Barclays Global Financial Services Conference

Company Participants

- Mark Lyons, Executive Vice President Chief Financial Officer
- Peter Zaffino, President and Global Chief Operating Officer

Other Participants

- Tracy Benguigui

Presentation

Tracy Benguigui {BIO 21808177 <GO>}

Good morning. I'm Tracy Benguigui. I joined Barclays recently as the new insurance analyst. I am pleased to chat this morning with Peter Zaffino, President and Global Chief Operating Officer; and Mark Lyons, CFO of AIG. Peter and Mark, thank you for being here with us.

Just some housekeeping items before we kick off. There's a live polling question list on the left side of your screen. And if asked for user name, just please use Barclays to go. And look for the next button when you move through the polling question. We can see the results in real time. And on the left side of the screen, there's also a Q&A box.

So this session's format today is a fireside chat. And I think we could start off with Peter. If you could provide us a big picture view of AIG alongside marketplace condition.

Peter Zaffino {BIO 15942020 <GO>}

Thank you. Good morning, everyone, and thank you, Tracy, for inviting Mark and myself to join you today. It's nice to see you again and congratulations on your new role. I thought I'd provide a few opening remarks, and then we'll turn to questions.

2020 has been an incredible year. We knew coming into it that it would be an important inflection point at AIG, and that was before COVID emerged. These have been very challenging times for everyone. And at AIG, we doubled down on efforts that we had already started to execute on in order to reposition our businesses and make them more strategically relevant in the marketplace, as well as to make AIG a world-class organization that delivers value to its clients, shareholders and other stakeholders.

I know you, Tracy, and I believe this audience are familiar with the direction we're taking the company in, which we outlined early on as establishing underwriting excellence, investing in world-class talent, fixing the core of AIG, reducing volatility and achieving more predictable outcomes over time across GI and L&R. We made a lot of progress, and we continue to execute with a huge sense of urgency.

As you know, I was named President of AIG in December of last year. So on a personal level, 2020 for me was about pivoting to my enterprise-wide role, which is what I initially came in to do at AIG, and taking on oversight of other areas of our company like Life & Retirement, IT and ERM, which recently moved under me. And, of course, continuing to spend a lot of time on AIG 200, which is a critical component of shaping the future of AIG and making the company more efficient, technologically advanced and operationally fit for purpose, given the various lines of business that we're in.

Last month, we announced Dave McElroy as my successor in General Insurance and made other changes to the global leadership team. We've developed a very deep bench in General Insurance in North America as well as in International. I have every confidence that under Dave's leadership, we'll continue to strengthen General Insurance's position in the industry as a market leader.

We will also continue to leverage our strong foundation to capitalize on the market dynamics we're seeing play out in Property and Casualty, including growth opportunities; some of our businesses such as Validus, our reinsurance company; our Specialty businesses; Excess & Surplus lines, which is the Lexington; and Financial lines, just to name a few, all which we expect to accelerate throughout the remainder of the year.

Thanks to a lot of great work by Mark and his finance team, AIG remains financially sound. The decisive actions we took when COVID first emerged have positioned us well. Our liquidity, capital and balance sheet are all very strong.

During our planning for 2020, we never imagined that we'll be dealing with a global pandemic for an extended period of time. However, we were able to pivot and adapt very quickly, and I'm really pleased with where we are, the momentum we continue to build and the resiliency of our workforce. It's been a heavy lift at AIG. We've discussed this at length over the last three years, as well as things that we absolutely had to accomplish. While there's always more work to be done, we're excited about the future at AIG and remain laser-focused on delivering for our shareholders over the long-term.

Those are my prepared remarks, Tracy, and I think I'll turn it back to you.

Questions And Answers

Q - Tracy Benguigui {BIO 21808177 <GO>}

(Question And Answer)

Excellent. Well, maybe staying on strategic priorities, what is next for AIG? If you could touch upon AIG 200 a bit, but how do you envision taking AIG to the next level after spending the last few years on remediation efforts?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, as we look forward, it's how we continue to strategically position our businesses to be market leaders in either their geographies or the lines of business that they're in. So I mentioned a few in my opening remarks, such as our Specialty businesses, such as our Excess & Surplus lines capability. With the market conditions, we think there's opportunities to grow reinsurance, and we have a great overseas operation in U.K., Japan and Europe. And so I think I would focus on growth for us and for us finding ways, again, to be more strategically relevant, but also finding ways to grow the top-line.

