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Thank you, Brian. I guess we go to the next question. Next questioner?

Operator

Our next question comes from Paul Newsome of Piper Sandler. Please go ahead.

Q - Paul Newsome {BIO 1541286 <GO>}

Good morning. Thank you. Perhaps you could just talk about the prioritization for use of proceeds if we do -- if the IPO (inaudible) if that would be the difference and you expecting that?

A - Brian Duperreault {BIO 1645891 <GO>}

So, I think, Paul, the question was use of proceeds from the IPO. I think I got that right. And if that's the case, Mark, would you take that question?

A - Mark Lyons {BIO 21746221 <GO>}

Sure, and hi, Paul. Thanks for the question. Well, our primary focus for the proceeds from any initial disposition will be to reduce AIG's debt leverage, but we'll continuously review the best use of our capital, which certainly include share repurchases and acting accordingly based upon those priorities.

A - Brian Duperreault {BIO 1645891 <GO>}

Paul, was there another part of the question, because you were a little unclear in my audio?

Q - Paul Newsome {BIO 1541286 <GO>}

No, I mean, I was, like, with the focus on it, but maybe if you could just further that in terms of your debt leverage for synergies. I mean, my sense was, (inaudible) pre funded all of this debt leverage. So I guess, a little bit surprised that there is more to do.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Mark, can you take that?

A - Mark Lyons {BIO 21746221 <GO>}

Sure, sure. So we talked about that Paul also. AIG clearly has strong liquidity that was bolstered by the \$4.1 billion cap rates we did in May of this year that attractively pre-funded those forthcoming maturities, and provided liquidity from a risk management perspective. But the near-term capital management strategy remains focused now on reducing our debt level to leverage ratios, and executing on this separation with Life and Retirement from AIG. So -- but as previously notably though, we have upcoming obligations associated with that liquidity of roughly \$3.5 billion.

So we've got the tax settlement that I mentioned in my prepared remarks, that could be up to \$1 billion to \$2 billion and we have maturing debt that we did pre-fund which pushed up the leverage ratio knowingly, but we know that's coming due and its \$700 million range in fourth quarter and \$1.5 billion by March of 2021. So we really have -- those priorities are right in front of us.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thanks, Mark. Thanks, Paul. I guess, we'll go to the next questioner. Operator?

Operator

Our next question comes from Tom Gallagher of Evercore. Please go ahead.

FINAL

Bloomberg Transcript

FINAL

Q - Thomas Gallagher {BIO 3311667 <GO>}

Good morning. Peter, you mentioned that you don't intend to break up the life insurance business and sell it often pieces. I guess, my question is, we've seen some recent indications in the market that private values are potentially double that of current public market values of life insurers. Have you taken that into consideration and still concluded your path is the best one for shareholders?

A - Brian Duperreault {BIO 1645891 <GO>}

I want to take that one, and Peter can add to it. I think, you just have to understand that when we look at our Life business, we believe the ongoing strength of it is the breadth of the platforms, unequal product and distribution, we've got leading market positions, and there's a lot of cross-unit synergies. So the integrated platform we believe provides the kind of knowledge and expertise and stability, and that's more valuable together than in pieces. And so, we've cleaned it up. We've done a lot of derisking, but L&R really is a beautiful machine where these things all interact. So we believe that some of the parts is definitely greater. Well, I mean the whole is greater than each of the parts, say it, great way. I hope that helps, Tom. Peter, do you want to add anything to that?

A - Peter Zaffino {BIO 15942020 <GO>}

No, I think, between my prepared remarks and your comments, Brian, we did look at many alternatives and just believe that the consistent performance that Life and Retirement has produced, added structured is going to create the most shareholder value keeping it together.

Q - Thomas Gallagher {BIO 3311667 <GO>}

I appreciate that guys. Just my follow up is, back in 2016, there was an estimate of capital diversification breakage of over \$5 billion. It sounds like that's a lot less now. Is there still some dis-synergy, non capital diversification, and if so, could you quantify it?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, I guess, I'm going to turn that one, Tom, to Mark. Mark, can you just take us through that?

A - Mark Lyons {BIO 21746221 <GO>}

Sure, sure. So Tom, 2015 is quite a while ago. And as you know, there's been massive changes to the portfolio, pretty much across the Board. So I mean, when you think about it, not only from 2015, but when Brian arrived in 2017, you've got a targeted risk reduction progress that really went across the Board and we revamped risk appetite, no matter of how you looked at it. So that's been successfully implemented on both sides of the balance sheet, and involve the Parent and FGI, and Life and Retirement, and Investments. And the operating subsidiary RBC and risk-based capital is strong for both GI and for L&R and the volatility in total and within each of those operations is clearly been markedly reduced.

