2020 KBW Insurance Conference

Company Participants

- Mark Lyons, Executive Vice President and Chief Financial Officer
- Sabra Purtill, Deputy Chief Financial Officer and Treasurer

Other Participants

- Analyst

Presentation

Mark Lyons {BIO 21746221 <GO>}

(starts abruptly) I think one positive thing though is that the foundational work that AIG has done over the last couple of years, is a great positioning. I think a lot of carriers can make a similar claim of being positioned, but both in a relative and in absolute sense, I think we're in a much better positioning, especially with this current market environment and the economic environment.

So, given that as a backdrop, our liquidity position is strong, our capital position is strong, our commercial lines book, particularly in North America, has been largely re-underwritten, it has got multiple bites at the apple. I'm sure we may get in something like that a little bit more later. The lot -- there is continuing hardening in the market and it comes in many forms, price is most obvious, but there's other ways to improve books, and that's continuing. We derisk the CAT exposure, and you've heard Peter Zaffino talking about that quite a bit. Through underwriting and also increasing our aggregate reinsurance coverage, we created Syndicate 2019, to deal with that spike on the personal line side, on the high net worth and as a result, the growth in that limit profile is radically different, than it was before, across many lines including casualty.

We've really managed our product offerings and the hedging programs in Life and Retirement side, mitigating the impact of the low interest rates, the volatile markets and the impact on reserves and capital, it's consequent to that. COVID though, continues to impact industry results. But there has also been a number of events this quarter, that's really been, I think to your earlier point, pretty noisy, certainly a lot of hurricanes, there's been typhoons, we've had a route explosion, not that that's a CAT. But it's large unexpected risk event, wildfires that are still ongoing, COVID that's still ongoing, civil unrest is still ongoing. Even the Iowa derecho, which I have to confess, I have to go back and look at it, as to sort of where I pronounce every day, by the way. So I needed to get up to speed on that.

But all of these things aggregate and low interest rate environment, that make it more difficult and make things more price sensitive, in a correction type of sense. So, but I think it's safe to say, with all of that, it's still September 9th, so the quarter is not even over yet. So, it's really hard to get a big year for how the quarter but look on CATs given that we still have quite a ways to go, and CAT season in the Atlantic Basin doesn't even end until basically Halloween, probably appropriately so. But, as a result of that, that we want to remind you that on the reinsurance side, in addition to our current covers, we have material aggregate protection, as well, and we even bought an additional 500 million of that, to help with that regard earlier this year, before reinsurance market started to harden. So -- but I think just broadly, we're confident in the team. We're confident in the business profile that we now have, and with the balance sheet. So, without taking any more time on overall comments, let me turn it back over to you, and let's kick off the chat.

Analyst

Okay, fantastic. Certainly people want to hear more of you, than they do from me. I mean it's always true. So, let me kick off with one point that you made. You did spend a lot of time talking about adjusting risk selection and limits management, over the past couple of years. And I look at that as A or V, primary focus on the P&C side. I was hoping you could update us on where you are in that process and how much of that AIG specific effort needs to continue, and how does the fact that we're in a changing pricing environment, impact that strategy?

Mark Lyons {BIO 21746221 <GO>}

Yeah. Well, I think you're right. I think Peter spend a fair amount of time on the earnings call, going into a lot of detail on that. Because there was a lot of lift that needed to happen. And it was done in a kind of a compounded way. When you talk to some of the underwriting executive management, you find out that you've got multiple bites at the apple. Some are getting to the second bite, some are getting into the third bite at the apple. Some getting no bites, because we identified poor risks and got them out.

So I'd say the first round, i'll just put this in context, I'd say the first round dealt more with limits management in a purported reduction sense, price hardening and really weeding out underperforming areas and accounts. And the second bite probably was a lot more with, little bit compression in concert with the past deductible movement up, not just capacity shrinkage, a lot more T and C, being Terms and Conditions, being involved and implemented.

And for those who are getting a third bite of the apple, you've got not only rate on rate, but rate on rate on rate. And so, I think we're pretty good positioned. I think we're pretty far along. We're comfortable with the portfolio as a result of all those bites at the apple. And I think one of the last things that we really had to do was the concentration risk associated with PCG high net worth, which we have now had a solution for.

