Goldman Sachs US Financial Services Conference

Company Participants

- Brian Duperreault, President and Chief Executive Officer
- Mark Lyons, Executive Vice President and Chief Financial Officer
- Peter Zaffino, Chief Executive Officer of General Insurance and Global Chief Operating Officer

Other Participants

- Unidentified Participant
- Yaron Kinar, Analyst

Presentation

Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. Thanks for joining us today. And with us this morning, we have a distinguished team. We have AIG's President and CEO, Brian Duperreault; we have Global COO and CEO of General Insurance, Peter Zaffino; and CFO, Mark Lyons. Don't need any further introduction I think.

We're coming off of a year in which the companies turnaround efforts, I know you are taking hold. I look forward to spending the next 35 minutes or so hearing more about the next steps and the company's positioning in markets in which it participates next year. And with us -- maybe, I'll turn it over to Brian for a few opening remarks and we'll kick it off after that.

Brian Duperreault {BIO 1645891 <GO>}

Thank you, Yaron. Yes. So it's a -- a year ago, we were here and Mark Lyons was our CFO, I think, for 12 hours up here [ph] the time last. So certainly a different year and what a difference a year makes. So in 2018, we were on the cusp and were explaining how we thought you would start to see the fruits of a lot of labor that would start to come into fruition and I'm very pleased with what's happened down in 2019.

I think we've made great progress with ROE targets, made great progress with profitability, particularly in GI. In GI we -- I think, I've done a very good job of improving the mix of business that we have, our pricing and selection. So all that goes into being a good underwriter. Great limits management. Couple that with, I think, an excellent reinsurance program. And remember, when we arrived, there really was almost no reinsurance purchase. Now, I think, we've got a normalized reinsurance program. But that and the limits management have combined to a great job of basically volatility management.

We tend to take a large risk. It's been our bread and butter as a company, but that comes with volatility. And so, managing that volatility requires a couple of things. And those two, in particular, were instrumental in getting our volatility to reasonable level. So today, I'd say that we feel very confident that we will make our 2019 goal with an underwriting profit, with -- of course, with an appropriate average adjustment for CAT. And we're very confident that we'll get that done.

In Life and Retirement, there we've had actually a good year from an ROE point of view, mostly due to the better investment income situation. That was more front-end loaded in this year, so it's normalizing now, coming back reverting to the mean. But you'd have to say (inaudible) has had a pretty good year, but we've got low interest rates, credit spread problems and so that there is a lot of headwind there now.

The last thing I'll mention or maybe the second last thing is, very pleased to announce that we've sold a majority stake in Fortitude Re. We have announced the sale closes in 2020 but that is a very important milestone for us in our process of getting this company in the right position. So I think we're very poised to go into 2020.

I know last year I stood up and went through a long list of things, helping you understand where we thought we would be. I'm not going to do that today, but when we do our earnings call in February we will go through a number of those items and -- including what we think the AIG 200 economics will look like. But we'll do that in February. So I don't want to (inaudible) do it partially, so we'll do it in total.

So with, Yaron, I think those are just kind of highlights I wanted to make. And so, we get into it?

Yaron Kinar {BIO 17146197 <GO>}

Sure. Yeah. I appreciate it. And I thought maybe we'd start off with higher level of company-wide issues and then maybe dive into P&C. So clearly, 2019 was quite a turnaround year. I think you mentioned some of the items that they were improved over the course of the year. What are the most pressing orders of business going into 2020?

Brian Duperreault {BIO 1645891 <GO>}

Well, we have to continue the momentum. I think, if you see the mark-to-market momentum is positive. And there is a good reason for that. We want to continue that momentum into 2020 and continue to work on the fundamentals of underwriting. I mentioned AIG 200, that's another big issue for us. Actually beginning the process of implementation of that over -- and that's a multi-year program, but it begins, we wanted to have a very good start. So that's a big deal. And we want to close before the two transactions. So we want to actually make sure that that close as well. And so I'd say those are probably the big three for us.