Bloomberg Transcript

FINAL

So -- and just as a -- and a little bit of a remembrance, so you see exactly the kind of risk reduction which involves all the things you asked about. So the investment derisking, the Fortitude transaction which we went into greater [ph] sale moving not only \$35 billion of reserves, \$31 billion of which is on Life and Retirement and \$4 billion plus on GI. But it's also what constitutes those reserves. So when you look under the covers and you see a lot of structured settlement reserves, and a lot of single premium immediate annuity reserves, those are clearly loaded with interest rate risk. So now that type of volatility and that kind of issue has now been pushed off as well.

We have the ADC that we've put into place with General Insurance, but still has \$6.4 billion unused, representing 80% session. The underwriting change to the book that has been massive, both on the front end and at a proper reinsurance structure to protect it that Peter has always talked about. Consequence, the PML have gone down enormously. The marketplace taking advantage of that with improved earnings by driving compound rate, and improved terms and conditions, but trimming the portfolio the right way, not just renewing books of business but getting into classes and things doing it properly.

And not only on that, we've got the -- where we kind of referenced earlier, which was the debt rates that we had that allowed us to have you risk management, liquidity risk management capability in slight of the pre-funding of those maturing debt security. So I think, all in, we've got a lot of strength in earnings, a lot of strength in -- of lesser volatility around those earnings, and there is certainly a reduction of all those things combined.

Q - Thomas Gallagher {BIO 3311667 <GO>}

That makes sense. Thanks guys.

A - Brian Duperreault {BIO 1645891 <GO>}

Thanks, Tom. We will go to the next questioner.

Operator

Our next question comes from Yaron Kinar of Goldman Sachs. Please go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you. Good morning everybody. My first question goes with the financial leverage commentary around separation. It sounds like you're comfortable and confident in the leverage (inaudible) by those entities after separations. Today, I think, the leverage is little bit higher than where the Life and P&C groups are at. So I guess, if I try to connect the dots there, is that one you're talking about is 19.9% sale at first to potentially fund some of that decrease leverage, and then you consider some of the rest?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, look, since you brought up the 19%, I would have given us to Mark. But Peter, you might want to comment on 19.9% first, and then maybe Mark can go into the leverage question.

A - Peter Zaffino {BIO 15942020 <GO>}

Thanks, Yaron [ph] largely in my script, which is the 19.9% does preserve the foreign tax credits, and that's a meaningful number today but we will earn out of that. But I think, Mark, I don't know if you want to go in a little bit deeper as to the deconsolidation issues?

A - Mark Lyons {BIO 21746221 <GO>}

Yeah, well, as Peter said, the 19.9% certainly, because you still consolidate. So you still continue to reap the benefits as he has noted, which is why it's important, number one. And number two is, the shrinkage of that, because consumption of that has really been pretty evident over the older years till to where we are now. And with L&R and GI, because think about, Yaron, L&R have really been the consumer of the DTA, especially on the FTC, that's deferred tax credit side. But now you have two strong platforms with a lot of great prospects on a go-forward basis where both can use it, both can consume that. So I think that's important.

Now getting back to the structure, both -- all the AIG subsidiaries really are strongly capitalized today, and we do anticipate though that each of the General Insurance and Life and Retirement businesses will maintain strong RBC levels, and will have a leverage ratio which is consistent with the respective peers and brands [ph] and we will be working closely with our regulators and rating agencies as Peter referenced throughout this process to validate, Yaron, our analysis. And our intention is to remain at or above our target ratings of these operating subsidiaries. So we believe as separate organizations, both will have sufficient financial flexibility to compete effectively as we generate returns above their individual cost of capital. So, again, to reiterate, at this time with all in, we do not anticipate the need for additional equity capital in either business as part of the separations.

A - Brian Duperreault {BIO 1645891 <GO>}

Thank you, Mark.

Q - Yaron Kinar {BIO 17146197 <GO>}

That's helpful. And then my second question, with regards to the guidance for 2022, combined ratio has been below 90%. And I think, Peter, you may have touched on this with your answer to Josh earlier. Do you need further rate momentum still to achieve that?

A - Brian Duperreault {BIO 1645891 <GO>}

Peter, what do you think?

A - Peter Zaffino {BIO 15942020 <GO>}

In the current rate environment?

Q - Yaron Kinar {BIO 17146197 <GO>}

Yeah, yeah. Does that need to continue?

FINAL

A - Peter Zaffino {BIO 15942020 <GO>}

No. We don't. I mean, again, I would have to -- when I'm looking to the future, I would have to talk myself out of it, not into it in terms of the underlying fundamentals that will this continue or not. But we did not predicate getting below 90 combined at the end of 2022 with the rate environment that we're in today.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thanks, Yaron. I guess, we go to the next questioner.

Operator

Our next question comes from Ryan Tunis of Autonomous Research. Please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. Good morning. Just a follow-up on Tom's question about, I guess, why -- how rate separation is the right path forward rather than more of a piecemeal approach. And it started like Brian gave some strategic rationale for it, but you guys also mentioned, if you look at the capital and tax considerations when you decided on what you're going to do. So what if any of the capital and tax considerations that made this a better path than a more of a piecemeal process of selling the Life business in parts?

