Goldman Sachs U.S. Financial Services Conference

Company Participants

- Brian Duperreault, President, Chief Executive Officer & Director
- Kevin T. Hogan, Executive Vice President & Chief Executive Officer, Life & Retirement
- Mark Donald Lyons, Senior Vice President & Chief Actuary-General Insurance
- Peter Zaffino, Executive Vice President and Chief Executive Officer-General Insurance
- Yaron Kinar, Analyst

MANAGEMENT DISCUSSION SECTION

Yaron Kinar {BIO 17146197 <GO>}

All right, good morning, everybody. Thanks for joining us this morning. I have a very distinguished lineup here from AIG. Immediately to my right is President and CEO, Brian Duperreault; to his right is the new CFO as well as Chief Actuary of General Insurance, Mark Lyons; to his right is Global COO and CEO of General Insurance, Peter Zaffino; and last but certainly not least is the CEO of Life & Retirement, Kevin Hogan.

Brian, you've clearly set high expectations for the company and you've surrounded yourself by a formidable team here. I look forward to the next 35 minutes or so to hear more about the company. But maybe before we dive-in to live questions, I'll give you an opportunity to make some opening remarks.

Brian Duperreault {BIO 1645891 <GO>}

Terrific, thank you. Thanks, Yaron. I really appreciate having the opportunity to speak today. And thanks to everybody for joining us today.

Before we get into our discussion, I'd like to make a few prepared remarks. As most of you have seen last night, we named Mark Lyons as AIG's Chief Financial Officer. We're extremely fortunate to have someone of Mark's caliber and experience in that role. I want to take a moment to say – to thank Sid for his many contributions over the last few years as CFO and as Chief Risk Officer before that. He will be staying on and help us close the books on fiscal 2018 and ensure a smooth transition.

When we approached Mark earlier in the year to join us as Chief Actuary for our General Insurance business, he was already the CFO of a publically traded insurance company. Fortunately, he saw great potential and opportunity at AIG, and agreed to join Peter and our General Insurance team. Not only does he had deep actuarial experience, something he's been putting to good use over the last several months, he is a strategic partner as well. As you know, when I joined AIG last year, we began to take decisive actions to restore profitable growth in our core business in GI. We moved quickly to restore best-inclass underwriting principles and mitigate risk and volatility by restructuring our approach to reinsurance and risk limits. Peter's attracted some of the best talent in the industry.

And while you know that I've been reluctant to give financial guidance today, I'd like to share some metrics. So, now, we see the fourth quarter of 2018 and 2019 coming in. Our current outlook is impacted, of course, by equity market conditions and the closing of Fortitude Re. And I'm pleased to reaffirm that General Insurance is progressing according to plan and is on track to enter 2019 at a slight underwriting profit, including AAL.

We're also on track to reach $450 million in targeted run rate expense savings net of investments in the business. The majority of the expense savings will be visible in General Insurance and AIG parent. In Life & Retirement, we are investing in new business growth, which will lead to a modest increase in expenses there.

Looking at GI more specifically – and by the way, we're going to send something out later on this thing, so you don't have to write this all down because I'm going to give you a lot of data here. Anyway, looking at GI more specifically, cat losses for Michael are trending up to the upper end of the previous guidance we issued. And on the California wildfires, reinsurance will respond to a single event and will add between $150 million and $175 million net pre-tax losses because of the attachment of our aggregate cover. Additionally, Validus's pre-tax loss for wildfires is expected to be around $60 million. So the latest net loss estimates for Q4 cat events to date is in the range of $750 million to $800 million on a pre-tax basis. These estimates do not include, of course, December events, whatever they may be.

For GI, in 2019, as I mentioned, we expect to enter the year with a slight underwriting profit, including AAL, and net earned premium is expected to be consistent with 2018 levels.

In Life & Retirement, fourth quarter pre-tax income should be relatively flat from reported Q3 pre-tax income, reflecting equity market volatility, which impacted both net investment income and fee income in the fourth quarter. Overall, we expect Life & Retirement Q4 returns on equity in the low double digits due to equity market performance quarter to date.