So the short answer is, we're pretty comfortable with the portfolio as it is. And then the second part of your question was with regard to the hardening. That's just allows that to be implemented on a continuing basis.

Analyst

Okay, thank you. Another strategic question, earlier in the year, which now seems like centuries ago, there was a comment that we saw hardening primary insurance market and hardening retro market, without much happening in reinsurance, and my sense is that reinsurance is catching up. I was hoping you could comment on, one, does that match what you're seeing and two, maybe more broadly, how should investors think about Validus Re in the context of AIG?

Mark Lyons {BIO 21746221 <GO>}

Well, first, let me just reiterate the first point, which is the rate increases were continuing to occur at an increasing rate, and so on the primary side that's what we continue to see and we really haven't seen anything sway back, when we looked into early 3Q. With Validus, I think Peter may have commented on this as well, but with Validus they've also -- they grew their volume on non-property spaces last quarter pretty significantly, but they continue to have the de-risk property view that we had across the Board.

So, I think they reduced their volatility as a result, and they saw areas of growth, and as the reinsurance market hardens, that Validus is in a position to really capitalize on. If the trade-off is correct between risk and exposure, then even the property aspect could probably inch up, but they are very well positioned to capitalize on every line of business.

Sabra Purtill {BIO 1764408 <GO>}

Yeah. And just to add on that, Peter had commented on the earnings call that Validus Re net written premiums were up about 39% and in terms of all lines combined, the rates were up about 16%. So, clearly they are growing in this market opportunity.

Analyst

Okay. And it's important for us to understand that again, you've had a lot of success in implementing this volatility reduction structure and the rate environment may actually now allow that to increase respectively.

Mark Lyons {BIO 21746221 <GO>}

Yes.

Sabra Purtill {BIO 1764408 <GO>}

And that's one of the things that why we pointed to, because I think one of the challenges that we have sometimes is when people look at AIG, they look at general Insurance in total, they don't drill down into North American commercial lines or just commercial lines and total versus personal lines and we got a fair amount of criticism earlier in the year and late last year about how our topline was not growing as much. And as you'll note, in commercial lines, in North America commercial lines last quarter, net written was up about 7%, because with the repricing and the re-underwriting that Mark talked about, being significantly through the last couple of years, now we're in a market where we feel comfortable growing and obviously are getting rate. You have to look at it drilling down into the four different segments we give you, because personal lines on the other hand, as you know is a completely different market rate story than commercial lines.

Analyst

No, absolutely. And that's helpful. I do have one question coming in asking about your thoughts for growth going forward. You grew during one of the challenging economic periods. So I think that's a positive sign. But, is there anything you can share in terms of growth expectations back half of 2020 looking forward?

Mark Lyons {BIO 21746221 <GO>}

Well, I think in a directional sense, I think it's pretty clear that, there is margin expansion, to add to Sabra's comments, I think is a nice intro into the fact that all rates and margin expansion are not equal, either by line or by geography. So I think, it's fair to say that North American commercial, in a rank order, North American commercial should see the best gain probably followed by international commercial with personal lines, underneath that, for all the reasons we know, LIBOR heavily regulated tougher to get larger increases more muted.

We are, especially with North American commercial, it's not as a retail-driven. There's a lot of wholesale non-admitted business as well. And you've got much more freedom of written form in that environment. So I think there's quite a few areas, which we are in for two reasons, Pivoting, the book has been re-positioned, the market is very supportive and because the book has been re-positioned, we are now less reinsurance dependent, than we may have been in the past. Reinsurance was very valuable by all the partners that came on board with us, and you're always going to need that for catastrophe risks and vertical shock and that kind of thing.

But the -- I agree with you. The market is hardening on the reinsurance side, and we have Validus to take advantage of that, but from a reinsurance purchasing point of view, it's going to be negotiations that are going to be probably pretty complex, they are in their environment, as you said they lagged on rate and so but, we're in a position now that if the reinsurance terms and conditions of pricing, we think are too stiff, we're much more comfortable taking that.