Yaron Kinar {BIO 17146197 <GO>}

Okay. And then I know one piece of the guidance you've offered and reiterated in the past is double-digit ROE, DTA adjusted, AOCI adjusted by 2021. Is that -- first of all, is that an exit rate number or is that a full-year 2021 target? And secondly, maybe you can help us understand how you bridge the gap from where we are today to that double-digit number?

Brian Duperreault {BIO 1645891 <GO>}

Sure. Okay. Well, maybe it kind of reminds me (inaudible) make an underwriting profit entering 2019. Is that like I don't know, it's -- is it the first day of 2019. Actually it turned out to be the first quarter. I'd say sometime in 2020, if you look at the capital and return, we would expect at some point a crossover and get into the double-digit. I don't know if that's going to be mid-year or late but sometime in 2020. So assume it's an exit for sure.

Yaron Kinar {BIO 17146197 <GO>}

'21?

Brian Duperreault {BIO 1645891 <GO>}

2021. Thank you (inaudible). 2021, oh my god, I'm not going to (inaudible). So, yeah, 2021. But I -- assume it's exit. And while it isn't -- people say, well, is it -- you sold Fortitude, is that the reason. And that it helps, but it's a marginal benefit. The big benefit is the continuous improvement, particularly in GI, and maintenance of our profitability in Life and Retirement, and the investment income associated with all of it. Remember GI is -- it's an interesting structure, but we have a pretty good leverage of say, assets to capital and that leverage in our yields and a good return on our GI from a combined ratio point of view profitability, basically sets us up. So if you continuously improve the GI you get the double digit.

Yaron Kinar {BIO 17146197 <GO>}

Great. I realize we're not going to spend too much time on AIG 200 here given the February call. But one conceptual question I have around AIG 200 is, when we see large scale initiatives, often you see some disruption that comes along with that, that often affects the top line momentum. How are you going about trying to minimize that disruption?

Brian Duperreault {BIO 1645891 <GO>}

Yeah, well, it's a risk. There is no question about it. And we are concerned about that and we will take the appropriate steps and then that is really to make sure that those assigned to the work are doing that in a way that isn't affecting the rest of the business. So we have taken people out of their current responsibilities and they've been given responsibility for that because we recognize that it -- it's a full time effort.

But remember the work that I -- when I talk about all the great things that have been happening in GI with Peter's leadership, I should have mentioned expense management as well. And that expense management has been occurring continuously. And so the idea of being able to manage expense and keep the momentum is a variation of the theme here but in this case, it'll be more investment in technology, but I don't -- it's a risk we're taking and we understand it and we will manage it like we've been managing everything else in this company.

Yaron Kinar {BIO 17146197 <GO>}

Got it. Turning maybe to net investment income. So guidance for this year was $13.2 billion to $13.3 billion predicated, I think, on a yield of about 4.25 years[ph] for the fixed income portfolio. How should we be thinking about next year considering that the rate environment has come in, considering that in Fortitude Re is now being sold off.

Brian Duperreault {BIO 1645891 <GO>}

Yeah.

Yaron Kinar {BIO 17146197 <GO>}

How should we think about NII?

Brian Duperreault {BIO 1645891 <GO>}

Well, I'm going to let Mark answer the question. When I said it was -- we're really going to give all the -- what we think 2020 looks like in February, but I think Mark just kind of maybe give a general answer on that.

Mark Lyons {BIO 21746221 <GO>}

Sure. Thank you, Brian. So (inaudible) let me do this. Let me give you a kind of things of the balls in the air that you can kind of picture as to why we'll do it in February. So as Brian already mentioned that for the full year, if there is a sale of Fortitude Re that goes through, you can really -- I think for thinking purposes have two quarters uninterrupted, pretty much it is and then second quarter with changes that will affect operating income a bit, that will affect invest a lot [ph] to that extent.

At the same time you have increasing spread compression on the L&R side, that's a spread oriented business. We gave commentary already that 1 bps to 3 bps per quarter is likely if things don't really rebalance in that regard. On the continuing efforts really that appears leading on GOE reduction, we're also going to have an impact on net-net cash flow. The GI, and Peter can certainly speak to it in more detail but maybe at a high level the continued view of doing the right things in the underwriting side, on the gross and have some ongoing cash flow in implications, but we're still in the planning phase and same with the reinsurance outgo [ph].So there is quite a few variables at work. And then the investment portfolio itself, the turnover historically really in fixed income is really not been that big. There is some pretty thick yielding periods out there that are still on the books. But all those things are in the air (inaudible).