We are pleased to see that the Life & Retirement top line growth continues to improve, although earnings will be down in the second half, partly related to investments in new business and growth initiatives. In 2019, Life & Retirement pre-tax income is expected to be flat from full 2018, and we expect its ROE in the range of our full-year run rate, assuming, of course, markets stabilize.

In our legacy business, you will have seen that we closed the sale of 19.9% of Fortitude Re to Carlyle on November 14. This minority share in a non-controlling interest is now reported on our income statement, which has the effect of reducing AIG's earnings per share. Fourth quarter legacy expects to have zero to 2% ROE. For 2019, legacy expects to be in the 2% to 3% ROE range. Both of these ranges, of course, are before taking into account Carlyle's minority interest.

Turning to net investment income, overall we expect to meet our prior-year guidance of $13 billion for the full year 2018. We were running above this guidance for the first six months of the year, but we expect below the second half due to lower returns on alternatives and fair value options. For 2019, our net investment income is expected to be flat to our 2018 forecast; that is, $13 billion, with a similar proportion among Life, Retirement, GI, and Legacy as in 2018. Of course, equity markets remain volatile, and our guidance is based on what we see today. We can't predict how the market is going to perform through the end of December or into 2019.

Turning to tax, our tax rate calculations are complicated, with many moving parts such as cats, business mix, geographic, distribution of income, and reinsurance strategies. In Q3, we got it to an effective tax rate of 25%. We now believe Q4 will be closer to around 26% because of the impact of global cats and a shift in business mix. And of course, all this excludes discrete items. For 2019, we believe our effective tax rate will be between 24% and 25% excluding discrete items. Additionally, the rate change may be based on guidance released by U.S. regulators, particularly with respect to BEAT [Base Erosion and Anti-abuse Tax] and GILTI [Global Intangible Low-Taxed Income].

I know this audience is always interested in stock buybacks. In the fourth quarter we bought back $500 million of stock, bringing our current year total to $1.5 billion. And we have $760 million remaining on our current board authorization.

Let me finish by coming back to the question fielded on our Q3 earnings call about our targeted consolidated adjusted ROE. I noted that we anticipated in the 8% range, excluding AOCI and DTA based on a slight underwriting profit in GI going into 2019. Let me be clear, we're not satisfied with an 8%, and it is absolutely our intention to reach top quartile double-digit adjusted ROE, which will be driven primarily by further improvements in GI. This is going to take some time, up to three years, to get to double digits, but we will get there.

The problems that AIG had when I arrived were the result of over a decade of firefighting that we were moving beyond that year, and we're now on the right path. I know this is a lot of information to take in in a conference setting, so we'll file my remarks in an 8-K later today. There are a lot of moving pieces, so we wanted to provide you with a complete picture of our current estimates, reflecting both cat event activity, and as we look ahead to closing out 2018 and moving into 2019.

So with that, let's get to the questions. Thank you.

Q&A

A - Brian Duperreault {BIO 1645891 <GO>}

I tried to talk fast, but it's all written down. There you go.

Q - Yaron Kinar {BIO 17146197 <GO>}

A lot there, as you said.

A - Brian Duperreault {BIO 1645891 <GO>}

A lot of content, okay...

Q - Yaron Kinar {BIO 17146197 <GO>}

I have questions too.

A - Brian Duperreault {BIO 1645891 <GO>}

Fire away.

Q - Yaron Kinar {BIO 17146197 <GO>}

Maybe we can start with your top priorities as CEO. What are they today? Have they changed over the last year and a half since you walked into the company's doors?

A - Brian Duperreault {BIO 1645891 <GO>}

No. I think, look at it. Obviously, General Insurance gets a lot of attention, and should. That attention really has to be focused through the talent base that we can bring in to make those changes. So, priority would have to be the people we brought in. And then, making sure that they're working as a team and executing good strategies. So those have been the priorities.

Now, poor Kevin never gets any attention. It's not that we don't think of Kevin. Still, we want Kevin to continue to perform in his process of moving the Life & Retirement business into where it needs to be. He was a little ahead of the General Insurance. But the priorities in Life vary somewhat to the priorities in General Insurance, the team getting the strategies done, cleaning up the past, getting a strong base for future growth.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And as you look at the company from within and you look at the top performers, what do you think the market's missing in the AIG story?