Sabra Purtill {BIO 1764408 <GO>}

I would just add to that, in terms of the book itself, you got to keep in mind the components that drive growth. You've got retention on your existing book, which as we were repricing and re-underwriting obviously, the retention was lower. Peter commented that retention is up like 4, and 5 points compared to where it had been a year ago.

Secondly, there's new business, and Peter also commented on the call that new business volumes are actually kind of light in the second quarter because of this -- just the disruption that we're seeing, right, sales were low at Eleanor as well, but now the people have adapted to this new environment, and we would hope and expect to see higher volumes of new business as well.

And then of course as we've all been talking about there is rate. So from that perspective, we would hope and expect that we're going to continue to maintain strong retention, rate will go where rate goes, and as a market leader in many areas, we would hope to see stronger new business as well.

Analyst

Excellent. Thanks. There was one comment that Mark made on the conference call, got a lot of attention. And frankly, I was surprised how surprising, it was. And that's with regard to loss trend volatility when we go through a, I call it once in a century event. I was hoping you could flush out what you're seeing with loss trends and how comfortable you are, that even maybe some of the more pessimistic scenarios are reflected in pricing and in reserving.

Mark Lyons {BIO 21746221 <GO>}

Okay. Well, I was a little surprised too, quite frankly, because I thought some of my theme was pretty consistent with what I've said in the past. I think, which I'm happy to go over, and directly answer your question, I think it may have been, because it was in the context of margin expansion as opposed to pure loss trend, and I think I made the comment that if -- Peter talked about a 16% increase globally and it was 21% in North America, lesser internationally and no one thinks is 21% loss trend. Right. So therefore there is margin expansion in that sector.

So I think maybe they've got some of it, but you do have a lot of other forces, some of which I think are really compounded now by COVID. I mean you always had the litigation funding aspects, you've got some runway verdicts and so forth, but there still few and far, that wasn't a panacea at that point, but with COVID, you've got now dockets in court rooms that are really backed up. It's difficult to really get those things through.

So in some cases, it's going to be, especially on the GL side, or GL products side, I think there is a real argument that, that's not a claim reduction, that's a claim deferral, and that will manifest, it's just going to be a longer time of realization perhaps on some of those. Certain lines like comp, it will become more self-evident, but AIG's comp book is largely the three line large deals, so it's large deductible. So it's insurance money more than it's AIG's money, right, involved with this inside of deductible. But one advantage, because you expect to see with people off the streets, that from an auto perspective, it certainly would be a smaller exposure.

But AIG has really shrunk its auto book pretty dramatically and I'm glad to say, in the trucking space, because with trucking you pretty much got to take it all in, right, it's -- you can't cherry pick and exposure here. There you take all those so depends on the size. Where a smaller insurance, you got a much different choice, on what you're doing. So you've got that. I mean, you've got the upcoming elections. I mean, that always -- with Supreme Court's and the public court's designees and so forth is always changed. And the -- I would say even the civil unrest aspects could find itself on personal and some commercial lines, creating different exposures and emergences audits. So it's -- I think my comment was mostly around the increased volatility of the loss trend, as opposed to loss trend itself.

But for clarity, is there a margin expansion in North American commercial? Yes.

Analyst

Okay. And I think that's probably the bottom line of what people are looking for, and it sounds like you're comfortable with that on both the rate and reserve side.

Mark Lyons {BIO 21746221 <GO>}

Yes.

Analyst

Okay. Another issue that emerged in second quarter was the impact of a much smaller book of travel insurance within North American personal and I think that was more just the mix of loss and expense as opposed to anything sort of fundamental with profitability. I was hoping you could update us on how that market in terms of demand and how the market for event cancellations has been evolving over the course of 2020?

Mark Lyons {BIO 21746221 <GO>}

Okay. (inaudible) start off that one.

Sabra Purtill {BIO 1764408 <GO>}

Sure. So to start with our travel book which is in personal lines in both North America and International, although the bulk of that is North America. It's about a $1.3 billion book, and clearly when COVID emerged and flight restrictions and travel restrictions went into place, people aren't buying plane tickets, so they weren't buying the travel insurance and as we talked about in the first quarter, we had a -- I think it was about $86 million of our loss picks for the first quarter were related to travel.

But when we have a commission sharing a range with that a profit-sharing arrangement, so that as we -- people start traveling and buying tickets again, we will actually recoup some of that through lower commission rate. But as you pointed out, the travel book is a relatively low loss ratio, high expense ratio book of business. So, lacking the premium in that, in the second quarter, combined with the fact that we obviously still have employees in the travel business who claims customer service, and finance and the rest, it really kind of made the North American Personal Lines ratios quite strange compared to prior years. And then when you added the Syndicate 2019 on top of it, it was unusual.

We continue to be a market leader in that business and we would expect, as 2021 comes along, that we'll be again, people will be buying it, and frankly, I think the type of the product that people buy will be a lot different going forward, in part because you've had this experience that we've all gone through, right and so probably there'll be higher utilization, but by the same token, you do have some airlines, for instance, United has permanently waived change in cancellation fees. So, I think people might be more likely buying in and -- hotels and car rentals and things like that. The other thing I would just note and then on the event cancellation, so as the event cancellations book is largely written through Talbot in our international portfolio and its commercial lines.

Obviously, and Mark can comment on this with his actual real background, then we have taken reserves for those events that we have had known cancellations and there are some events that were postponed, like the Kentucky Derby, which ran this week and-or the Olympics, which were pushed to 2021. So we still have exposure to the extent there is additional cancellations, but as far as the product right now, as you can imagine, given the uncertainty, first of all, people just aren't scheduling events. And then secondly, it's kind of hard to price and underwrite in this very unusual environment for event cancellation. But the events cancellation in the travel book, combined with the business interruption, where we have what I would call affirmative, contagious disease coverage, that's about 70% of the reserves that we've taken for COVID.

Mark Lyons {BIO 21746221 <GO>}

I wouldn't add much more to that really, I think it's important to realize that distribution is inventive and innovative, so as airline travel is dropped off, lets say European travel, they've pivoted towards having Western RV Park visits and things like that. So they're just shifting to a different items. So the indications of course is that generally there was more travel, incrementally more travel in July and August, and we're really a derivative product travel itself. So there's put about a little uplift on that.

And on event cancellation, you also have not appearance. So you could have a broader event. It's not just an events or a rock group, it could be a series of performers and there could be a non-appearance by one of them, where it goes on, but it's still impactful. But, so you have that covered. Still, but that's not similar, people don't want to take the risk of going through all that event creation and being on the hook.

Analyst

Okay, thank you. The next question is both internal and external, and it's with regards to changing work environments. So, that has implications, I think both for potential loss is people aren't shopping. You don't have the slip and falls, you don't have workers compensation claim frequency, how does a Company like AIG anticipate a changing set of exposures in pricing and in underwriting, and then internally, obviously there is AIG-200 ongoing right now. And I've actually this has ramifications for that as well. So I was hoping you could talk about those two sides of this COVID induced phenomenon?

Mark Lyons {BIO 21746221 <GO>}

Well, let me just start that. I'll start with the insurance evaluation on it. Clearly, if there is fewer companies that need insurance, that's impactful and the ones that continue to need it, if their exposure drops that's impactful, meaning negatively impactful. But and therefore the exposure base itself may not necessarily be proportional to the risk anymore. I think the classic example, let's say pre-COVID is why you cant get quarterly CAT covers. Right. So that would be too concentrated the CAT is over the course of the year and you just can't buy a 3Q CAT cover, because it also it's disproportionate. So I think -- I think from that respect, you get that kind of the impact, but. So what do you got to do, you got to be very careful as to what the exposures are, have there been divestitures in that, does sales and workers comp of payroll, are they matching up with each other.

You could wind up having some of the distribution force trying to help their customers, take the low end of the exposures and therefore you're setting yourself up for additional premium on audit and things of that nature. So you don't want to have a disproportionate out of your book, subject to annualize being audit bring in as opposed to the (inaudible). So, but overall, it's the insurance side, it's fewer exposure units and perhaps different lower exposures within those exposure units, coupled with the measurement exposure itself being appropriate it. So it's really, there is certain coverages or certain industries that you can tag, hotels for example and others that you can tag as going to be down for a while, but on the line-by-line, account-by-account basis, they are the things you have you focus on.