A - Brian Duperreault {BIO 1645891 <GO>}

Okay, Ryan. Let me start with this. So when you -- when we looked at this question, the question is, does Life and Retirement and GI belong together or are they better apart? And at the end of the kind to conclusion was they were better apart. So let me look at the Life and Retirement, and you say, okay, Life and Retirement better together or apart, and it's the same kind of process. As I outlined, we believe that the Life and Retirement business itself, as I said earlier, really is well integrated. There is a synergy around them that produces greater value than separating them. So that was -- we didn't see that value between Life and Retirement and General Insurance but we see the value in the Life and Retirement business where there is a creation of value because they are together and that was the strategic decision.

The question is, is it practical to separate and all that, we went through all that. And yeah, we have the capital we believe, we can get the -- we have the ability to appropriately stand each up, stand up L&R, I should say, so. But it really fell on that very simple process. Hope that helps Ryan?

Q - Ryan Tunis {BIO 16502263 <GO>}

Yeah, it does. I mean, I guess, this is for Peter. Generally, when thinking about the dis-synergies associated with this stranded cost that type of thing. I mean, you think about the

Bloomberg Transcript

cost base of the company. I guess, I would like hear your early thoughts on any complexities there?

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Peter.

A - Peter Zaffino {BIO 15942020 <GO>}

Thank you. So I would think about it if I was-- if we're going to do an IPO with Life and Retirement, there will be additional investment in order to have the company stand up on its own. But how I would think about it is that, the benefits of AIG 200 to Life and Retirement will be at or more than what the investment costs were. So there'll be no additional costs in terms of the run rate today. And then, I do think that there will be more expense synergies at AIG post separation, and we're working through that and that would be in addition to AIG 200 (inaudible) more insight in one of our field share quarter call that we will give a little bit more ground network on it.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thanks, Ryan. I think we're going to go to one last questioner.

Operator

And our final question comes from Meyer Shields with KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks. On the fourth quarter '19 call, I think, we got the sense that the underlying accident year loss ratio improvement would be more pronounced in 2021 than in 2020. Is that still the expectation?

A - Brian Duperreault {BIO 1645891 <GO>}

Peter?

A - Peter Zaffino {BIO 15942020 <GO>}

Meyers, I want to make sure I understand the question. Is it really in terms of rate above loss cost or like I just want to make sure I understand what you're asking?

Q - Meyer Shields {BIO 4281064 <GO>}

I guess, I mean, you've talked about how rate above loss cost is helping 2020, but wondering whether that would -- any of that improvement was originally expected more in 2021 and has been pulled forward or is it just the absolute better pricing environment?

A - Peter Zaffino {BIO 15942020 <GO>}

Mark, do you want to just take that on the, like, what we're getting on the past year and rate cost increase?

FINAL

A - Mark Lyons {BIO 21746221 <GO>}

Sure, sure happy to. Thank you, Meyer. So I think one thing that's been clear from the informations Peter has provided, not only this call but in prior calls is, we don't see any reduction of the rate of increase. One is global, not just considering [ph] US. And secondly, we don't see it slowing off in virtually all the major areas that we've discussed. I think, some others may, but we have not, and I think that's a paramount to the continued professionalism with the underwriting here. So think of it this way. So if you have that kind of strength by policy quarter, effective quarter, and if that continues to build, it's going to throw off increasing rate adequacy into future calendar quarters. So '20, it's going to have a very strong year and I see nothing in the way stopping 2021 from being marginally better than that.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thanks, Mark. And Meyer, do you have a follow-up?

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah, just a quick one. Is it possible that the proceeds from the sale or IPO of Life and Retirement can be used -- can be used with DTA?

A - Mark Lyons {BIO 21746221 <GO>}

Can be used to -- I didn't hear that last -- that last piece of the question.

Q - Meyer Shields {BIO 4281064 <GO>}

Is it possible that you can use some of the CAT credits, you can net them against the proceeds from the partial sale or IPO of Life and Retirement?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, Mark, I think that's you.

A - Mark Lyons {BIO 21746221 <GO>}

It's actually much more complicated and legal structures involved. There's no short answer to that, but other than to say, not really.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, I'll take that.

A - Brian Duperreault {BIO 1645891 <GO>}

I think that's the best way to leave it Meyer. So look at -- I want to once again thank you all for joining us today. I'm very pleased with the progress we've made at AIG, and I think third quarter certainly is another indication of the fact that we are on the right track. And I got to say, our colleagues really continued to impress me with their dedication and loyalty to our company and all our stakeholders. It's an exciting time at AIG. We continue to manage through unprecedented circumstances across the globe while elevating our

market-leading businesses, and we look forward to 2021. I remain confident that our team will continue to execute on our strategies for growth, and we'll separate the Life and Retirement business from AIG. So we look forward to updating you on future calls. Have a great day. Thank you very much.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript