UBS Virtual Insurance Conference

Company Participants

- David McElroy, Chief Executive Officer

Other Participants

- Brian Meredith

Presentation

Brian Meredith {BIO 3108204 <GO>}

Good afternoon, everybody. This is Brian Meredith. I am the senior North American Insurance Analyst here with UBS. And welcome to our final, but clearly not -- clearly one of the highlights here of Virtual Insurance Conference with AIG. With us today from AIG, we've got Dave McElroy, who is the CEO of the North American General Insurance Operations as well as Sabra Purtill, who's the Deputy CFO as well as in charge of Investor Relations.

I want to remind everybody that if you'd like to ask a question, you can e-mail me and my e-mail addressed [ph] either is on the bottom of your screen if you're coming in via webcast here or you can e-mail me at brian.meredith@ubs.com. So feel free to shoot me an e-mail. So David and Sabra, thank you for joining us this afternoon for a virtual conference. I know, Dave, you've got some prepared comments you want to kick off with, and then I'll jump into the questions.

David McElroy {BIO 15192036 <GO>}

Thank you, Brian. And thank you, Sabra [ph]. Thank you, everyone. I'm David McElroy, I've been with AIG for now the year and a half. I always go right at it. I always assume there's some skepticism around AIG. I also assume that you've -- everybody's read and seen the work that was done over the last year and year and a half. When Brian and Peter arrived, and the fact that they build out a team and they did it in an unapologetic way of understanding that underwriting actually matter, and that the way insurance companies were valued by investors going forward would be more about underwriting profit and expecting the fact that investment income will be there, but it also is going to be compressed by yields and frankly the -- what might be the unknown down the line.

So they are charged to me, and I started with Lexington and I ended up with financial lines in (inaudible) North America because I have some experience with that was to be disciplined around underwriting. And it's actually -- the clarity of it was very clear, okay. We had too much limits at risk, we had too much limits underpriced. We had businesses that we were chasing top line and quarterly revenue instead of profits, and they gave me the -- they gave the team the authority.

One thing that happened was we had 10 new managers coming in running these significant businesses. We're talking about $14 billion of revenue, bigger than most worldwide companies. And we were given the authority to do the right thing and they actually underwrite appropriately. We reconstituted businesses. We set incentives in the right way. We told the leaders to go do and become underwriters.

The effect of that is, when I think you saw if you watched in last year is, this is an industry that builds confidence over the year. So the efforts that we did with Lexington and Agrium and our programs business of reconstituting them and giving the authority showed up in the first quarter, and in fact, it showed up in second quarter, third quarter, fourth quarter, where the industry accepted the fact, and we stayed disciplined instead of chasing a top line. The effect of that actually allowed what I think to be a retrofit of our portfolio. We were able to lease a terms and conditions, but basically by taking out close to $250 billion of limits exposed with a modest trade off in premium, and then powering rate is -- this is a different book than it was a year ago.

We also recognized insurance as a lag effect and we got through this first quarter, I think, fairly effectively, in fact with rate on rate from what we had done before, the -- which does set up the picture that I think, I'm trying to portray, which was -- if this work hadn't been done, we would have been much more vulnerable in 2019 to the COVID-19 versus where we are today, where I would attest to you that we're 85% to 90% confident around this portfolio that we built.

The limits that we have exposed, the portfolio management that is subtle and behind the scenes that an underwriter cares about, that may not be evident necessarily to the external world in terms of balancing middle-market, placements, excess, mid excess, shorter limits, terms and conditions, all those things were actually in play in 2019. I'm also sanguine enough to know that, I always feel like I needed -- we always need like at least three years to get through the true full underwriting of that. That said, this is a better portfolio and a defendable portfolio going into a very uncertain period of time.

So I just think it's important, because I'm -- I've seen AIG since the credit crisis and I've seen a number of different theories of the case. I've seen scientists. I've seen go limit, go big, go large, go no reinsurance, okay. The insurance team here has a very strong view of what is a portfolio that mitigates volatility yet captures the asset that exists today, not only globally, but also the specific businesses that have always put it unimpeachable power. Primary, lead umbrella, it's not excess, excess is a commodity, I'll probably live with that one attached to my name for many years. But we have a -- there's the power of pricing and the power of franchise attached to AIG. It's just this group actually is recognizing it and working with it.