Now, I would say pretty everything to add before we put it to actually the inside as opposed to the outside.

Sabra Purtill {BIO 1764408 <GO>}

Ideally, I want to add is just a reminder that obviously we within AIGRM, the AIG Risk Management book of business, a lot of that experience change is going to be in the working layer of the policyholder as opposed to the excess layers, which is where we would attach.

Mark Lyons {BIO 21746221 <GO>}

Right and I think we said the average deductible attachment, is our comp GL Auto, three line deals, it's averaging north of a million. As so you're going to eliminate a lot down there. If it was softer markedly at $100,000, $200,000, it's a different story. But this eliminates a lot of frequency and a fair amount of severity at those levels as well. On the inside, just take AIG, for example, we are targeting a January 1st to in a lot of countries, right, and a lot of different offices. So, it's not an absolute rule. But it's not a bright line, it's a line of demarcation, but with -- we made that call a while ago. But with all the increasing unknowns. So If kids are going back to school, there you see in, for us, all the aggregations, whether it's college or just other events that happen that could possibly reopen things again.

So, others are doing similar things. So If they are not reopening their offices, that can also lead to your first question about the insurable exposures, but it could just change the level of the recovery, putting on your stress assumptions, but from an AIG-200 perspective, we actually got some benefits because people are traveling, that everyone's really available for group meetings. So we're actually getting more done in that respect, as opposed to less done in that respect.

Sabra, anything you want to add?

Sabra Purtill {BIO 1764408 <GO>}

I would just add and that we commented in the second call, I mean the priority as some of the programs and the progress that we've made under AIG-200 is a little different than what we thought it was going to be at the start of the year. But we do remain on track, both from the expense realization as well as the project perspective, it's a three-year program. Right? So we've still got some time to go.

Analyst

But it sounds, I don't want to put words in your mouth, but it sounds like you've had the opportunity to move ahead with some of the things, because you've had more time to discuss them.

Sabra Purtill {BIO 1764408 <GO>}

Yeah. An example would be on our commercial underwriting platform, because, as Mark said, people are available to work on the projects. We aren't traveling, there is -- we're not doing client entertainment and things like that, that people are available and focused on getting their technology platform pulled together and making very good progress on that, faster than we expected.

Analyst

Okay. We've had a question come in and I can guarantee it's not the first time that you've heard this question, but it clearly comes up a lot. And that is, with regard to both, the financial and strategic benefits of keeping Life and Property & Casualty under one umbrella, instead of having multiple companies. Can you give us an update on, well, I guess, does your thinking on that change over time and how you are thinking about it now?

Mark Lyons {BIO 21746221 <GO>}

Both Brian said, that's something that is a primary responsibility of a CEO and the senior team with the Board. Those things are constantly reviewed and on the landscape of competing alternatives of what things you can do. But, let's not forget, it's still have although tax rate was 21 right, from 35. So it's shrunk the size a bit. It's still meaningful, is about 8.6, I think at quarter end. Between the NOLs and foreign tax credits. There still meaningful as is the capital diversification benefits that you get.

And there's other aspects to, but just because they shrunk, doesn't mean they are not so material and depending on who wins, you read some of the platforms at rate goes back to 28%, that kind of takes half of that back. That was cut prior. So it's a continual topic, of course, but I just don't want people to underplay the material impact of the items I just referenced.

Analyst

Right. The way you're discussing at those, I understand correctly, more on the financial side and strategic side, is that a fair read?

Mark Lyons {BIO 21746221 <GO>}

No, it would be, you got to look at more than one lens, on those things. And so multiple lenses would be used.

Analyst

Okay. I guess, the related capital question or maybe I am trying too hard for natural side where it doesn't exist, but can you give us, impact on capital management opportunities, whether that's share repurchases, M&A opportunities or more broadly.

Mark Lyons {BIO 21746221 <GO>}

Well, I think lets make a couple of observations first, right. As I said up, I'll ask Sabra to also, churn in on that. So, prior to COVID, we made three comments that, debt leverage reduction was one of our key or higher level key priorities, and in the face of COVID what have we done. We initially took a partial drawdown on our revolver in a liquidity and capital risk management framework.