A - Brian Duperreault {BIO 1645891 <GO>}

Look, I think in fairness, until we really start to show a profit, we actually demonstrate profitability in the company, I think it's fair to say show me. And I understand that. I can tell you from inside the company, we are well on track to do that. And so, I don't think the stock reflects the earnings power of the company. But the earnings power of the company will emerge, and then it will. I firmly believe that.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And you touched on buybacks in your prepared remarks. How do you address the question that comes out from time to time over the preference for deploying capital towards growth and maybe opportunities to build the platform as opposed to buying back shares? I'm trying to understand.

A - Brian Duperreault {BIO 1645891 <GO>}

My bias is to reinvest in the company to make the company better, to reinforce its strengths, add to the capabilities, people, technologies, et cetera. So, I think that's an appropriate bias. And so, I would look to that first. And if that means acquisitions to do it, we would do that. Maybe means reinvestment in organic activities. But there's capital. And you have - if you're generating surplus capital, which we do, you have to make a decision how to deploy that in the opportunities in front of you. Today, the share price is very compelling. So, it's much easier to make that decision given the share price. The share price was higher, maybe the equation will be better balanced. But right now, it's clearly imbalanced - clearly in favor of stock buyback.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I think early on, when you had joined, there was expectation that, if we did see M&A, it would be more in life insurance, accident, and health, maybe personal overseas. And then, the Validus acquisition...

A - Brian Duperreault {BIO 1645891 <GO>}

Yeah, yeah, yeah.

Q - Yaron Kinar {BIO 17146197 <GO>}

...came about. Should we still expect maybe more of the life insurance direction, or are you really open for all opportunities across the board?

A - Brian Duperreault {BIO 1645891 <GO>}

Kevin is very interested in this answer. Yeah. Look, I think that our life insurance business is a tremendous asset of the company. In it are people who really are skilled in dealing with lifetime retirements and the problems of demographics that exist globally. And so, if we can find ways and we are continuing to look, we can find ways to take that power and expand and project into the other parts of the world, it would make the most sense, makes the most sense.

Now, to find those opportunities is not so easy. So, we continually look for them. I mean, the alternative is greenfield, startup, those much more difficult to carry on because of the long-term return periods, seven years or so for your investments to come back. So we would look for acquisitions, and we continue to. So if we find one, I'd be the happiest guy in the world. Let's put it that way.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I think we can turn to P&C and the turnaround efforts there. So I think you have about 200 basis points of improvement coming in through expense initiatives, another 100 basis points through Validus. So that's really about 300 basis points heading into 2019. How do you get improvement beyond that?

A - Brian Duperreault {BIO 1645891 <GO>}

It's basic blocking and tackling on the underwriting side. And I think we've been talking about improving the volatility, mix of business, underwriting processes, risk selection, pricing. It's all the basics. And we've been deploying that, bringing people in. We're organizing the company better, and those will begin to show the results of all those actions.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Do you need a hard market or a firm market to achieve that?

A - Brian Duperreault {BIO 1645891 <GO>}

No, no, no. Let me be blunt. We've underperformed any market, hard or soft. And so our problems are of our own making, and we'll fix them. And if we're to get a hard market or any kind of market that would put some tailwind to it, which would be great, but we don't need it to fix this company.

Q - Yaron Kinar {BIO 17146197 <GO>}

Right. I know one area that you have talked about to some extent was regarding the fixing or improving is the reinsurance program.

A - Brian Duperreault {BIO 1645891 <GO>}

Yeah.

Q - Yaron Kinar {BIO 17146197 <GO>}

And I think heading into 2019, you're looking at adding some reinsurance on the casualty side. You're obviously pointing to Peter.

A - Brian Duperreault {BIO 1645891 <GO>}

Get ready, Pete.

Q - Yaron Kinar {BIO 17146197 <GO>}

I guess as I think about the reinsurance component, I'm thinking of it reducing volatility, improving ROEs, and maybe over the long run, certainly lowering the cost of capital

A - Brian Duperreault {BIO 1645891 <GO>}

Yeah. Right.

Q - Yaron Kinar {BIO 17146197 <GO>}

Is that the way to think about it, or are there other benefits from the reinsurance program?

A - Brian Duperreault {BIO 1645891 <GO>}

Casualty in particular I think is a great story. I think it's a great story. It's a story of confirmation of what we're doing as a management team. But maybe Peter would comment on that.

A - Peter Zaffino {BIO 15942020 <GO>}

I think there's not one reinsurance program. If we were sitting here a year ago, we talked a lot about reducing volatility, had significant net limits exposed across the globe. And throughout the calendar year, we've reduced that. And so when we look at casualty, a year ago we could have had $100 million or more net on single risks, where when we enter 2019, we will have between $10 million and $15 million maximum net limit on casualty. So that does reduce volatility. It's more predictable.

And what Brian was referencing is that perhaps the experience of the past wouldn't lend reinsurers to want to support programs on casualty in the future. But what we've done on the underwriting side, the actuarial side, and the leaders that we put in place, there is a belief and there's a belief that we are going to improve it and that they're willing to partner with us and do that. So the economics are a combination of getting benefits from the underwriting on ceding commission that's going to be a benefit on the loss ratio. And it's a component of what you asked Brian before as to what can contribute towards an improved accident year combined ratio next year that will be a component part.

Q - Yaron Kinar {BIO 17146197 <GO>}

Yeah. And everything comes at a price, nothing comes for free in life. So, what do you give up with such a reinsurance program, and net do you come out ahead?

A - Peter Zaffino {BIO 15942020 <GO>}

I don't think where we are today, we give up much. We not only get the benefit of reducing volatility, we will get an economic benefit. We get great reinsurance partners that are overlooking what we're doing. And we have that partnership two-way dialogue of what's happening in the marketplace, how should we be positioning certain portions of our portfolio, and we get a better spread across. If you look at Brian's long-term track record of buying reinsurance, he's not trying to tie markets, it's having a philosophy on volatility and philosophy on partnership that benefits the combined ratio over time.

A - Brian Duperreault {BIO 1645891 <GO>}

I think if you looked at – if it's an excess of loss program, you're paying a fixed price to take away a layer of cost. To me, that's beneficial to the underwriter, because the underwriter knows what the cost is. So you can then build it into your own pricing program. So those don't necessarily have to produce an economic problem. I think it's just a cost/price question, and it's a certainty in terms of cost, so that's good.

On quota shares, casualty actually turns out to be beneficial. And normally, it would be beneficial on the expense side because you get cede. We will get some benefit on the cede. But we're going to get benefit on the loss ratio too, which is quite unusual. So it's an economic benefit to us. That's why you do them, and you do them for a lot of reasons. And what you don't want to do is take an economic hit as a result. We're not doing that.

Q - Yaron Kinar {BIO 17146197 <GO>}

And can you elaborate on how it's a benefit to the loss ratio? Because I too would think of it more as a benefit to the (00:18:17)...

A - Brian Duperreault {BIO 1645891 <GO>}

I think, Peter, would you want me to comment or do you want to?

A - Peter Zaffino {BIO 15942020 <GO>}

I'm happy to, and then we can always defer to Mark. But if you refer to actually the comments that Brian and Mark made in the third quarter, is that we're just being perhaps a little bit more cautious and want to see the accident year loss ratios evolve and see evidence of things before we would take perhaps our accident years down in terms of loss ratio. So I think some of the benefit on the loss is that there may be a more forward-looking view from our reinsurance partners as to what the expected losses will be on a risk-attaching basis based on the underwriting actions we've taken throughout the year. So I think that's really where we see the economic benefit.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, that's helpful. And then if we turn to reserves, and maybe this is for you, Mark. But I'll leave it to you guys to figure out. I guess two questions on reserves. First, Mark, you reviewed about 75% of reserves, I think, year to date, at least as of the third quarter call.

A - Mark Donald Lyons {BIO 21569640 <GO>}

Yes, that's correct.

Q - Yaron Kinar {BIO 17146197 <GO>}

What surprised you when you look at those reserves, or how they were?

A - Mark Donald Lyons {BIO 21569640 <GO>}

I think I talked about it a little bit on the call, but I'm happy to go into that a little bit more. I wouldn't say surprised. I was actually very pleased at a lot of the process and the kinds of technical work that have been done. I think I overlaid on top of that an understanding of the market conditions existing at that time that generated the claims that the actuaries were evaluating. So you have a business overlay, a sixth sense of where every line is in the cycle, and that informs whether things are reasonable or not reasonable.

So, the only thing I really commented on the quarter, and I still feel the same way, looking through that 75% was excess casualty that we talked about. It was about a $1.25 billion charge for the ADC, Berkshire-Hathaway ADC. And it was really centered on construction defects more than anything else, a little bit on some auto claims, on low-attaching umbrella policies. But I didn't view any of those as a roll forward issue into the more recent years or current underwriting. So, that's how I would view those.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then if we look at the remaining 25%, I think you had highlighted a couple of lines there that as outsiders we always think of maybe a little more with greater concerns whether it's the U.S. financial lines or workers comp, excess policies, some of the international casualty reserves. I think at the time, you said preliminary look maybe you didn't see any glaring red flags coming out from those reserves. You had another month to look at those reserves. Has your view changed at all?

A - Mark Donald Lyons {BIO 21569640 <GO>}

We're still – I'm happy to give into that a little bit more. Pencils are still up. We're in the middle of all of them right now. It's not 12/31 when I looked at the clock this morning when I left. However, I can give you a little view on how I think of it on the lines of business that we're reviewing.

I think in round terms of the remaining 25%, you can look at that as 40% of them are personal lines related reserves, 20% are excess or comp to buffer excess that national account type business writes, you got rest of world casualty other than the UK and Europe scattered around there, and then of course you got the U.S. financial lines.

So here's how I tend to think of it. On the personal line side which is the 40%, that's really broken into some meaningful components. You have A&H business, which is very stable around the world, you have travel business and you have warranty business. We've commented in the past that that's caused fluctuations on the acquisition ratios, but on the loss ratio that's pretty stable, it's very short tail. So as I peer over the fence, I still am not too concerned about those. The balance of personal lines is really true property/casualty business, and that's split into PCG, which is the high net worth personal lines business centered in the United States. Japan has the next biggest piece of that, and then rest of world.

So I think the key exercise we're undertaking, now that we're combining actuarial back into a composite pricing reserving portfolio view, is marrying all the rate filings that have recently been approved or in the process of being approved, and the ultimate losses implied by those back to the other side because reserving is more of a blunt instrument, whereas pricing and portfolio is more needle and thread at the tail, marrying those together and making sure that it's a common view coming out of that. So that's improved now, but again personal lines is a more stable book of business.

On U.S. financial lines, it's really a very diversified book of business. So you get some level of comfort in that. There's primary D&O, there are smaller insurers, there are mid-sized corporates, there are national account programs, there are excess placements. There has been an increasing proportion of Side-A businesses as you move forward. And I think increasingly so in 2017 and 2018, a lot of that is really – a lot of Peter's direction as well, and that's going to be very, very I think beneficial to the portfolio. But there are also frequency businesses. We talk about EPLI [Employment Practices Liability Insurance] businesses and we can talk about me-toos and California frequencies, and so forth.

So you really can't put it all into one bucket. There are frequency-rated businesses, you need to look at that with lower limits, and then there's severity shock. The D&O business to us is effectively a cat business, and it runs along great until it doesn't. And then there's always mass points associated with it, and you have to look at imbalances in that way. But that's how I view that.

On the work comp buffer side of the business, call that another 20% of the remaining. Think of it as $500,000 ex-$500,000 or statutory ex of $1 million and things of that nature. But any company I've ever worked at that has national account businesses, there are a few things you really got to pay attention to. One is that there's always a difficulty in interpretation, there are data issues you've got to focus on. These are large deductibles, it's a credit risk game underneath the deductibles. It's underwriting risk transfer above the deductible. It's complicated. Because it's national accounts, there's a lot of manuscripting going on. Each deal is a little bit different. ALAE [Allocated Loss Adjustment Expense] treatment can vary. So there are a lot of peculiarities, and a lot of that business comes with TPAs, not a TPA, a set of TPAs that can vary by year. So there's a lot of underlying grit that needs to be really examined, and every company has those.