Yaron Kinar {BIO 17146197 <GO>}

Got it. That's helpful. Can we talk a little bit -- more about the Fortitude group sale? The strategic rationale? I think it's understood, but maybe we can touch on that a little bit and how -- what is legacy look like post sale?

Brian Duperreault {BIO 1645891 <GO>}

Legacy dwindles to a de minimis amount and so your question will, I wonder if we even need a legacy segment at that point. And we'll make that decision shortly, but more than likely will probably just discontinue the legacy segment. But back to Fortitude, Fortitude is a -- it's a legacy. So it's certainly a lot strategic. It ties up capital supporting basically run off reserves and it -- to us, it would be better -- we're not in the legacy business. Carlyle wants to with his -- with its group get into the legacy business. And so we thought this is a perfect marriage where we can still maintain a small percentage as an investment but they can take this company and take it forward as a legacy player. We then free up the capital to go do the business that we like. So it's really -- legacy is not strategic, it's as simple as that.

Yaron Kinar {BIO 17146197 <GO>}

Okay. And with this capital being freed up and the balance sheet streamlined, does it change the priorities of capital deployment for the company?

Brian Duperreault {BIO 1645891 <GO>}

I think the capital deployment is always the same. And that is, we want to deleverage. We've talked about delevering. But past that, it's -- I would -- my preference, my bias is to support the business, reinvest in the business and whether that's AIG 200 or it's the opportunities that are emerging in the GI business in particular, where we would look to deploy capital. And if not, then we would use other capital management tools. And that doesn't change.

Yaron Kinar {BIO 17146197 <GO>}

And when you look at the opportunities out there whether organic or inorganic growth or AIG 200, is there a certain hurdle that this capital needs to cross that would make you prefer some avenue other than buybacks?

Brian Duperreault {BIO 1645891 <GO>}

Well, it's -- the hurdles got to be a long-term hurdle. It's going to be -- to me, it is long-term shareholder value creation. And that may mean, short-term, it may not be as accretive as -- let's say, if you're alternating between stock buyback and, let's say, an investment in a new company or a new venture, there short and long term, and I think the long-term wins and so we will look at it on a long-term basis.

Yaron Kinar {BIO 17146197 <GO>}

Okay. I thought maybe we'd switch over to few questions on General Insurance and the P&C market.

Brian Duperreault {BIO 1645891 <GO>}

Peter can't wait.

Yaron Kinar {BIO 17146197 <GO>}

Yeah. I have to get you into the conversation here. So maybe we can start off with just few general comments on how you see as the sale of the P&C market heading into 2020?

Peter Zaffino {BIO 15942020 <GO>}

I would say, if that was to describe it, I would say it's going to continue to be disciplined. You really have to look at it across the world and put it in as geographic components and then segment it, but if I look at the area where I think it's going to have probably the most impact, it will be North America. Japan hasn't been defined yet because the catastrophes for the typhoons hasn't fully developed in the quarter. So we'll see how that all plays out.

The implications are, if I go to product lines, there is property. You have three years in a row of CAT activity. You have -- the first time we've seen where alternative capital, stat of capital is going to go down, I would add to that that there'll be more of that state of capital that will be trapped in one-one. But that has dynamics on the retro market as dynamics on the property reinsurance markets and we'll see how that all plays out. January 1, April 1, for Japan and June 1, for Florida. But I would expect that there is going to be more discipline. They blinked a little bit last year. I don't think you'll see that as much this year. We talk about it on the quarter calls. Mark and I, Brian spent time on some of the areas where we've seen more meaningful rate improvement and that's in financial lines, casualty lines, motor and property. I mean, property excluding cat even on attritional you start to see more movement. I would expect that to continue.