So, with that Brian, I know that's a little bit of an advertisement, but it's what I've seen and believed, so.

Brian Meredith {BIO 3108204 <GO>}

Great, great. So Dave, the first question I want to ask, I'm asking everybody, and the question is this. If we look out 12 months from now and we take a look back, and we see what was the impact of COVID-19 on the P&C insurance industry. And what do you think the long-term implications could be? And then how AIG kind of respond to that or positioned within that?

David McElroy {BIO 15192036 <GO>}

The -- ouch, the -- so the first -- thank you. The first part is, we've learned to work from home, I think like everybody.

Brian Meredith {BIO 3108204 <GO>}

Yeah.

David McElroy {BIO 15192036 <GO>}

The second part is I probably missed by business dinners in New York, which I'll never go back to -- let's see. The COVID-19, and I think everybody feels it and I apologize for an attack, but everybody has an opinion right now. This is a ??-- this is the developing cat with no tail. So from a country, from a product, from a distance -- time and distance, from a government intervention both positive and negative, we have a lot of unknowns, okay? What I do think that we are looking at from our standpoint is, we have certain products that are going to be affected both on the revenue side as well as the loss side. We're trying to think about that as we revisit our 2020 plan.

The unknowns are -- this is going to leak into every quarter. There's going to be news every quarter, okay? There's going to be surprises every quarter. There's going to be capital surprises. There's going to be unknown losses that were not foreseen. There's going to be reinsurance questions that were not contemplated the -- that's what's going to happen on the loss side.

On the revenue side, we clearly have less exposures, and we can go through those in a certain period of time. You have to price for those. You also have a regulatory issue that is -- and I put it this way positive and negative. The negative is they're going to want return premiums, even if the product isn't profitable. They're going to be prescriptive around that, okay? The positive is they may actually keep a number of small businesses in place and survive them with PPP, and other things that would have been tipping into bankruptcy or tipping into problems, and we need respect that and frankly honor that.

The regulatory regime honestly Brian, is the unknown, and it's changing every day. In North America, it's a 50 state quilt of which there's followers. Internationally, it has a different perspective. There's each of these businesses is probably going to be affected, I think almost by quarter that's literally how we're building out, our thinking is what's going to happen here? What's going to happen with travel? What's going to happen with workers comp? Is it essential workers, is it -- does it expand to full -- all employees? Are we in validating the law , does it get challenge that's the extraordinary uncertainty of this event.

Second part. I always come back to does this invite capital like on the macro basis which is what we always think doesn't invite capital. I -- it's circling around right now. I am -- it's circling around right now. That's a double.

Brian Meredith {BIO 3108204 <GO>}

Okay.

David McElroy {BIO 15192036 <GO>}

But I do think, and this is -- and I've been there in 2001 and I've seen 2005. The reality of capital coming in now is it always comes in as reinsurance and excess capacity. Okay? And maybe that's my sales pitch for AIG. We inhabit primary positions. We inhabit, I call it, unsalable positions, primary D&O, lead umbrellas, okay? Significant capacity and retail, Lexington property, Lexington casualty. I've also experienced where you come in as capacity, it does have value. We would always respect that value. But that has a different attack point, and I just want to -- I respect it. I want to make a point about it. It might be first party, it's third-party, we understand what might be happening with capital on the ILS side. It's -- but this is that -- this is the fear and the environment we're in right now. And I -- we're reading it every day and we have experts every day. I'm going to -- we're going to live in this moment of our portfolio, so --

Brian Meredith {BIO 3108204 <GO>}

So let's pivot a little bit you touched on it briefly. So the economic slowdown that we're seeing, what impact are we going to see on the North American commercial lines, book of business, top line which lines are going to be kind of most impacted as you're going into your -- revisiting your 2020 budget process. And is there any share losses that potentially could pick up as a result?

David McElroy {BIO 15192036 <GO>}

Yes, the -- so we're in that first quarter. By the way, everyone, whatever the first quarter numbers are, we all accept them, we smile at them and then they don't matter. The future in that we're looking at is one that we are trying to parse between the revenue hit and the revenue expectations and then the loss hit, okay?

And when I -- certainly at AIG, when I was building and the team was building out the revenue here we thought about products. We thought about ratable exposures, and then we thought about specific businesses. So when you look at that and you actually build that clearly aviation, trade credits, travel insurance, M&A insurance, those are affected businesses. You know on the revenue side, they are going to be affected, damaged, okay? So when we're thinking about the revenue piece going forward that's a data point that we've been working with.

You also think about ratable exposures, employees, revenues, autos on the road, payroll, number of companies that exist, okay? Number of IPOs, number of companies that disappear. So we're clearly in an environment where a deep recession, let's just call it that, where exposure are dropping, depending on the business and depending on your portfolio because the SMEs different from large accounts. You may have minimums that give you a floor on your reaction to the exposure, okay? You have or they may disappear.

So these are the issues that every insurance companies dealing with trying to figure out the revenue side as a prospective basis. No question at all. Most companies have to be thinking that, there's going to be a revenue hit, a premium hit, okay? The variability of that can be -- it's -- it depends on your portfolio, it depends on the businesses you're in.

We have a travel business that's going to be hit, okay? We have a large account workers' comp book maybe less so, because it might be hit by the client, but not on the excess pricing. There's still exposures out there, there's still severity. So that's how we've been thinking about the revenue side, and then here's the other piece as a mitigant. The renewal retentions will stay stronger, rate there will be rate and there will be rate on rate. There's no question that, if you look at what we're facing today, there will continue to be strong rate through most of the portfolio.

And in fact, it may actually start catching workers' comp, because of some of the attacks there which has been the one product that has not had rate over the last year. There may be opportunities, because of all the cacophony and some of the issues that are happening there and stress. And then I do believe this, we live in large accounts there, there's going to be some fracturing around the placement of their towers.

So the important thing that I look at, I think that everybody is worried about is more the loss side. And the loss side is, we've identified travel, we've identified business -- some elements of business interruption. We've identified trade credit, event cancellation, these are somewhat identified in the first quarter, not only by AIG, but by others and Lloyd's. It's the -- the issues there are going to be about property and workers' comp mostly in North America, workers' comps in North America. And then there's unknowns and unknowns will be directors and officers liability, professional liability.

If we go down the track of return to work, okay? If return to work has all sorts of general liability exposures, premises liability, negligence, you can manufacture them as -- from an all-encompassing standpoint. That's the unknown that I think everybody's looking out and trying to quantify, and it's to a certain degree is a very difficult issue to quantify depending on governmental immunity, behaviors, what's -- where you are in the world and in America. So that's the -- when we look at -- and I know everybody wants to sort of speculate around the loss side, but when you actually drill through the different businesses, there's knowns, there's secondary derivatives, and then there's probably third derivatives that we have enough, we've not actually contemplated.

So -- but am I worried about D&O was an example Brian, I grew up with that and you know that. But, D&O shows up in different ways. It shows up in fiduciary liability, it shows up in private companies, who can't get through this and they have bankruptcies. It shows up in private equity firms who have portfolio companies that they're not funding, okay, and have a different potential litigant based debtholders, employees things like that. So this has tentacles that are -- that will continue to show up every quarter, and then there will be new news every quarter, okay? So sorry to make it more --

Brian Meredith {BIO 3108204 <GO>}

Good.

David McElroy {BIO 15192036 <GO>}

But I know, D&O always gets the throwaway line, but it needs to be --

Brian Meredith {BIO 3108204 <GO>}

Got you, got you. So a question came from the audience that kind of relates to what you were just talking about. Maybe it would be helpful if you kind of explain them the workers' comp situation, right? I mean, your kind of limits profile and your typical customers are bigger customers, right? And you do a lot of SIR business, large core [ph] those type of stuff, which I would think that business is going to be in -- probably less exposed with respect to kind of frequency, right? In this whole thing with respect to the concerns is presumption of coverage and what's going on with state legislators. But I guess, then you've also got some aggregate business I believe on the workers' comp. And I guess, is there any way to kind of frame that this -- it still have to be a significant kind of increase before kind of goes to you or is this more of just a service anything for you guys?

David McElroy {BIO 15192036 <GO>}

No. It's a great instinctive question around that business because the -- our business (inaudible) it's a -- it probably spawned 10 other companies doing loss sensitive, high deductible business for Fortune 1000 companies, where they want to retain risk, the frequency risk and predominantly that's in workers' comp. So it's one of the businesses we reconstituted. It's an important - it's sticky, you're holding collateral for large account companies, you're actually deciding their frequency, and then you work with them. And then you have a very intimate claims relationship with them.

So the second part of your question is whether if they actually have enough frequency that they blow in aggregate, whether that becomes exposure to the insurance company. And we have a very small amount of that, okay? But it's definitely something that might have happened in a softening market where we were pushing on the aggregate. The 80% of our book and workers' comp in AIG is this type of business where there are significant often $1 million self-insured retentions, deductibles where a lot of the frequency is showing up for them.

And that's really as we're looking at this exposure for presumption, okay? Where that falls, it's -- unless it's hard to contemplate whether that could be an aggregated exposure, but every individual has a certain amount of exposure. And if the states to change that, truthfully and that maybe that's the worry. That will follow on in the businesses that we're in, will follow onto to corporate America, okay? And because they're absorbing the frequency of it, they're absorbing the individuality of it, we normally get the outlier case or the multiple injury case that penetrates the excess. So I know that's a little bit more complicated for that business --

Brian Meredith {BIO 3108204 <GO>}

That's good.

David McElroy {BIO 15192036 <GO>}

But it is important -- it's important distinction for any investor to look at is to know, that workers' comp has been a very attractive product over the last five years. It does differentiate between SME, middle market and then large accounts who actually absorb most of the frequency losses themselves, and they're comfortable with that SIR, the self-insured retention so --

Brian Meredith {BIO 3108204 <GO>}

That's really helpful.

David McElroy {BIO 15192036 <GO>}

Yeah.

Brian Meredith {BIO 3108204 <GO>}

Yeah. That makes a lot of sense. Perhaps pivot this other question here. Your perspective, I think we're going to go with this one. But I'm going to ask it a lot of companies a lot of execs are out there talking about a core hard market for commercial lines insurance, right now. And I don't know, what your definition of a hard market is, but mine's typically is you can't get programs done, there's supply shortages, increase in demand and just -- it's a real challenging situation. Are we there at this point in the market?

David McElroy {BIO 15192036 <GO>}

Thanks, Brian. The one thing after 38 years is, I think there are three hard markets. I'm not sure how I'd even give them definition. Here's the -- here's our industry, and it may help investors pick where they think about allocating, and say, their capital because the industry has gotten more sophisticated. The industry -- you can't throw hard market out there with all the products that we have, okay. AIG is a large account company. We do have programs in SME business through our Glatfelter programs. We have A&H businesses worldwide that's a $3 billion asset. We have retail property. We have Lexington property. There are 100 different markets. And everybody has to thematically get to that spot.

The reality is, and this is what I think we've seen over the last year is there's clearly loss cost inflation. I won't use the term social because it's easy. But the reality is the plaintiffs (inaudible) has some of the realities of litigation that was happening in 2016-2017 showing up in 2018-2019 was forcing companies like us to react to that, okay? I would make the case that we probably needed to react more, because our results were worse than others, but we were reacting more and we might have been the catalyst for that, okay? That still exists. The COVID thing may have an effect, and it's worth putting like that.

Brian Meredith {BIO 3108204 <GO>}

Yeah.

David McElroy {BIO 15192036 <GO>}

But this industry needed better rates, particularly in vulnerable spots and I come back to it. We write a D&O business that we were paying close to $50 million a year on M&A bump up claims that would go away that were affecting our results, which weren't affecting excess -- excess liability -- excess D&O results.

Lead umbrella, $25 million lead umbrella sitting over 1 and 2s, okay? We're getting tagged, because it was inflation showing up and affecting their business. There had to be a reaction to that. That's what I put $19 million for those sort of behaviors that the underwriters in the industry react to that. There's no way to turn that and say the same case in Texas or the same inflation volatility is going to disappear because of COVID. Yes, we're going to watch that, okay? The --

Brian Meredith {BIO 3108204 <GO>}

Okay.

David McElroy {BIO 15192036 <GO>}

But we're not going to unprice for the fact that we needed more price for our business, okay, for the risks we were assuming going into 2020, okay? Because there might be an element of diminished exposure which might affect frequency, but does not affect severity. And that's sort of the model that we're -- and sort of the thinking that we're going with in terms of how I view risk, okay, the same Texas auto loss is -- could still be $54 million. I need to price for that. That's -- these are different businesses. What I come back to is the -- we're also potentially absorbing depending on the latest prognosticator a $70 billion, $80 billion, or $100 billion cat loss for COVID, okay.

That's going to take capital, that's going to demand capital and suck capital out of this industry that may not be replaced. Capital is important, capital needs to be priced. We're not getting returns on our fixed income portfolio. Everything has to be reconstituted in terms of how we think about pricing our products? So that's how I feel. I'm -- and I'm also wildly nervous about the unknowns, so --

Brian Meredith {BIO 3108204 <GO>}

Makes sense. That's good. So next place I want to head to that we're getting some questions from people on as well is perhaps you can talk a little bit and you talked so much about it was your seeded reinsurance program, right? And obviously, a lot of changes have happened in that program over the last couple of years to reduce (inaudible). How do you think that respond to these kind of COVID-19 claims, and maybe you can give us a little bit and kind of on the structure of that program. And why we should feel better today about your exposures in part because of that?

David McElroy {BIO 15192036 <GO>}

Sabra is always going to give me a thumbs up or thumbs down Brian. The -- I think the 10-K has the program. Let me give you the very innocent view of how I hold -- I'm holding on to it. Peter Zaffino, like this is a home game for him, and he could actually architect this thing scarily. But what I draw distinction of is probably in years past where we might have thought, we could whistle by the graveyard and that 1 in 250 event isn't going to happen.

We have underwritten and we have bought and I mean aggressively bought not only for -- for what I think is the event that we expect every year, both on the currents and an aggregate basis and you've seen what we've collected on Japan. You've seen what we've had in the last couple of years. But for the tail event, okay? And the pandemic issue is probably the singular tail event that as we built an occurrence cover in North America, we build an occurrence cover for PCG and also an aggregate cover. And then we've also built across the world, because we are in 80 countries and we are that big.

Everything that we've bought has been with a defensive volatility is not rewarded, volatility is just no win with volatility. Let's show our investors. Let's show everybody that we actually will give up marginal return, so we don't give outlier a bad performance. So and that even extends to the per risk covers that we have. We have a per risk cover for property, which is the hot issue that has different attachments depending on the business 25 and 10, that works. We have quota share that we never would have had before AIG for our casualty business. So think of old AIG might have had literally $200 million net. And today, we restricted our gross capacity to a $100 million and even then we have a $75 million -- $25 million, and then we quoted share of the first $25 million.

Everything underneath this as we kept up the business and the volume and our relationships with clients has been to accept the fact that volatility is the enemy, okay, utilize it manage it. So it is worth resonating because I sometimes think that we -- and meanwhile, we have preferred positions where our clients are okay with the limits that we're putting forth. They understand that we might have syndicated those because they're still very pricing powerful positions. So, okay?

Brian Meredith {BIO 3108204 <GO>}

Got you. Yes, makes complete sense. Like say, I want to pivot back both to the pricing, there's another question I want to explore a little bit here is kind of movement of business from standard market to the E&S market. And then maybe you can describe a little bit what's been happening here at Lexington. As Lexington kind of in a better position today to kind of take advantage of what's going on right now, as a result of some of the changes you've made?

David McElroy {BIO 15192036 <GO>}

Yeah, Lexington salary [ph] got me back in the game. I'm very proud now.

Brian Meredith {BIO 3108204 <GO>}

Yes.

David McElroy {BIO 15192036 <GO>}

The -- it's going to be interesting, because -- and for everybody's benefit. I am a culture whatever strategy, so we'll just call that. Lexington was a company that AIG allowed inside its own company competing with other parts of AIG, retail property, excess casualty, a lot of Lexington instead of being distribution focused with wholesalers who they would 75% -- 70% of their business with -- was with retailers. And what we did a year ago with support was to focus them on wholesale only. And what that did give was it showed a commitment to the wholesalers who are their own breed, and they are very passionate breed, and they're also very supportive, if you show them respect, and we basically have reconstituted an entire company for E&S under leadership, which has a very different portfolio than it had a year ago.

And that portfolio is -- it's transactional, it's better priced, it might be hard to place business, it might be -- it's well-priced business. It also gives you more flexibility than you have in the demitted [ph] world where I can't leave a stay without filings, and I can go in and out. And it also and this is important. It matched up with an E&S model of shorter limits fee. We might in property, TIV smaller, different occupancies, better rate online. Right now, our E&S property portfolio 80% of it is under $25 million. It actually allows me to look at a different reinsurance structure one day, than I might have had before because of the work that was done there.

In casualty, as we forced a lot of business out of our retail casually or admitted casually, it ends up in Lexington casually. It's sort of a gift. So I see -- if I was -- and believe me we tested with our distribution as to what happened with COVID. There was a bit of a lull in April, and I haven't seen the results yet. But their business can take -- their business pivoted and started to get very active again in early May. And I haven't done a back test in a month. But the E&S world is going to be a strong world and Lexington is a brand and has capacity to not only control the primary position and the author position, but then leverage that into a more benign placement of the tower. So that's a -- that'll be a growth strategy this year still, even with some of the pressures, so --

Brian Meredith {BIO 3108204 <GO>}

Great. And then let's shift across the Atlantic Ocean here for a second and talk a little bit about Lloyd's and what's going on over there? I guess, the first thing, just a quick thought in your -- Lloyd's came out with a fairly substantial loss estimate for COVID-19 today is like

$104 billion, right, on the high side, I guess, and kind of what their average in there -- where they are. I guess, can you kind of give me your perspective as you guys sit within Lloyd's or Talbot, right. And kind of what the exposures there kind of look like here are a lot of things that it's got a little bit more generous policy form, et cetera, et cetera?

David McElroy {BIO 15192036 <GO>}

Yes. And I've got to be careful there, Brian, because the Talbot sits in the international arena.

Brian Meredith {BIO 3108204 <GO>}

Okay.

David McElroy {BIO 15192036 <GO>}

A lot of the business at Lloyd's is probably more my history of understanding, but with event cancellation, the property business with different language into the regionals, trade credit might be there, might be in the company market. The -- it's -- we're all in a nice way, we're all sort of -- we're all experts until we're not right now. And I do believe if you -- and this is an insidious exposure, and we have to continue to respect the fact its effect on people, but from -- if you clinically look at it as an insurance exposure it's in certain spots right now.

And we do know it may expand. We do know it's touching multiple products in multiple countries over multiple durations. So I think what John did was the right thing going. And remember, Lloyd's has it on a product basis as well as a reinsurance basis. So he's appropriately, I think respecting that this has a constellation effect that we can't fully identify right now, but we should all be nervous about. So I can't comment on his comment because --

Brian Meredith {BIO 3108204 <GO>}

Okay. Yeah, yeah, sure.

David McElroy {BIO 15192036 <GO>}

-- travel A&H event cancellation, property business insurance, it can be in workers' comp, it can be an AIG ray. It can hit D&O, E&O, private company D&O, fiduciary liability, employment practices liability? I can -- every product can be affected. So right now, I want to say it, it's somewhat speculation. What it does do is allows us to continue to price our product without an attack point of saying exposure down unilaterally so --

Brian Meredith {BIO 3108204 <GO>}

Yes. That makes sense. So how about another thing that I'm not sure if you're involved in here, but syndicate 2019, and the new homeowner syndicate, right? Maybe you could give us a little bit of perspective as to why you did that? And does that actually decrease your kind of PMLs or U.S. hurricane the stuff as we kind of look forward here?

David McElroy {BIO 15192036 <GO>}

Yes, so I am -- my responsibilities have tangentially included the high network with owning the distribution. But Kathleen is a friend of mine, and we have -- one thing I would say it's an editorial, but the new AIG is not trying to compete with each other. So we actually have a collaborative relationship, and we're trying to -- we always start thinking about -- when I got to AIG I always thought five companies would compete for the same piece of business, and then Hank would figure out who won. That's not this AIG and I think it's very important from an aggregation management standpoint and a control standpoint.

Kathleen and I talked about this and she's -- I have some history there. But think of jet and think of high network in my mind, is utilizing Lloyd's is also utilizing third-party capital who can come in alongside us, okay? And then there's some levers that they can utilize with that, but it's private. It's basically third-party private capital that you can't bring in in a normal conventional sense. So when we looked at this, we have that setup in Lloyd's that's important in Lloyd's. And then we had a whole account quota share that we could work with conventional reinsurance, okay?

We like the business. We like the team that's underwriting the business. We also know that it's cat exposed, okay, rich people live on the coast, rich people have a lot of art, a lot of yachts, a lot of homes. And we just wanted to continue to manage the volatility, we can do that through the vehicle of reinsurance and syndication, okay? Long-term I think it's perfect. I -- it's exactly what you would want do while we continue to be in the market. We aggressively balance the portfolio, maybe less off of each coast, and then we start building a syndicated portfolio of assets that we like. And now we have relationships, we can prove to people that we actually can underwrite, get performance fees, get underwriting fees, get seed commission, and also participate in the results.

So it's a -- we've seen it before in some derivative fashions. I think using Lloyd's to do it allowed us to bring in third-party capital that would have been complicated to bring in different way. And we also think of them as a long-term participant, not only for this, but also for other lines that we might also look one day to syndicate, so. That's --

Brian Meredith {BIO 3108204 <GO>}

Makes sense. That makes a lot of sense.

David McElroy {BIO 15192036 <GO>}

Yeah.

Brian Meredith {BIO 3108204 <GO>}

That makes a lot of sense.

David McElroy {BIO 15192036 <GO>}

It can be a growth story Brian, it's about that, so.

Brian Meredith {BIO 3108204 <GO>}

Got you, got you.

Yeah. And I would just add that we did talk about in the quarter that that will have some impacts on our written and earned premiums for the balance of the year because of the book that's --

Right, right. Because more will be going there that will cause a reduction. So actually, Sabra, you've been pretty quiet this whole time. I'm going to ask you a question here. Could you talk a bit of an overview right now of kind of what liquidity looks like at AIG, kind of holding company position, I know you did some recent debt, and just -- understanding of kind of what it looks like over the next 12 to 18 months? And then what's your flexibility for kind of in the event you need capital life insurance operation putting it on there and how cushion do you have there in the life operation for ratings migration and stuff like that?

Okay. I think I got all that you broke up a little bit there. But first of all I'll start with --

Okay. Sorry.

No, it's all right. The Internet hiccups. I'll start with the liquidity position. First, AIG began the year with a very strong liquidity position as well as strong risk-based capitalization in our primary companies as well as over in AIG UK and AESA which is our European operation and then also, again in Japan. So we began the year in a very strong spot.

What we did -- as we got into March, when the world became -- shall we say very, very uncertain and actually kind of in the teeth of the greatest uncertainty before the FED programs were announced. We did decide to borrow $1.3 billion under our revolving credit taking into consideration our projected holding company needs for the balance of the year, including we had about a $1.3 billion in debt maturities for the second half of the year.

Coming out of like I said the worst of the market sell-off and through earnings, we decided that we would take a harder look at the maturities that we have into 2021 as well as even early 2022. Because as David commented, this is a continuing event, and we simply don't have a clear crystal ball or frankly even a murky crystal ball about what capital market access would look like later in the year. So we went to market last Wednesday which seems a month ago at this point.

But we had earnings on Monday night, the call on Tuesday, and then on Wednesday, we launched a multipart benchmark sized senior note offering in 5, 10 and 30 year maturities, which went very well. We closed with $4.1 billion of proceeds. So as of today, and I would note that transaction should close on Monday. We have more than $11.5 billion of holding company cash in short-term investments relative to what I would recall say a $3 million -- $3 billion annualized holding company need for interest, dividends and holding company expenses and then obviously we've got the debt maturities to pay off. We have the revolving credit to pay off, and then we also have that $1.7 billion IRS tax settlement which we expect to get the notice for some time in the third quarter. So we're very, very strongly capitalized, taking into kind of -- we also expect Fortitude to close mid-year, which although some of those proceeds will be pushed down to our U.S. operating companies.

