S&P Global
Market Intelligence

American International Group, Inc. NYSE:AIG

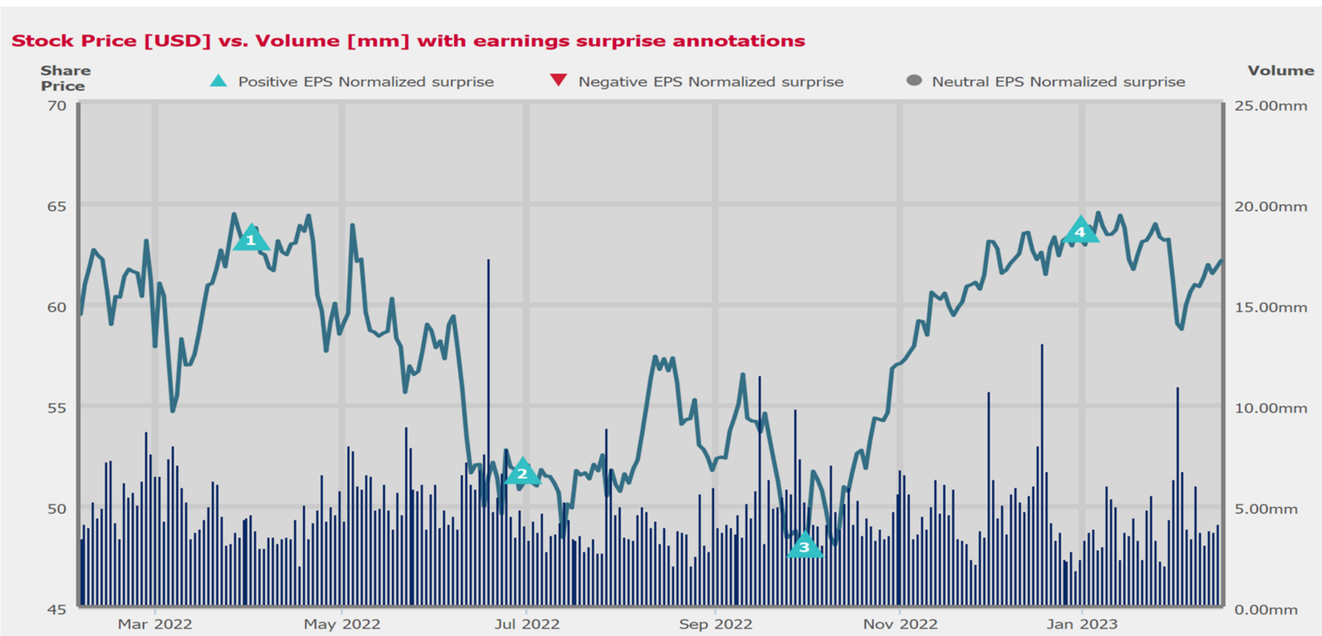
FQ4 2022 Earnings Call Transcripts

Thursday, February 16, 2023 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.28	1.36	▲6.25	1.50	4.48	4.55	▲1.56	6.05
Revenue (mm)	12115.69	NA	NA	11517.86	46127.52	NA	NA	49756.00

Currency: USD
Consensus as of Feb-17-2023 9:48 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	1.17	1.30	▲1 11.11 %
FQ2 2022	1.14	1.19	▲2 4.39 %
FQ3 2022	0.52	0.66	▲3 26.92 %
FQ4 2022	1.28	1.36	▲4 6.25 %

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Call Participants

EXECUTIVES

David Hughes McElroy
Executive VP & CEO of General Insurance

Peter Zaffino;Chairman and CEO

Quentin John McMillan
VP, MD & Head of Investor Relations

Sabra Rose Purtill
Executive VP & Interim CFO

ANALYSTS

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Erik James Bass
Autonomous Research US LP

Jon Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good day, and welcome to AIG's Fourth Quarter 2022 Financial Results Conference Call. This conference is being recorded. Now at this time, I would like to turn the conference over to Quentin McMillan. Please, go ahead.

Quentin John McMillan
VP, MD & Head of Investor Relations

Thanks very much, and good morning. Today's remarks may include forward-looking statements, which are subject to risks and uncertainties. These statements are not guarantees of future performance or events and are based on management's current expectations. AIG's filings with the SEC, including our annual report on Form 10-K and our quarterly reports on Form 10-Q, provide details on important factors that could cause actual results or events to differ materially. Except as required by applicable securities laws, AIG is under no obligation to update any forward-looking statements if circumstances or management's estimates or opinions should change.

Additionally, today's remarks may refer to non-GAAP financial measures. A reconciliation of such measures to the most comparable GAAP figures is included in our earnings release, financial supplement and earnings presentation, all of which are available on our website at www.aig.com.

Finally, today's remarks will discuss the results of AIG's Life and Retirement segment and Other Operations on the same basis as prior quarters, which is how we expect to continue to report until the deconsolidation of Corebridge Financial Inc.

AIG's segments and U.S. GAAP financial results as well as AIG's key financial metrics with respect thereto differ from those reported by Corebridge Financial. Corebridge Financial will host its own earnings call tomorrow on Friday, February 17, and will provide additional details on its results.

With that, I'd now like to turn the call over to our Chairman and CEO, Peter Zaffino.

Peter Zaffino;Chairman and CEO

Good morning, and thank you for joining us to review our fourth quarter and full year 2022 results. Following my remarks, Sabra will provide more detail on certain topics, including Life and Retirement results and our path to a 10%-or-greater ROCE, and then we will take questions. Kevin Hogan and David McElroy would join us for the Q&A portion of the call.

Today, I will cover 4 topics: First, I will provide an overview of our fourth quarter financial results. Second, I will review highlights from the full year, including some of our major accomplishments, which were remarkable given the very challenging conditions we faced throughout 2022 in the equity markets and the insurance industry. Third, I will unpack in some detail market conditions leading up to January 1 reinsurance renewals, where we saw significant shifts that we believe will impact the industry throughout 2023 and perhaps longer. Suffice it to say, this 1/1 renewal season was the most challenged that many, including myself, have seen in our careers. And fourth, I will outline our 2023 priorities and outlook regarding capital management.

Before turning to our results, I'd like to welcome Sabra to the call. We are fortunate to have her in the interim CFO role, while Shane is on a medical leave. Regarding Shane, I am personally, deeply appreciative of the tremendous outreach from many of you, the number of people who have sent good wishes for a speedy recovery is incredibly meaningful to me, and our management team, and particularly, to Shane and his family. We look forward to welcoming him back to AIG.

Now let me begin with a brief overview of AIG's fourth quarter results. Adjusted after-tax income in the fourth quarter was $1 billion and $1.36 per diluted common share. We repurchased approximately 780 million of AIG common stock and redeemed $1.8 billion of debt. AIG paid $243 million in dividends in the fourth quarter and Corebridge paid 2 dividends, totaling approximately $300 million following its IPO in September of 2022.

Turning to General Insurance. In the fourth quarter, the accident year combined ratio, ex CATs, improved 140 basis points year-over-year to 88.4%, representing the 18th consecutive quarter of margin improvement. Notably, underwriting income in the fourth quarter increased 27% year-over-year to $635 million.

Global Commercial drove the year-over-year increase, achieving an accident year combined ratio, ex CATs, of 84.1%, a 380 basis point improvement and a 69% increase in underwriting income.

Global Personal reported an accident year combined ratio, ex CATs, of 100.4%, a 610 basis point increase from the prior year quarter, as we continued to reposition this portfolio.

Moving to Global Commercial. On an FX-adjusted basis, North America Commercial net premiums written increased 3% and international increased 2%. Global Commercial had strong renewal retention in its in-force portfolio, and new business continued to be strong.

Turning to REIT. Momentum continued in North America Commercial, with overall rate increases in the quarter of 3%, 7% if you exclude Financial Lines and 9% if you also exclude workers' compensation. These rate increases were driven by Retail Property at 15%, Lexington at 12% and Excess Casualty at 9%, and the exposure increase in the North America portfolio was 3%.

International Commercial rate increases were 4%, driven by Asia Pacific at 9% and EMEA at 7%, and the exposure increase in the international portfolio was around 2%. Pricing, which includes rate plus exposure, was up 6% in both North America and international. While we experienced downward pressure on rate in certain lines early in the fourth quarter, we saw a reacceleration of price increases towards the end of the quarter.

For example, Retail Property was up 15% in the fourth quarter with rate improvement of 24% in December when market impacts from increased catastrophes started to be felt. We saw a similar upward movement at Lexington and particularly within the Property portfolio, with December seeing the strongest rate increases in the fourth quarter. Overall, we continue to earn rate above loss cost trends, which contributed to positive margin expansion.

In Global Personal, starting with North America, net premiums written declined 7%, reflecting our ongoing reshaping of this portfolio, particularly in the high and ultra-high net worth businesses that are part of PCG. Later in my remarks, I will discuss our announcement on Monday relating to PCG and our partnership with Stone Point Capital to create a new Managing General Agency or MGA.

In International Personal, net premiums written slightly increased by 1% on an FX-adjusted basis due to a rebound in travel and growth in A&H.

Now turning to the full year. We made tremendous progress throughout 2022 on a number of key priorities. I could not be more pleased with our team's ability to execute on multiple, complex, strategic objectives across AIG at once. Our most significant and impactful accomplishment was completing the IPO of Corebridge in September of 2022. Despite the very challenging equity market conditions we had to navigate. Notably, Corebridge was last year's largest IPO in the U.S. and the largest financial services IPO since 2020.

We also continue to grow underwriting income in General Insurance, which increased approximately $1 billion year-over-year, the second year in a row with over $1 billion of growth in underwriting income. As I noted on last quarter's call, we also reached significant milestones on AIG 200 that have modernized our technology infrastructure and operational capabilities while executing on an exit run rate savings of $1 billion, 6 months ahead of schedule.

We also changed AIG's investment management strategy and structure through successful partnerships with Blackstone and BlackRock, and we are seeing the benefits of these partnerships across AIG and Corebridge.

Turning to full year consolidated financial results for AIG. Adjusted after-tax income in 2022 reached $3.6 billion and was $4.55 per diluted common share. We returned $6.1 billion to shareholders through $5.1 billion of AIG common stock repurchases and $1 billion of dividends. We finished 2022 with 734 million shares outstanding, a 10% decrease since the end of 2021. And we executed on a number of capital management actions to establish the stand-alone Corebridge capital structure while reducing AIG debt by roughly $10 billion.

Consolidated financial debt outstanding was approximately $21 billion at year-end with $11.8 billion at AIG and $9.4 billion at Corebridge.

Now let me cover full year 2022 results for General Insurance. As you know, an important aspect of our turnaround over the last few years has been instituting a culture of underwriting excellence. And our rigor in this area is now clearly benefiting our financial results. General Insurance achieved underwriting income of $2 billion in 2022, despite the industry again experiencing over $100 billion of insured natural catastrophe losses. And we exceeded our combined ratio commitment by achieving a sub-90 accident year combined ratio, ex CATs, in all 4 quarters.

As I've noted on prior calls, and it's worth repeating, since 2018, we completely overhauled our underwriting standards and overlaid these standards with a comprehensive reinsurance program that can adapt to market conditions into our portfolio as it continues to change and improve. Overall, gross limits deployed were reduced by over $1.2 trillion during this period. We also meaningfully and deliberately shifted our global portfolio mix in order to reposition AIG for the future.

For example, Global Commercial now represents 74% of our net premiums written, up from 57% in 2018. And Lexington is now 17% of our North America Commercial business, up from 12% in 2018. If you exclude Validus Re, Lexington is now 23% of North America Commercial. As a result of this work, our current portfolio is very well positioned for 2023. I will discuss in more detail later, when I review January 1 reinsurance renewals, how market dynamics have shifted and how AIG should benefit as we look to capitalize on attractive opportunities for better risk-adjusted returns.

Now let me highlight a few of the key businesses in General Insurance that contributed to our performance in 2022. Lexington, our market-leading excess and surplus lines business, had 18% net premiums written growth in 2022, up over 50% since we transitioned this business to focus on the wholesale market. This business also increased underwriting profitability, excluding CATs, by 60%, and it achieved a sub-80% accident year combined ratio, ex CATs, for 2022.

Glatfelter continued its terrific performance, growing net premiums written by 14%, increasing underwriting income and achieving an 85% accident year combined ratio, ex CATs. The acquisition of Glatfelter allowed us to significantly elevate the quality of our programs business.

Global Specialty, which includes our Global Marine, Energy and Aviation businesses, grew net premiums written by over 15% on an FX-adjusted basis. This was driven by strong client retention of 88%, new business growth and rate increases across the portfolio. Global Specialty generated strong earnings in 2022 with an impressive accident year combined ratio, excluding CATs, of 80%.

These are just some examples of businesses that we prioritized last year based on their market position, our differentiated value proposition to clients and our ability to generate strong underwriting results. We see great opportunities for these businesses going forward, and they are strong anchors for AIG that we expect will contribute to profitable growth in 2023.

Our Global Personal business performed well considering some of the post-pandemic headwinds we saw in the first half of 2022 and our strategic repositioning of the business. Also, as I mentioned on our last call, the impact from deemed hospitalizations in Japan and, to a lesser extent, Taiwan, contributed over $160 million in losses in 2022, having a 290 basis point impact on the International Personal accident year combined ratio. This accident health product was discontinued in 2022.

Turning to full year net premiums written. General Insurance grew 4% on an FX-adjusted basis, driven by 6% growth in Global Commercial. North America grew 7% and International Commercial grew 6%. We had strong renewal retention in our in-force portfolio, with North America improving by 300 basis points to 86% and International achieving 86% for the full year. And as a reminder, we calculate renewal retention prior to the impact of rate and exposure changes.

Turning to underwriting profitability for the full year. 2022 was another year with strong progress. The General Insurance accident year combined ratio, ex CATs, was 88.7%, an improvement of 230 basis points year-over-year. The full year saw a 180 basis point improvement in the accident year loss ratio, ex CATs, and a 50 basis point improvement in the expense ratio.

Global Commercial achieved an impressive accident year combined ratio, ex CATs, of 84.5%, an improvement of 460 basis points year-over-year. The loss ratio was the biggest contributor with a 330 basis point improvement, and the combined ratio, including CATs and PYD of 89.6%, represented a 920 basis point improvement year-over-year.

The accident year combined ratio, ex CATs, in Global Personal deteriorated 430 basis points to 99.2% for the reasons I've outlined before.

Now let me turn to reinsurance renewals at January 1 of this year. As I stated on our last earnings call, we knew this renewal season will be very challenging and lead to fundamental changes in the market that would impact 1/1 renewals. The market was faced with a combination of factors that added further pressure to dynamics that were already creating considerable stress. We had top global macroeconomic trends. We had geopolitical uncertainty. We had short-term pressure on the asset side of the balance sheet as a consequence of rising interest rates, inflation and currency fluctuation. We had additional natural catastrophe losses late in the fourth quarter and increasing frequency and severity of secondary perils continued.

And 2022 ended with over $130 billion of insured natural catastrophe losses, making 2022 the fifth costliest year on record for insurers, with 5 out of the last 6 years having exceeded $100 billion. Hurricane Ian, in particular, proved to be a catalyst that changed market dynamics even more significantly than expected and ultimately led to shifts in the market that required the industry to rethink reinsurance placements and the commensurate changes that needed to take place in the primary market.

The unprecedented levels of natural catastrophes on a global scale massively impacted the reinsurance market in a couple of ways. Increased natural CAT activity has resulted in elevated property CAT ceded loss ratios, with average incurred loss ratios from 2017 through 2022 exceeding 85% compared to 2012 through 2016 when average incurred loss ratios trended below 30%, a dramatic deterioration.

And over the last 5 years, secondary perils contributed more than 50% to ultimate loss when compared to primary perils. These market dynamics also impacted the supply of reinsurance and retrocessional capacity and the cost of capital increase for the industry, which impacted almost all lines of business and territories, regardless of loss experienced. On top of all of this, very little new capital entered the market. Available capital is estimated to have decreased approximately 20% year-over-year.