I also think there's an evolution on how we position the businesses to have that competitive advantage. So not only is it underwriting expertise, we don't have any restrictions on limit deployment. So there's ways in which we can do more for clients across the world. And then the work that we're doing on the operational side will digitally enable us to do things on the underwriting side much more efficiently. But also I want to think of Japan and other places where we have more interaction with, sort of, small and medium enterprise brokers or agents that digital enablement will give us opportunities for growth.

The underwriting that we've done has significantly reduced our overall exposure over the past several years and has significantly reduced the volatility. Our reliance on reinsurance will continue to be strategic. But I think as we've repositioned the portfolio, we'll be able to do more things with reinsurance over time without taking more risk, and that will give us opportunities for less spend, perhaps, but more strategic purchasing within reinsurance. I think capital management over time will be very important. We've got to get through this global pandemic and making sure that we continue to invest in the businesses, so they can be not only growth opportunities, but known as market leaders in everywhere we do business.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. I do want to circle back on your reinsurance utilization, but just staying on the theme of strategic priorities. For AIG 200, how important is this project now? And will the timetable change given everything else going on?

A - Peter Zaffino {BIO 15942020 <GO>}

I think it's very important, because there is just some fundamental things that we need to do in IT modernization, how we look at operations, what we're doing to use data better within the underwriting businesses, and so having a data architecture and making sure that the underwriters are able to use that data to our advantage. So I think it's very important.

When we went to a work remote environment, it actually allowed us to accelerate a lot of that. So we're meeting with more frequency. We're able to get more than 40,000 people within weeks to work remotely. So we looked at our KPIs. We're at or at better levels than pre-COVID. And we've really been able to accelerate much of what we were doing on the AIG 200 operational side. And I think that, that's going to position us well for 2021 and 2022 to achieve the objectives that we outlined in prior earnings calls.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. So it sounds like you feel good about all the underwriting actions as you approach 2021, and you could retrench a bit on your reinsurance utilization. And you've mentioned you do not have restrictions on limit deployment. One of your peers once relates to me that they don't like sharing profits with reinsurers. So just given where we are with the hardening REIT market, in very simplistic terms, should we expect AIG to meaningfully keep less premiums, or is this retransmit or nuanced than that?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, I don't think anybody intentionally wants to seed off profit. But I think it really goes to more of a strategic relationship that you have with reinsurers. And so the strategy in terms of how we look at reinsurance doesn't change. What does change, what you mentioned at the beginning of the call, is just the incredible progress that we've made on the underwriting side. And it's not just limits deployment, it's how we actually position the businesses, whether it's on the Property side, the Casualty side, our Global Specialty businesses, our global multinational business. We're just better positioned because of the excellent underwriting transformation that's taken place.

And I think that the reinsurance has to reflect the book of business that you have at the time. So I think 2021 is going to be very important for us to look at reinsurance. The examples would be, we don't deploy as much gross limit on Casualty. We don't perhaps need as much in terms of up to $100 million limits. With the work that we've done on Syndicate 2019, the overall core CAT exposure in peak zones for AIG has decreased along -- excuse me, with the excellent underwriting that we've done in terms of reducing billions of dollars of limits.

So I think our philosophy remains the same, which is to have high-quality global reinsurers that trade across multiple lines of business in the portfolio. We look at it as a partnership. There's an evolution process of how one approaches structuring reinsurance to make sure that you're not taking more volatility. And I also think, just taking a look at the index of the market, it doesn't really reflect AIG. We're a big company.

We buy reinsurance across multiple lines and reinsurers partner with us, because they choose the company, they choose the underwriters, and they choose us as an insurance company in terms of how they want to deploy capital. So I think all of that will evolve next year to reflect the book we have. And I think our reinsurance will be revised accordingly.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Excellent. Just because you mentioned Syndicate 2019 and all the actions to reduce your CAT and property aggregates. Given all the leg work you've been doing already, can you frame out what type of risk you would be potentially sharing with our capital partners? And it will be helpful to also understand the profile of ideal capital partners?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, if I start with Syndicate 2019 that was designed to put together an innovative capital structure to address our high net worth business, where we think we have a very good market position and see opportunities for growth. The growth is largely in peak zones. And so when you look at our commercial portfolio; our Japanese book, we already have a lot of peak zone exposure. So it would be heavily reliant on reinsurance for its growth.

We decided to partner with Lloyd's, John Neal and the leadership group there have been terrific in terms of looking at this as a partnership. We've been able to bring in top global reinsurers to be partners with us because they like the portfolio a lot and see opportunities for product innovation and for top line growth. And then we brought in Hudson Structured Capital, a capital markets group that wanted to make an investment and also take risk on the portfolio.

So we're all aligned in terms of risk sharing. We have multiple partners that have different backgrounds, if you will, with the looking at Lloyd's and then looking at traditional reinsurers to do whole account quota shares and then having a capital markets group come in. All of that really was quite strategic. And now we can grow top line because everyone's taking a piece of the peak zone exposure, not the entire exposure.

When I think about other capital market opportunities, we have AlphaCat, which is an ILS fund that has north of $4 billion of AUM. That came with the Validus acquisition. We have high hopes to grow that over time and measure it by AUM and think that there will be a lot of demand for AlphaCat at January 1.

But there's other ways to set things up similar to that, that might address retro capacity or may address other needs in the marketplace that we're going to be very nimble with investors, because we originate risk -- we have excellent underwriting capabilities and that capital markets wants to find risk that has excellent underwriting and modeling, and we think that's us.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. So you've mentioned AlphaCat in 2000 -- Syndicate 2019. Just on a mechanical question, so AlphaCat is a sidecar. And how would you characterize the Syndicate 2019? Is the inspiration to be structured like an unaffiliated, reciprocal exchange or essentially talbot would earn a management fee with a built-in profit margin in exchange for a policy and claims administration? Or does it look more like an AlphaCat where it's a sidecar?

A - Peter Zaffino {BIO 15942020 <GO>}

No. It's different. I mean like AlphaCat -- look at AlphaCat can take single limits that would not reflect the sidecar. So they can deploy capital that's underwritten, that hits the return thresholds of the investors to be deployed as a collateralized reinsurer. So it has flexibility beyond just taking a line with Validus just to create capacity. So it has multiple capabilities.

I think on the Syndicate, you just think about it as talbots, the Lloyd's Syndicate. They will be doing underwriting under the same discipline as they would be doing when they put their business plans into Lloyd's at year-end. They're going to oversee the underwriting and work with U.S. colleagues, as well as all of the different stakeholders to make sure that everything that we've outlined to Lloyd's that we're doing on the underwriting side, and then we would look to do a lot more common account reinsurance on behalf of the Syndicates. And that's what we're doing as we approach year-end.

So, I find them to be actually quite different, both strategic, both trying to solve issues for clients and also going after markets where we think risk adjusted returns will be attractive over time.

A - Mark Lyons {BIO 21746221 <GO>}

Hey Tracy, if I could, I would just add to Peter, a pretty comprehensive view of that is, from my angle, it changes the revenue model. So you have more fee income coming in the door, which really drops down to the bottom line. I don't have to put a loss reserve against it, as an example. The catastrophe risk is not that spread, I think in a very intelligent fashion, which then reduces the profile of CAT from a AIG Group perspective on a go forward basis. So, it's got a lot of benefits that accrue.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. I have to talk about CAT, just given how active this quarter has been. It seems to be shaping up to be the second heaviest third quarter dollar-wise over the last 10 years, just after Harvey or memory in the third quarter of 2017. And I'm not just talking about the impact of Laura, and now we're seeing -- which wasn't as bad as what everyone anticipated. And Hurricane Paulette is making a direct hit on Bermuda this morning. Could you share some early insights of your catastrophe experience so far this quarter?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, maybe I'll start, and then Mark can add on to anything that he would like to share. But yes, it's been an active CAT quarter. I don't think -- I haven't seen anything. We're still looking through it on a gross and net basis in terms of what the activity is in claims, but there's nothing that I see at this point that would be an outlier. I think it will be all managed within our expectations. I mean as we've talked about at length, I won't go into it. We have very comprehensive occurrence and aggregate reinsurance to protect the company from a lot of frequency or a lot of severity.

But as you said, there's still a lot of activity. I mean we have five active storms with two hurricanes, one tropical storm and two tropical depressions in the Atlantic at the moment. And yes, it has been very active. But again, this is what we planned the overall gross limits and making sure that we manage peak zones, and making sure we have reinsurance to respond to quarters like this where there's a lot of activity. I don't know, Mark, if there's anything you want to add?

A - Mark Lyons {BIO 21746221 <GO>}

Actually, no. I mean what I would have just said is really what you said, which is the -- at this point, we don't see any of those being outliers for us. And reinsurance has both vertical and horizontal components. So, we feel pretty good about it.

A - Peter Zaffino {BIO 15942020 <GO>}

The one thing I would add, and this has been the case over the past several quarters of CAT is that, the excellent job we've done re-underwriting the commercial book, that really hasn't been a big contributor to a lot of the CATs we've seen in the past, wildfires or perhaps win for Private Client Group or the typhoons in Japan. But I think we've done a really good job on the commercial side with the re-underwriting and doing that at pace. That -- the peak zone exposures for the commercial, they still exist, but they're much more manageable and the reinsurance reflects, again, the book that we have today there.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe moving on to COVID-19 reserve adequacy, and maybe I'll turn the question to you, Mark. So far, AIG has reported $730 million of pre-tax COVID-19 losses. And since we just spoke about catastrophes, well, it's not apples-to-apples. $730 million doesn't feel like the worst two quarters of CAT experience. In your opening remarks, you mentioned that COVID-19 would be more of like an earnings event, not a capital event. Are you just as bearish now as you were at the start of the pandemic? Or are these losses just take more time to manifest?

A - Mark Lyons {BIO 21746221 <GO>}

Well, it's a good question. And, I think what you got to think about is that you really can't put up a reserve on your books for everything that will occur. This is an ongoing event. It affects your gross views. It affects your ceded views as to what's recoverable. So, it's very complex.

So, what do we do as of any balance sheet date, we put up management's best estimate based upon claims that have occurred at that point in time, taking due consideration to triggers and individual coverage parts and so forth. So, we can't really reach forward and do that, because that is in direct conflict with the unearned premium reserve. And therefore, you'd be overlapped and be redundant.

So, I think, to some extent, there's some misunderstanding of that. But I think that, that intro is really going to the conclusion that every quarter we look at what's emerged, what are the characteristics, what lines of business are affected? And you always do a retrospective look back to 1Q and 2Q. Were the original assumptions still hold water, or it does the emergence against those still hold water? And that's the ongoing process. So that's what we would expect to continue to emerge.

Q - Tracy Benguigui {BIO 21808177 <GO>}

All right. So maybe I'm being a little cued here. But should we add an E to IBNR and make it essentially incurred, but not enough reported? Let me unpack that a little bit. I understand that the accounting standards for putting up IBNR on two criteria points, losses have to be estimatable and probable. And a pandemic like this has not been tested in modern times. So Mark, you described some of the complexities, but how would you describe the new reserve path in a COVID-19 world?

A - Mark Lyons {BIO 21746221 <GO>}

Well, some of it, I think, is similar to the answer I just gave, but it is a bit different, and that is continuing and ongoing. And we know there's going to be creative plaintiff bar approaches. And in some lines of business, you -- like in some areas, first responders can come up, you've got some regulatory direction on that. You don't really see that on the GL side, for example.

So I think what we've got to do is continually look at what kind of claims are emerging because that could really shift lines of business as we go deeper and deeper in. I know there's been some thoughts that the GL policies could be tapped for a business interruption cousin, if you will. And that's really not going to happen. That -- you got the CCC, care, custody and control exclusion. You don't really have first-party coverages and property damages. It's a nice theoretical idea. We may have to expend defense costs associated with it. But it's really not anything that's going to really hold water. So we actually expect on the GL side to have more defense cost issues and indemnity issues on the roll forward. But hopefully, that gives you some of what you're looking for.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Yes. On GL, I actually heard what may be tested is the employer liability, which should be excluded from GL. But it -- again, that's a coverage that hasn't been tested. Is that what you're referring to?

A - Mark Lyons {BIO 21746221 <GO>}

Well, there's that, but there's also sticking on GL for a minute. I mean, that's a third-party cover, right? So on the bodily injury side, I think a good example might be a restaurant, right? So if a patron tour or diner tour a restaurant got sick and they didn't follow established protocols that have come out, there's some liability that could accrue. But in concept, but how to prove that when they're exposed across the Board that it came from there as opposed to the restaurant they went the day before or the -- it's very complex, hence, for defense costs.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. I mean just my last question here on the COVID-19 care risk. My math, AIG has put up about 30% of its reserves for long tail line, working back from the comment you guys made at another conference. Given these losses make more time to manifest on the liability side, how did you get comfortable with the 30%?

A - Mark Lyons {BIO 21746221 <GO>}

Well, some of it is kind of what we just talked about, which was the fact that we expect the complexion really of those longer tail lines to be different, more on the defense cost side, I think, firstly.

And secondly, I kind of look at that a little different than the 30% that you talked about. I look at it more as to what proportion is case reserve versus IBNR. And at the end of second quarter, it was roughly 28 and 20 case -- in IBNR, but that's biased. That's biased towards the very short report. You've got travel in there, you've got A&H in there and sort of been cancellation. When you control for those that I think anybody would realize or

Quick Pay areas. It skews a lot more to IBNR, which is one of the real -- closer to the 90% range, which is how you get the comfort.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Great. Maybe staying with you, Mark, on maybe shifting gears to capital management, AIG suspended its share buyback program starting in the first quarter in order to continue to evaluate the effects of a global pandemic. Since then, we've seen some market recovery, both on the equity side and credit spreads are tightening. Can you provide any visibility of when you think the markets will settle down enough to get more comfortable with reinstituting your repurchase program?

A - Mark Lyons {BIO 21746221 <GO>}

Well, yes, good thought. I think there is a -- I guess, I have two thoughts on that. First is a fork in the road answer. And then the second one is your view of that rebound and how sustainable is that rebound. There's a lot of optimism in the financial markets. And some of that could regress itself.

But I think, fundamentally, the fork in the road comment refers to, will we have a second wave or not? When businesses reopen, when schools reopen, when colleges reopen and congregations happen a lot more often, if we don't have a second wave, I think we're going to get a lot more visibility in the early part of 2021.

If we do have a second wave and there's, other rounds of governmental programs that could continue to sustain some investable assets, like the government investing in corporate debt, for example, buying corporate debt, that's been a buffeting benefit.

So the combination of whether we have a second wave in my estimation and the degree of government programs really kind of changes and the visibility. So my crystal ball, and I assume yours is still fairly cloudy on that right now. But that's my view of the path of starting to get some clarity. But I don't see it before, the beginning of next year.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. So I guess, in a more normalized situation, when you think about your capital deployment measures, hypothetically, how would you rank file your choices? I know deleveraging is important for you. But if I also add buybacks, M&A. And just how would be -- you are about pricing and the underwriting capacity, you have to deploy it?

A - Mark Lyons {BIO 21746221 <GO>}

Well, I think, just for a context in that, I'll just take 15 seconds and go through what we have done, and then I'll reposition back to your question. So, you and your listeners may recall that in March, we did a partial draw of our revolver facility of a $1.3 billion. We fully repaid it in the next quarter. It was done solely and out of a predominance of caution, both in capital and liquidity, because especially back in March, we really had no idea of the extent of revenue programs and everything else.

So as a result, we wound up in doing a very successful $4.1 billion debt offering, which also provided the same level of buffer, if you will. Embedded in that, was $2.8 billion of pre-funding of maturing debt that goes through first quarter of 2021. So it allows us for the unanticipated spikiness, or unanticipated government response, or a second or third wave because we didn't know, right, at that time. So we're actually in a pretty good position, from that respect.

Now back -- to go back to your question, given that, the natural debt maturities are going to eat into a lot of that excess, if you will, so we're going to be back at the -- by the time we're reporting 1Q '21 results, we expect our leverage ratios in both our view and rating agencies' views, including your prior employer, to be much back in line with what we had discussed with the trading agency, at that point. Then you've got a lot more flexibility of talking about, okay, investing in the business, which is on the PC side, clearly the hardest market since 2002. I think everyone would say that. You could even go back to earlier cycles perhaps and make comparisons.

So that's one of the things we're here for, right, invest into the core business that we operate. You've also got AIG 200, as Peter has already denoted, is important and with a strong payback associated with it. And share repurchases, of course. And -- but outside of getting that debt reduction down, these are not necessarily serial. Some of these can be done concurrently, yes, at the same time. But we don't have M&A on our radar, at this time at all, if it's not thoughtful.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe just switching over to Peter, maybe the anti-M&A question, could we expect AIG to have more white space [ph] prospectively? And how important is it for you to be a composite P&C and life insurer?

A - Peter Zaffino {BIO 15942020 <GO>}

Well, the first part, I mean, we'd be looking to prune, we just announced last quarter, like our mass affluent book, which was the level below high net worth, where you really can't get enough CAT. And really can't get the returns leased within AIG. So we've divested that. We've gotten rid of some of the program book. I mean so it's really just been pruning nothing material.

But I mean, on the composite, I mean, there's really not much more to say than what Brian said, sort of on the earnings call. He as a CEO, as management team, always have a role in looking at the best strategic direction for AIG. Life Retirement is a very good business, has been a major contributor to AIG, over many years. But in particular, when we were trying to reposition the General Insurance portfolio, when Brian and I arrived, I mean, we know the sector is facing some headwinds now. But the job as a management team is to always look at things. And I think I'll just leave it at that.

I mean, overall, again, we believe that there's been headwinds, but that the businesses are being repositioned, particularly on the Property and Casualty side to show value and to show that the underlying combined ratios have runway.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe because pricing is such an important topic, we could shift gears, and I'll play on some of your words, Mark, about pricing dynamics being just as -- I guess, we haven't seen it as good as 2002. I know it's interesting. It's almost like stock religious to call pricing environment in a hard market. But that's the term that's being thrown around a bit.

So looking at your results last quarter, you had a 7% increase in North America commercial premiums. And you could argue, it isn't enough considering rate increases and the fact that retention went up four to five points compared to last year. So why aren't we seeing more of our premium uplift?

A - Peter Zaffino {BIO 15942020 <GO>}

Mark, why don't I start with that and then you can add to that?

A - Mark Lyons {BIO 21746221 <GO>}

Okay. Sure.

A - Peter Zaffino {BIO 15942020 <GO>}

Yes, so you mentioned North American commercial. And so there's several variables that one should consider. One is, we are very pleased with the overall growth. We had roughly 16% rate increase. And at the same time, the commensurate exposure decrease was happening. So it wasn't on a flat portfolio that was growing. And so examples of that would be on Excess Casualty or Financial lines, where we may have taken meaningful lead positions and that's it. We take now a lead layer, set the pricing, but also benefit by taking Excess. They might have a little bit of implication on some of the premium, but risk adjusted, it's much stronger.

I think the dynamic a little bit in the second quarter, probably see maybe some of it in the third was just when everybody went to work remote and work from home is new business slowdown. And I don't think that's going to be a permanent situation. But I think in the second quarter, it certainly was exacerbating because clients and particularly the brokers weren't going to be marketing RFPs and working more with their incumbent.

But I think that as we start to get out of the third quarter and get into the fourth quarter and look to 2021, I think that new business will pick up. So again, overall, we're really pleased, we're actually showing growth in areas after we've had to do so much work on the reunderwriting and think the portfolio is positioned to do that. It was actually an encouraging sign for us at AIG.

A - Mark Lyons {BIO 21746221 <GO>}

Yes. I would just add a few things, Tracy, if I could to that. So it's also the difference between primary and excess business, right? Primary business, and we see clear evidence of that, whether it's our auto business, PCG business, the AIG Risk Management business, the rate changes and the premium changes are close enough to each other, which you'd expect because they're generally ground up use. But when you get to Excess business, whether it's Property business, whether it's Financial lines or Casualty business, you can have, I'll just pick numbers for illustrative purposes, a 50% rate increase on that portfolio and maybe it's single-digit increase on premium.