So part of what we're doing is understanding that data, doing data reviews and data audits to make sure I'm comfortable with that. But part of what we opine on with actuaries isn't just the result and pray for miracles on the data. It's getting underneath it and being comfortable with it. Maybe that's part of my initial responsibility to get underneath that. So that's my view there.

And on rest of world casualty, it's actually a very interesting set of topics there because it's not U.S., of course. by definition, it's not UK, it's not Europe, so it's a different legal system set. It's a different view of tort liability. So for credibility reasons, you may want to go across countries or a set of countries to help get the predictability of it a little bit better. But you lose the nuance of each individual country's peculiarity or systems or culture that may allow claims to come through.

So you've got that issue. However, you have to pay attention to the local issuing carriers, you've got legal entities all over the world that need to be adequately capitalized. Reserve levels for the local regulators need to make sense. So there's the horizontal view and then there's the issuing carrier view, and they don't always sync up. And that's one of the things I'm going to have to spend a lot of time on in the quarter is balancing the local where a portfolio could be out of balance versus the horizontal where it's in balance but you lose the nuance. So that's where we are.

Q - Yaron Kinar {BIO 17146197 <GO>}

Very helpful. Thank you. Kevin, I have not forgotten about you. I think you mentioned on the third quarter call and Brian just reiterated that you are investing into growth in Life and Retirement. Can you maybe talk about some of those initiatives? Is it in digitalization? Is it in Retirement? Is it in Life? Where do you see opportunities as well in this pretty broad segment?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Sure, thanks, Yaron. I think maybe we'll just take a step back and look in context. First of all, the markets that we serve, the need for savings and guaranteed lifetime income is a tremendous market, and it's getting bigger every day. But that being said, the last three, four, five years have been a very difficult period for originating new business because of where rates have been.

And so we've taken the opportunity to retool during that period. We combined our balance sheets to create some efficiencies, a lot of excess capital. We also engaged in some transactions that created additional excess capital, and we've right-sized our balance sheets for the opportunities that we saw. We conservatively invested in new business and we retooled our distribution platform, as well as started making some of those architectural investments in our product and service capabilities as well as some of the admin platforms.

Now, that created a lot of option values that we're now able to exercise on. And unlike many companies, we have a scale position in all of the value chain, variable annuities, index annuities, fixed annuities, life insurance, group retirements, the entire portfolio there. And in fact, now that interest rates have started to improve a little bit, the distribution environment has settled down with some clarity as to the operating conditions, we're able to exercise on that option value.

And so we're writing more new business now than we have in the last couple of years at the same attractive returns in that low to mid double-digit area. And that's creating essentially two elements of expense. There are the expenses directly related to the acquisition of the new business, and then there are the expenses in the things like the digital platforms, which we have improved for both our participants and plan sponsors, in group retirement, the entire annuities platform and our distribution interfaces.

And we feel good actually about where we are relative to growth in new business. In fact, for the second quarter and the third quarter of this year, whilst market share is not our strategy, we were the number provider of annuities in the United States across the entire portfolio at a time where the conditions are much more attractive. And so these are relatively modest investments as compared to the size and scale of our balance sheet with relative short-term payoffs, and we feel good about the position that we're in relative to conditions. Interest rates are very important to the attractiveness of our product pricing, and some equity market volatility also reminds people of the value of protected lifetime income solutions.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you. Maybe before we open it up for the audience, maybe some quick thoughts on the P&C market heading into 2019. I think we saw a little more stabilization in 2018. Do you expect that to continue? Do you expect maybe rates to accelerate or maybe some reversion from here?