We've repaid debt fully, as we've disclosed, and we went to the capital markets as both a better economic time period to do it, but also to get in advance, we could return that revolver money and pre-fund a fair amount of debt maturities to go through the early part of next year by $2.8 billion, which go through early part of next year.

So view it as a temporary meaningful, still unknown corporate risk management approach, overall. So, the consequence of that is to have your debt and coverage change, but there's going to be natural improvement on that as the maturing securities run through. And that will take the leverage back to a much more manageable period of time, which would then open the door to other capital management options. So, I think, after all I'm trying to do is, similar to your segue, is to say what was the priority and how has that changed. And why did the change. It was for that reason, but it will also naturally reduce over time and then make that not as a key concern because it won't be viewed really as a debt leverage outlier.

Analyst

Thank you.

Sabra Purtill {BIO 1764408 <GO>}

And I would just. I would just add to that, because you did ask especially about M&A. Obviously with our stock price trading where it is, the most attractive opportunities we see for capital deployment, are first organically within the commercial lines book, because of everything we've been talking about in terms of the pricing momentum and expected improvement in the margins in that book of business. And then secondly, obviously, share repurchase, so M&A is not something that's a priority for us at this point in time. I know that there are some transactions out there, and notably like all states transaction, but for us, we're really focused on organic growth opportunities, and as Mark mentioned, in managing the balance sheet, relative to our leverage ratios right now.

Analyst

Okay, that's helpful, and yes, certainly there are, I mean I'm sure you're getting no shortage of people encouraging some sort of several purchase, obviously when your confidence in the economic environment allows it. Another obvious use of cash is on the investment portfolio and here, this is a multi-faceted question. How does the strategy evolve, when you've got, you've got lower interest rates, you got other opportunities and challenges in the investment arena. How do we take all of that, all of those inputs and understand how the investment approach is staying the same or changing.

Mark Lyons {BIO 21746221 <GO>}

Well, I think you saw in the deck that IR put together, for the second quarter and fixed income quarter-over-quarter, roughly a 40 dip drop off quarter-over-quarter fixed income, which is in automation of things. So you're going to get compression and that's going to hit NII across the Board. That's going to hit LLR which is a spread business right. So it's clear that there's a lot of places where that could hit.

On the GI side, for example, first off, remember, the durations and the volatility are radically different in rough numbers you could -- you got about a 3.5 year duration on the GI side meet their peers on the LLR side, but the volatility characteristics are also a radically different. Right. You can have massive CAT call and other aspects of the property casualty side and a lot of risk losses where things are more long term, the variability is not as great on the Life and Retirement side at any given quarter or any given calendar year. So you need longer dated assets. We have other issues because of variable annuity guarantees and things like that that you have to manage around. Whereas GI, you have to have it, you're trying to maximize yield, but you can't do it in a silly way, because you got to have a highly liquid assets on the regulatory framework on that. So going into a planting season is what is your mix of business, what is the volatility current characteristics. Therefore the predictable aspects of those cash flows on both sides of the house are going out the door and given we have $350 billion, and that's for assets. So it's -- First, you got to think about what's the scale that we have to buy, you can't go out and try to get 20% of an asset class market as an extreme example is good luck on something like that. But you're also doing it with a nicer tax efficiency and capital efficiency, so you're trying to get a good enough spread that you also minimize the capital allocated to the investment function the rectification credits that you get there.

So it's, there is a lot that goes on, but I think it's -- it would be naive to say anything, but there is increased pressure on, as we stay into this continued low rated environment by it's increased pressure. So what's that do on the other end, that's another sustaining clear force towards on the PC side anyway by keeping rates strong and maintaining that because that's going to be made up somewhere, and that's where it has to be better.

Analyst

Okay. I've got a related question to this and I was hoping you could share with us your thoughts on earnings visibility going forward, because we've got the interest rate pressure, we've got the rental improvement on underwriting results within P&C, we've got pressure in Life and Retirement, can you couple all that together for us in terms of earnings visibility?