Now let me outline what happened in the property CAT and retro markets in particular, due to the high level of CAT losses in 2022, which were further exacerbated by events in the fourth quarter. 50% of global Property CAT limits, which we estimate to be $425 billion, renewed at January 1. Approximately 70% of Global retro limits estimated at $60 billion incept at January 1. Reinsurers heavily reliant on peak peril retro protection face greater pressure as a result, whereas larger, more diversified reinsurers were better able to manage retro capacity constraints. As a result, a majority of programs placed on January 1 saw insurance companies forced increase retentions.

Despite these market challenges, AIG navigated this complex and intense renewal season extremely well. We knew we were in a strong position heading into January 1, given the repositioning and the improved quality of our Global portfolio, coupled with our considerable efforts to reduce our gross portfolio peak exposures. As we expected, this allowed us to capitalize on many attractive opportunities, and this proved to be a competitive advantage as we had an exceptionally successful renewal season.

It's also worth noting that AIG's reinsurance purchasing is, by design, more heavily weighted to January 1 than the wider market. The benefits of this are twofold. Concentrating the bulk of our purchasing at January 1 allows AIG to maximize the outcome across all of our reinsurance placements. And we have clear line of sight on our reinsurance cost for the full year, which is particularly valuable in a market, which we believe will continue to be incredibly challenging.

Some of the highlights of our January placements include the following: with respect to property catastrophe placements, we obtained more limit than we purchased in 2022; and we believe we have the lowest attachment points on a return period measurement for North America windstorm and earthquake amongst our peer group; and our modeled exhaust limits are at higher return periods compared to last year for each of our placements. These placements should further reduce volatility, which is something we remain very focused on, and they provide us with significant balance sheet protection in the event one or a series of significant catastrophe events occur.

Specifically, we separately made appropriate changes to our North America property CAT treaties to reflect our improving portfolio, with the retention of our commercial CAT portfolio attaching at $500 million and Lexington in our Programs business having an attachment point of $300 million. The property CAT aggregate cover that we placed has 4 retentions before attaching, and for North America, Japan, and Rest of World, it now could attach in the second event, which is an improvement from 2022.

Our property CAT [per occurrence] structures largely stayed the same for International, and we believe they are market-leading with Japan's retention staying flat at $200 million and the rest of world attaching at $125 million.

Many factors improved our overall property CAT reinsurance program, with highlights being: we were able to attain approximately $6 billion of limit, including increasing our per occurrence excess of loss placement; we maintained low attachment points on a model basis; we received support for a $500 million aggregate placement; and our overall spend for AIG increased less than 10% on an absolute and risk-adjusted basis versus 2022.

With respect to PCG, we accelerated portfolio remediation, which is driving further gross exposure reductions in key CAT-exposed states where loss costs, inflation and necessary modeling changes have not kept pace. This allowed us to reduce the total limit purchase for the PCG-specific CAT program, which partially offset increased pricing pressure due to Hurricane Ian.

Overall, casualty renewals, both excess of loss and our quota share placements, renewed close to expiring terms on a risk-adjusted basis with no impact on ceding commissions. Our reinsurance partners maintain their support for AIG with consistent capacity deployment and reinsurance terms in clear recognition of the quality of our portfolio. The outcomes we achieved at January 1 also reflect the value of the investments we have made in our reinsurance strategy, and, coupled with our relationships and credibility with reinsurance partners, are a testament to the confidence the reinsurance marketplace has in AIG and its management team. We appreciate the ongoing support we have received from our reinsurance partners.

As we look ahead to 2023, the world faces many uncertainties. And in uncertain times, our role as a market-leading global insurance company is even more important. With the momentum we have built and the strength of our portfolio, AIG is now extremely well positioned to strategically grow and lead the market by providing thoughtful, expert advice on risk solutions for our clients, distribution partners and other stakeholders.

By 2022, we have set out ambitious, strategic, and operational priorities for 2023. We will continue to improve and invest in lines of business and General Insurance, where we see significant growth potential, notably Lexington and Global Specialty. I highlight Lexington because it is presented and will continue to present tremendous growth and profitability opportunities for us. And early indications are that the rate momentum we saw in this business at the end of 2022 and into early 2023 will continue. We expect meaningful growth in Lexington this year, led by Property where, over the last few years, we have prudently tightened limits, improved terms and conditions and increased profitability while driving top line growth.