A - Peter Zaffino {BIO 15942020 <GO>}

It depends. Let's start with property. It starts in the placement at 1/1 on the retro market and so a little bit different this year than last year. When we were looking at it last year, there was a lot of events that happened leading up to renewals, but there wasn't any supply and demand really imbalance. What happened was the retro market is trying to move rate, it didn't move that much and then the market settled.

I think this year it's a little bit different because I do think there's less supply in the retro market. There is more demand and so that's going to push some rate through the retro market and that will have to be earned and transferred throughout the year. But if you look at where the cats happened, so if you start in Japan that doesn't really happen until April 1. And then if you look at Florida, which was a lot of the activity early on in the Southeast that doesn't happen until the second quarter, usually June 1.

So some of the rates will, I think, have to be tempered throughout the full calendar year just based on when loss activity comes up. And then I do believe that that will put a little bit of pressure perhaps on reinsurance pricing throughout the first half of the year, but we'll see in the back half. And I think that you'll start to see depending on peak zones or loss affected it's always with the caveats, but believe that we'll see some pricing at the direct side of the business.

Casualty, not much to add. I mean Mark did a great job on last quarter's earnings call talking about what's happening with loss costs and how rate needs to be viewed in the primary and excess depending on line of business. And so we're very careful to watch that and making sure that we're getting rate above and beyond that. But I think that it will be orderly, but we've seen in the marketplace that it's going to be a late renewal season for reinsurance this year.

Q - Yaron Kinar {BIO 17146197 <GO>}

Great, thank you. I want to open it up for the audience if I can.

Brian, at our last meeting we talked about some of the nonstandard metrics you guys were using in the incentive comp plan. So, going forward, what do you think AIG should use for the management incentive comp metrics, what do you think is ideal under your leadership?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, let's take it by component parts. On the P&C business, I think the combined ratio is a very simple but understandable tool that we can use, that takes – there can be nuance to take all those very interesting complicated things into account. So you can by line of business say combined ratio is got to be at this level because of cost, volatility, et cetera, and it's got to be at this level in a different line. So, the combined ratio actually can be quite an effective tool, but it's simple for everybody to understand. These are the absolute metrics, returns on equity, growth rates, things like that are all pretty simple. In Kevin's case, we think about and really value the business and returns on equity are basically the primary things that we're looking at there. That basically wraps up a big part of it.

Overall, where it's a support function and we have to look at their cost levels and performance against their cost levels in terms of their internal performance. But I do want to include the subjective measurements because if you're turning a book around, you do certain things that may be having a short-term negative effect on some things, and yet long-term is the right thing to do. That could run the gamut.

And so I will look at the subjective side. If I set goals for people to do certain things, and that means that they have to cut out pieces of business that long term are great things for the company to do, I want to encourage them and you all want me to encourage them to do that. So we will include some subjective. But there's the goals that we set but there will be subjective goals. And we put that all together and that's how we determine comp.

Q - Yaron Kinar {BIO 17146197 <GO>}

What about for yourself, what KPIs do you think you should be measured against?

A - Brian Duperreault {BIO 1645891 <GO>}

I shouldn't have different ones than the people that I'm holding accountable.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I was just thinking maybe some of the other companies focus on growth in diluted tangible book value per share?

A - Brian Duperreault {BIO 1645891 <GO>}

That's a fair question and I probably should have put tangible book value growth in there, because I do think that ultimately it's the mark of a company. And if you can grow tangible book value per share, then you have a growing company. And earnings, if you do it in terms of share price, of course that's volatile, so that statistic is something that I can measure my own performance against the performance of the company. So, that is another metrics that we use. I should have included that, sorry.

A - Yaron Kinar {BIO 17146197 <GO>}

Thank you very much.

A - Brian Duperreault {BIO 1645891 <GO>}

Are we done?

A - Yaron Kinar {BIO 17146197 <GO>}

I think we are out of time.

A - Brian Duperreault {BIO 1645891 <GO>}

I'm sorry I used up your time.

FINAL

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A - Yaron Kinar {BIO 17146197 <GO>}

Time flies.

A - Brian Duperreault {BIO 1645891 <GO>}

Thanks, everybody, for your time and attention. Thank you

A - Yaron Kinar {BIO 17146197 <GO>}

Thank you.