For us, it's been risk selection, limit deployment on a gross basis, terms and conditions, deductibles and then price becomes the outcome. But if you look at the cumulative effect of that throughout 2019, it started in the first quarter where we start to see some movement, second quarter gained and third quarter gained as well. I don't have a prediction on the fourth quarter, but I have to talk myself out of it not into it, but that's the market we're in for the foreseeable future.

Yaron Kinar {BIO 17146197 <GO>}

Got it. And I guess one thing that I struggle with a little bit and not with AIG but the industry as a whole is, you're seeing the rate firming, you here a lot of talk of emerging fear and I'm talking more about casualty lines than property. And yet, the loss picks haven't seem to really move up all that much and seem to still be pretty favorable here.

And I think the overall expectation is that the industry itself (inaudible) a profit this year on the underwriting side. So with that, is -- why is the rate momentum sustainable?

Brian Duperreault {BIO 1645891 <GO>}

Well, let me start and then I think Mark can add on some of the loss picks and what we're seeing in terms of loss cost inflation and how we're approaching it, but there is several dynamics. I think that the overall market is more disciplined, just in terms of what they're seeing emerging in underlying trends. We talk about them on our quarterly calls.

I think that there is -- again, I'll start with AIG, where we have been shedding billions, tens of billions of dollars of limit [ph] that go into the market, and the market has to absorb that. And so with that, do I think there's a supply issue? No, I don't. But do I think that there is more discipline with the amount of limit going into the market that you need to get the right risk adjusted returns? Yes, I do.

When I look at what we're doing, we are managing gross limits, making sure, as I said, that we're getting the right terms, right structures and then making sure that we're getting paid appropriately for those limits. And I think that the market has been absorbing that. I think that they've been waiting for it and believe at that level of discipline and leadership in the market is what is needed now.

Yaron Kinar {BIO 17146197 <GO>}

And I think you alluded the fact that that (inaudible) the AIG has been pulling back from some markets and shrinking our limits. With a lot of the heavy lifting now done as we enter 2020 or beyond and you don't have such a large player still looking to shrink limits, does that change the dynamic for the industry?

Peter Zaffino {BIO 15942020 <GO>}

I don't think so. I mean, first of all we talk about shrinking and, as Brian said last year, it's like we're shedding a lot of aggregate. But we still like put out big limits. I mean, it's just that we're not throwing out $2.5 billion on property or $150 million on casualty, but we still have very meaningful limits that are leadership characteristics in the marketplace. I'm not stating that we're done shedding aggregate. I think we have a lot to do still in the property in the first half of the year. But I think absent that, when I talk about the dynamics of what's happening in the reinsurance market, I think reinsurers are very careful in terms of where they're deploying capital, not only on property, but also on casualty, who are they going to back? They're going to back the better underwriters and where they think that trajectory is going to be positive in the future. So I don't think they're going to make a lot of. And so I think that if you look at the market dynamics, not just on supply, but how it's been evolving over 2019, there is nothing to suggest that 2020 there's entrants into the market or there is a different view on underlying business. I think it's just going to be a more disciplined market where, when you have leadership characteristics, a global footprint and excellent underwriting characteristics on broad lines of business, you are able to solve problems for your clients.

Yaron Kinar {BIO 17146197 <GO>}

Great.

Mark Lyons {BIO 21746221 <GO>}

Happy to add to that. As Peter mentioned, I certainly pivot a little bit from the industry data AIG [ph] in particular because I think there's a little different dynamics going on. So I think I've commented on the last earnings call that in some of our third-party lines, which will be the subject to that kind of the inflationary impact, that it's been -- I'd say, a lot of those lines I worked in the [ph] higher trend factors I think than a lot of our competitors, but here is the dynamic that you're going to conceptually get but the measurement is a little more difficult is a lot of the high severity trends that we've seen in AIG is partially caused by the adverse selection in the book prior.

So you take that, you try to make some adjustments, you project it forward, where that now on a go forward basis because of all the work Peter's doing and the change in distribution and the broader spectrum of risk quality coming in the door, that adverse selection is either massively reduced or not there anymore. So there is potential full of [ph] benefit associated with that. So I think that's one.