Mark Lyons {BIO 21746221 <GO>}

Yeah, I still think COVID's so far is such a screwball, that we're not going to really have a lot of visibility. I still feel the same way I did in March on that. I still think there's going to be increased government programs, that's going to possibly change the dynamics, on what it supports and what it may not support, in terms of keeping assets strong and so forth. And we don't know what the tax rate is going to have a liquidity. I think it's going to have to try to taxes up right, if we keep doing that would change it. So I think really the straightforward answer to your question is, 2021 is going to be where we should have some increased visibility, but it's not the latter half of this year.

Analyst

Okay, thank you. We're one of the issues with the third quarter of an actuarial assumption review. Can you update us on current long-term interest rate assumptions? And how on the outside, we should think about the updating process?

Mark Lyons {BIO 21746221 <GO>}

Okay. Well, the current 10-year assumption was 3.5%. And that's last year when you actually lowered to 3.5%, I think on those that disclose it was pretty much down the middle. It was some higher, some lower than that. I think a couple of our -- our peers have come out and one lowered it from 3.75% to 3.25% I believe, and another ones in the 2%s. We have a really good internal process on that. The process is going to be the same, it's not like we're radically changing the process, the governance is good, it is a robust process around reviews of outside eyes, whether it'd be ERM or other other constituents inside the company and outside the company. I'm taking a look at those assumptions. So I don't have the details for you. That will be on our call that will have it, but I think it's fair to say that it will wind up being that at least that plug which is the 10-year that everyone focuses on, which is only a piece of the action, right, the spreads -- and mean reversion of that over time of that whatever you target at, what's it going to be in 5 years, 10 years, 15 years and so forth. So I think it's safe to say it's going to be lower than what we have now.

Sabra Purtill {BIO 1764408 <GO>}

Yeah. And just to add recall. It's all assumption. So it's policyholder behavior, lapse behavior, expenses and the rest. And as you know, a lot of this will with LDTI coming along in 2022 and 2023, it's all going to change again. So, but it is a soup to nuts kind of evaluation of the performance underlying the contracts and, as you know, our portfolio is mostly annuity based, there is a life portfolio as well, where we look at mortality assumptions. Although we have talked about how although COVID has elevated mortality, it's not significantly different than pricing assumptions with respect to mortality.

And then with respect to lapse assumptions, in a low interest rate environment, the lapse performance on fixed annuities and fixed index actually improved, which lengthens the duration and give a longer recovery period to obviously make the spreads on that. So, it is like I said not, this is an excessive amount of focus on the interest rate assumptions. I think, and we'll be talking about all of those when we report third quarter earnings.

Analyst

Yeah. So it's certainly very complex. So, thank you. So we've got about a minute left. And I was just going to ask both Mark and Sabra for closing comments, in terms of maybe what, this will be my opinion, I trust you shared, what the market is missing with regard to AIG and its intrinsic value?

Mark Lyons {BIO 21746221 <GO>}

That's a great question. That's a great question. I would say that the -- although, I believe it's acknowledged that the general insurance turnaround has been complex and a steep incline to pull off, we have pulled that off. And I think more than anything else, the engine inside that has not really been appreciated by the marketplace. Yes, I'll keep it (inaudible).

Sabra Purtill {BIO 1764408 <GO>}

And I'll say that I think that and look, we understand the Life and Retirement business is not a particularly well valued by the market at this point in time, but we do have a very strong balanced conservative portfolio of Life and Retirement products. It is more Retirement than it is Life. And we have, as you know, a very strong group retirement business with VALIC, diversification among the products, we have no legacy exposure to long-term care. We don't have legacy exposure to what I would call the nuclear arms race variable annuity-type products.

So, we have a very strong stable portfolio that has generated significant income over time. And it will, perhaps because people are focused on the GI turnaround and perhaps because we don't do a good enough job explaining that to people. I do think that the valuation that's being put on our Life and Retirement business isn't reflective of their cash flows or returns.

Analyst

I put an applaud for three hour conference call with every earnings, but I'm not sure that, that is actually practical. Mark and Sabra, thank you. This was very informative. Very helpful. And thank you very much for your time and look forward to speaking with you again soon.

Mark Lyons {BIO 21746221 <GO>}

Yes. Thanks for inviting us.

Sabra Purtill {BIO 1764408 <GO>}

Thank you.