Nevertheless, we will have some proceeds from that and also eliminate the risk from that portfolio. And then in addition, we anticipate dividends and tax sharing payments from the subsidiaries during the course of the year. So we feel very, very comfortable about our liquidity, financial flexibility and don't envision any issues at all. And I know a lot of people have been concerned and doing that kind of analysis.

With respect to your question about the subsidiary capitalization, this event, while it is certainly a large event from an industry perspective for losses, it's more of an earnings event than a capital event right now. Like we said, we took 2.72% for COVID. The mortality we're seeing on the life and retirement plans business where they've historically run pandemic exposure analyses, they're certainly manageable. So that the next leg of the stool is really going to be what you referred to, the ratings migrations, downgrades, defaults.

Consistent with what David mentioned, we're in a much better position today than we would have been four years ago. Our investment portfolio's been significantly de-risked and while we still have hedge funds that a lot lower percentage of the portfolio than they used to be. The life settlement book has gone. And there's just generally been a pretty good portfolio cleanup. And so as Mark talked about on the call, our portfolio, although people have the perception that it has higher risk and that's in part due to some of the previously credit impaired RMBS that we purchased back in 2012.

In general, our portfolio looks a lot like the market. So, if we look at like and retirement year-end risk-based capital was 402 [ph]. We're similar, slightly better for the end of March, and that's with the VA implementation of different statutory reserving rules. And we've benefited from a very effective hedging program on our market sensitive guarantees in the life and retirement book.

So the way we look at it as we see those credit impairments, which they will come, right, on a GAAP basis, we already had a huge swing in our accumulated AOCI, which was based on where the market had moved are available for sale bonds. A lot of which was already been recaptured in the second quarter. But on a statutory basis, which as you know is amortized cost, we will see credit impairments come into the portfolio. I personally think that with this probably more of a third or fourth quarter event than a second quarter, because with all the -

Okay.

Forbearance programs and the rest. You don't -- somebody who was teetering on the edge before this, okay, that might be something you can credit impaired in the second quarter.

But if you think about, for instance, a commercial mortgage loan portfolio with forbearance, there's probably going to be some workouts and some losses, but it's too early to know for second quarter, I think. So as we think about it, relative to (Technical Difficulty) like I said, we've got a fortress holding company liquidity. The first thing that we would do as we go through the course of the year is make decisions about whether or not as we identify single exposures, do we sell that as opposed to hold it?

Secondly, there's actions we can take basically, if there's a shortfall where we want to be relative to target RBC then we just don't have to take dividends out. As I mentioned, we are putting proceeds from Fortitude down into both the GI, the U.S. P&C pool, as well as life and retirement. So that's another level of capital support for those entities. And thus when we look at it and total -- if this is manageable. And with like I said the holding company liquidity that we just started the year with plus the debt financing, and actually I think the GI, the U.S. pool has the strongest RBC ratio it's had since like 2014.

We're in a pretty good position. But yeah, it's going to take a little bit more time for us to see. But part of the reason why we added 20 pages of disclosure to the financial supplement this quarter, which was all around investments was to provide people with a kind of legal entity view of our portfolios. Because I know it's hard, because we're a global multiline company and a lot of people are reading research reports that compared our portfolio to U.S. P&C only peer group or U.S. life group, and we felt it was important for people to understand that when you dig into it, our -- there's some differences in our portfolio because of tax. So we don't have as much community bonds, because we have the NOLs, and we also have a lower allocation to equities with a lot of our P&C peers. But basically, we have a portfolio that looks a lot like the market and will -- we will have like I said some credit losses, but we'll manage really. It's -- I feel very comfortable with the position we're in from both the holding company liquidity, leverage capitalization perspective.

Great. Well, I think we're just a bit over what we had allocated for this. So I want to thank Sabra, David. I want to thank both of you all for your time today, really educational, very interesting conversations. And thanks, everybody for joining us on this UBS Virtual Insurance Conference. It was a great experience actually. I'm glad it went out without any glitches. And just everybody stay safe and healthy out there. And thanks again for all your time.

David McElroy {BIO 15192036 <GO>}

Brian, thank you.

Brian Meredith {BIO 3108204 <GO>}

Yes. Thank you, Brian and as well I hope everybody stay safe and healthy.