I think secondly is when you look about economic versus social inflation, there is recent evidence of the medical component of the CPI moving up, which would hit a lot of lines of business at the same time hospital services, physician services and things like that. Social inflation is -- there's really a not a lot of paid experience on that. There is views, there is venue shopping, things like [ph] litigation funding, things that are pushing things up. So it's a trend that can, again, conceptually happen but there's not a ton of numbers supporting it.

And lastly from AIG's book of business, a perspective, all the work that Peter and his team are doing is really changing the primary access mix of the business, more towards access of [ph] relative to prior years. And that has -- that have a beneficial impact of insulating you more from any compound growth in economic or social inflation because you are further away from risk. So I think all of those things are beneficial.

Yaron Kinar {BIO 17146197 <GO>}

Got it. And so not to put words in your mouth, I mean, I just want to make sure I understand this correctly, ultimately, these changes and the new portfolio mix is one that does allow you to -- it doesn't fully (inaudible) a bit more from social inflation and should allow maybe the continued momentum of margin improvement even in the face of social inflation?

Peter Zaffino {BIO 15942020 <GO>}

Well, I would -- the combination of all of those things are, think of it as like a ceiling on the impact of what it could be to us and some of the rate changes that Peter quoted on the last earnings call, in my view, are clearly in excess of that.

Mark Lyons {BIO 21746221 <GO>}

One thing I would add, one variable to add to that is reinsurance. I mean our casualty book, as Brian said, we didn't buy a lot of reinsurance before. So when we'd be talking about the sort of underlying fundamentals in 2017 and early '18, we could be taken $100 million net on casualty. So when you look at that, you have to trend that out. Our net today is $12.5 million. So look -- when you look at all the components of taken out some of the top end of the limits being very thoughtful on loss costs, making sure we're getting margin on pricing, getting the book structure the right way and then adding in reinsurance to make sure that we have less volatility, I think that's a different dynamic.

Yaron Kinar {BIO 17146197 <GO>}

Got it. That actually leads me to another question. Between the retrenchment and the increases of reinsurance, we've seen a lot of volatility and changes in the premium base of the company. With a lot of this now done, should we expect more stability going forward in the premium base and maybe a return to growth?

Brian Duperreault {BIO 1645891 <GO>}

Shall I answer that -- you want me to answer that, Peter?

Peter Zaffino {BIO 15942020 <GO>}

Yes.

Brian Duperreault {BIO 1645891 <GO>}

Well, I think over time, yes, I think you will. And Peter mentioned that, there is still some work to do on limits management in property in particular. So I'd say, we're still in this point of shedding limits, that's going to have some effect and the earned effect of these things flow through. So you're going to see maybe a difference between net written and net earned over time, but we should start to stabilize in 2020 and begin to grow over the -- over some period of time, next year into the rest of --

Peter Zaffino {BIO 15942020 <GO>}

What I would add is, I don't -- look, we have a casualty quota share, which was a very strategic placement that we did in 2019, that's still needs to earn its way through. But I mean are we looking at materially different reinsurance structures. They will evolve to reflect the current book that we have, but we're not playing as much catch up as we were in 2017 and '18. So we'll look at things strategically but we don't see anything that's material today, that's (inaudible)

Brian Duperreault {BIO 1645891 <GO>}

(inaudible) we haven't quite stabilized the portfolio, it will begin in 2020.

Mark Lyons {BIO 21746221 <GO>}

And if I could, just one thing to also to add that on the front end. As Peter mentioned, the net premium and on the gross premium side, primary businesses, the premium and the rate changes are a lot more correlated. When you get into excess business, I don't care what your line of business is, it's not necessarily premium additive. You can get a -- I'll make the numbers up. You can get a 15% rate increase. And because of where you're playing on the tower and you're moving up, the relative risk-reward trade-off still makes sense to do and you might have a 7% premium reduction but it's a 15% rate increase. And that's the book starts to shift at least proportionally, a little more excess in totality, that could possibly dampen some GWP, but let's be clear, both our loss ratio accretive.