And buyback, we actually have subsets where we've gotten material rate changes because of the pricing on the excess layer is to our benefit relative to the exposure assumed. And you can actually get a decrease in premium as a result. But it's loss ratio massively accretive on that. So it's a waiting average of all those.

And also, Peter is making comments about North America. There's -- it's -- we have other segments of the book like Japan, which is about, I don't know, 15% of the worldwide gross premium, it doesn't really move that much, right? That's a whole different marketplace, and you can make that claim in many personal lines areas across the Board.

And lastly is, we're looking -- I think your comments about the 7%, that's net. So you have to take into account the reinsurance structures that Peter has already alluded to, might be changing. So some of that high rate being achieved is actually being seeded off. So that weighting on a net basis could depress some of that, which is, I think, why you're seeing what you're saying.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. Just reminding folks to submit questions. We only have about five minutes left in this session. Maybe we could make this more rapid fire, just to make the most of it. Staying with you, Mark, we have to talk about interest rate environment. It seems now it's lower for even longer. And the latest monetary policy feels a little bit different at this time with more staying power. So holistically, as a large multi-mind insurer, how do you wish to reposition yourself to remain defensive?

A - Mark Lyons {BIO 21746221 <GO>}

Well, interestingly, it's different than defense. I mean there's defense on the asset side, right? I think we probably want to have -- and Doug Dachille, I think doing a good job of this, but continuing the move towards less risky assets, and you got to do this in context to the capital that they draw and the diversification that they provide you, right? But there's offense in some of these. So on investments in spread businesses, I think, we have to be more defensive. But on the PC side, we have to be offensive.

So yes, there's -- so I think want to just give you a defensive view. It's a hybrid view from that respect. But that kind of thing that's looked at all the time. But clearly, that mixture, we don't want to be in a position where they take GI. It's got a 3.5 year duration. You don't want to go to a 5.5 year fixed asset duration and massively expose yourself to movements in interest rates. And that's not happening. That's always going to be matched on the fixed income side, and it's the assets within shareholders' equity where you can take some of the alternatives. But we're not going to extend in order to -- we're not chasing yield.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. So you kind of talked about the offense. But on the defense, how has your investment portfolio been shaping up on a ratings migration and credit default perspective?

A - Mark Lyons {BIO 21746221 <GO>}

Yes, actually, very well. At this point, it's -- the actual downgrades are really -- not actually material. On the migrations, of course, what's the most important is when you go from BBB, right, down to a non-investment grade. And look at the sectors and I think you can see in the expanded disclosure we provided in the last couple of quarters, you can really see that by unit and by industry itself. And given where our RBCs are for both the U.S. pool and the GI side and the Life and Retirement side, which is actually north of the upper bound of their established ranges, there's a lot of absorbency, in case that does kind of move differently as a go forward basis. But so far, neither one has been material.

Q - Tracy Benguigui {BIO 21808177 <GO>}

And we have about one minute left. So maybe I'll put either Peter or Mark on the spot for any type of bull [ph] 2021 predictions, and it could be fun.

A - Peter Zaffino {BIO 15942020 <GO>}

Well, again, if I was to predict the future, which I'm not great at, but I would say that like for -- the market, I think that we are incredibly well positioned, I think we have a lot of momentum what it looks like each quarter. Next year is always hard to tell, but I think the market is really calibrating fast. And I think we're out there leading and believe that will be incredibly well positioned. And I think top line growth, continued improvement in the portfolio and getting great risk adjusted returns to improve profitability is going to be the story for AIG next year.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Mark, anything to add?

A - Mark Lyons {BIO 21746221 <GO>}

No. I think that's great summary.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Excellent. I had fun chatting with both of you. So, thank you so much for your time.

Thanks, Tracy.

A - Peter Zaffino {BIO 15942020 <GO>}

Thank you. Thank you.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Thank you. Bye now.

A - Peter Zaffino {BIO 15942020 <GO>}

Bye.