Brian Duperreault {BIO 1645891 <GO>}

Yeah. Profit is everything.

Yaron Kinar {BIO 17146197 <GO>}

And as we move into excess layers, I mean, assuming we're talking about higher excess layers, because kind of the low excess layer, it seems like they are more into burn layer these days. Is that a fair assumption or not necessarily?

Mark Lyons {BIO 21746221 <GO>}

Well, if inflation continues then obviously it's going to move up, exposures into those layers and they will get more (inaudible) so sure it's natural.

Peter Zaffino {BIO 15942020 <GO>}

I'll give you a tangible example, like, if you look at our historic excess casualty portfolio, you really want to ventilate and make sure you have mid-excess and high-excess. And in addition to lead [ph] and this is the point Mark is getting at, which is, we led a 90% and then had small ventilation where we're trying to get to more of a 40% to 50% lead and then ventilate at the mid-excess or high-excess. And so while we keep the premium relatively flat, our risk adjusted repositioning of the portfolio is much stronger.

Yaron Kinar {BIO 17146197 <GO>}

Got it. I think you touched on this a bit earlier, maybe looking for additional repositioning or additional use of reinsurance on the property. So can you talk of any sort of say [ph] more color on what you're looking to do on property or even more broadly about the reinsurance program?

Mark Lyons {BIO 21746221 <GO>}

Yes. So I think with property what we strategically tried to do last year is make sure we dealt with frequency through an aggregate and severity through occurrence. And I think we did a really good job of putting a structure together knowing that 2019 was going to be an aggressive year of re-underwriting. So we've shed a significant amount of aggregate, particularly in our commercial book in North America. So I think you'll see similar themes as we go into 2020, but our book has improved and we don't have as much aggregate so you're able to tailor the reinsurance, a little bit more specific to the portfolio that we have. And so again, we have a very good business in Japan and one that we think is positioned well in the marketplace and has opportunities for margin expansion. So we want to make sure that we have a specific reinsurance structure there and that the North America and rest of world treaty and per risk reflects the book that we have today. And so you'll see some modifications, but it will be the same theme in terms of making sure we're protecting in frequency and severity.

Yaron Kinar {BIO 17146197 <GO>}

Got it. It's been a month I think since your earnings call, about a month. Any updates on Hagibis? I think you pegged the velocity of [ph] AIG very narrowly. But I think the Validus portion was sold pretty wide at that point. Any update you could offer there?

Peter Zaffino {BIO 15942020 <GO>}

It's a very complicated typhoon. I don't have any updates on numbers. Here's what I can tell you. The claims count is coming in lower than we expected at this stage. And we'll have an update at the end of the fourth quarter call. And quite frankly, the overall distribution of wind and flood was going to be, I think, a little bit more balanced and that's coming in with a little bit more wind to date. So it's just a very slow emerging claim that I think is going to take a little bit of time before we actually can get our arms around the aggregate, but it's not looking worse than what we had said in the fourth quarter. It's within the range and we're just going to need a little bit more time to determine how this one is going to play out.

Yaron Kinar {BIO 17146197 <GO>}

Got it. And do you have a sense on a gross basis, how that compares to Jebi?

Peter Zaffino {BIO 15942020 <GO>}

I do, but I prefer to wait till the fourth quarter call if I may.

Yaron Kinar {BIO 17146197 <GO>}

Fair enough.

Mark Lyons {BIO 21746221 <GO>}

And just one other thing, I guess Peter alluded to, there is a difference of between estimating things on the primary insurance basis versus doing out a [ph] reinsurance (inaudible), you got to wait for your ceding companies and so forth that it might be more market share driven as opposed to the granular (inaudible) that Peter was describing. So with the acquisition of Validus, AIG has both components. That have different visibilities.

Yaron Kinar {BIO 17146197 <GO>}

Right. I think a couple of the reinsurers have come out with Hagibis estimates. But we'll wait.

Brian Duperreault {BIO 1645891 <GO>}

I personally think that's very hard to do at this stage.

Yaron Kinar {BIO 17146197 <GO>}

Okay.

Brian Duperreault {BIO 1645891 <GO>}

And it's because of what we're seeing I think is going to be consistent with other ceding companies and there is no conclusion yet. So having a reinsurance point of view today is premature.

Yaron Kinar {BIO 17146197 <GO>}

Okay. And given that we've now seen three very large events in Japan in 18 months or so and more events beyond that. Does that make you rethink exposure to Japan on the property side?

Peter Zaffino {BIO 15942020 <GO>}

No. I mean we think Japan is a very good market. Yes, it's kind of a spate of cats, but the market has always been one that rebounds and has produced underwriting profits over -- as long as I can remember. And so this will -- this market will adjust to these events, and so we think it's a great market and we're very happy to be in it.

Mark Lyons {BIO 21746221 <GO>}

If I could add something. We do think like in terms of the loss ratio there is enough margin to price for cat. Japan for us is more of an expense issue and that's going to be a key part of AIG 200 of modernizing our operating technology platforms straight through processing and digitizing user experience, things of that nature to be highly strategic, we'll have a outcome for us to make us more competitive in that marketplace. But there is enough margin --

Yaron Kinar {BIO 17146197 <GO>}

Yes, it's good point.

Mark Lyons {BIO 21746221 <GO>}

To price for the cat and we have a terrific business there.

Yaron Kinar {BIO 17146197 <GO>}

Okay. And maybe if I could, one on -- one or two on life before I'll open it up to the audience. So we are in an extended low rate environment. We've also seen a bit of a net outflows situation not necessarily unique to AIG. With that dynamic, should one expect may be slow but continue deterioration or compression of ROE in the business?

Brian Duperreault {BIO 1645891 <GO>}

Well, I think the -- certainly, the rate environment spread compression would -- puts pressure on it. And so I think we've been quoting kind of a range and it probably gravitates a little bit to lower end, all things being equal. I mean a good thing about our portfolio is it is a very well balanced portfolio in terms of the annuity products that we put out. So we can adjust to that which is producing better economics and relatively speaking, and is also of interest to our buyer. So we have the ability to adjust and I think that helps us here.

Yaron Kinar {BIO 17146197 <GO>}

Got it. I want to give the audience an opportunity to ask their question as well, if there is anything. Go ahead or wait for the microphone.

Questions And Answers

Q - Unidentified Participant

Capital management priorities you spoke to. Can we think of that as sort of a 2020 event or is that more of a multi-year? I don't know if you've put out targets as to how much flexibility you want around your leverage calculation or things like that as you think about maybe doing more M&A down the road?

A - Brian Duperreault {BIO 1645891 <GO>}

Yeah. So if it's just the leverage M&A question, I think the priority is to address leverage now, in 2020. Past that, I'm not sure that we have a pressing need to keep going down and down and down, but we don't have a lot of flexibility right now in our leverage. And so we want to get that. M&A is -- it's a question of whether there is an asset out there that actually helps us, makes us better. And those some time pop up, sometimes they don't -- more likely not, and (inaudible) always have to keep your eye open on it, about it. I mean we have a great portfolio of businesses on a global scale. We have enough capabilities and enough opportunities out there to keep us very busy the next several years. But there are -- there is still some white space in the company that if we can fill in that white space we would do it. But you just can't ever predict M&A because if you're disciplined about it then these things come along every once in a while.

A - Mark Lyons {BIO 21746221 <GO>}

And just to amplify one other quick thing on that, if I could on the debt aspect. We put that out as a priority, as Brian has just mentioned. It doesn't mean it's the only priority. But it is a priority. But the way you get that down. It's a function of numerator and denominator. So we could print good solid earnings, that's helpful. But your opportunities to really do it something other than marginally do something is a function of when your debt matures. So some of that debt maturing to get us where we want to be will go into 2021.

Q - Unidentified Participant

Thank you.

Q - Yaron Kinar {BIO 17146197 <GO>}

I think, we'll probably wrap it up (inaudible) time. So, thank you very much.

A - Brian Duperreault {BIO 1645891 <GO>}

Thank you.

A - Mark Lyons {BIO 21746221 <GO>}

Thank you.