We also plan to increase investment in our assumed reinsurance business in 2023, particularly through Validus Re. As we have discussed on prior calls, over the past few years, we've been highly focused on driving value through a disciplined approach, involving strong risk assessments, sound portfolio construction, a steadfast commitment to underwriting excellence and prudent capital management.

Over this period of time, the derisking within Validus Re was particularly acute in the Global Property CAT market, where year-over-year, we reduced participations across the portfolio while concurrently purchasing sound retrocessional protections to prudently manage the portfolio and reduce volatility, all in line with our cycle management strategy. As a result, we were in a strong position to capitalize on attractive opportunities at January 1. The property market, in particular, repositioned and became very compelling in terms of risk-adjusted rates along with enhanced structures as well as beneficial terms and conditions.

Rate changes within property CAT range between 30% and 100% in the U.S. as well as in peak zones outside the U.S. Risk-adjusted rate increases were approximately 50% in the U.S. Property and 35% in International Property. And similarly, average margin improvement was approximately 50% year-over-year across the entire portfolio.

Property CAT ROEs for both the U.S. and International business increased by greater than 100% year-over-year. Additionally, we obtained improved terms and conditions, including favorable movement in attachment points in all Property lines.

For Casualty lines, quota shares remained sound with ceding commissions moving favorably for reinsurers by 1 to 2 points, along with terms and conditions remaining in line or improved. The result of these actions included: net premiums written at January 1 increased over $500 million or 50% year-over-year. This increase was driven roughly 30% from U.S., property 15% from International Property, 45% from casualty placements and the remaining 10% was from Specialty, including marine and energy.

The majority of new property limit was deployed to existing clients with a significant level of private terms being achieved on our U.S. property writings.

Looking ahead, we will continue our measured approach for other renewals. For example, if meaningful market changes continue, we will carefully consider our positions at the April 1 Japan renewals, and we will continue to be very cautious with capital deployed at June 1 in Florida.

Turning to Private Client Group or PCG. This business remains a strategic priority for us in 2023. As you know, over the last 2 years, we have undertaken a significant re-underwriting effort in this portfolio, reduced aggregate exposure, transitioned certain states to the non-admitted market and developed strong partnerships with Lloyd's and reinsurers to reduce volatility.

On Monday, we announced our intention to launch, in partnership with Stone Point Capital, a newly formed MGA that will underwrite on behalf of AIG and eventually other capital providers in the high- and ultra-high net worth markets. AIG will transfer core PCG solutions to the MGA, which will offer a single end-to-end broker and client portal, a comprehensive set of product offerings, a simplified data warehouse and the underwriting capabilities of AIG. The MGA will be rebranded as Private Client Select, or PCS, and will be led by Kathleen Zortman and our current team at PCG. We see this new structure as a logical next step in the evolution of PCG and believe it will create significant value for clients, brokers and other stakeholders.

Additionally, expense discipline will continue to be a priority for AIG. In addition to savings from AIG 200 that we expect to earn in during 2023, we plan to move $300 million of expenses currently sitting in AIG corporate GOE to Corebridge upon deconsolidation. Separately, we will continue to align our target operating model and further reduce absolute expenses across AIG parent and General Insurance to reflect the fact that AIG is becoming one company.

This year, we will also remain focused on completing the operational separation of Corebridge from AIG, and we are working towards a secondary offering of Corebridge common stock by the end of the first quarter, subject to market conditions and regulatory approvals. Our current expectation is that the majority of net proceeds of the secondary offering will be used for AIG common stock repurchases.

And as I stated on our last call, we are revisiting AIG's dividend, which has not changed in many years. We expect to say more about this on our first quarter call in May.

With respect to capital management priorities, in 2022, we did a significant amount of work to materially improve the capital structures of both AIG and Corebridge. With the reduction in AIG debt we achieved, our post-deconsolidation leverage will be in line with best-in-class peers. And with respect to share buybacks, we have $3.8 billion remaining on our existing share repurchase authorization.

Our balanced capital management philosophy will continue to allow for investment in growth opportunities, while returning appropriate levels of capital to shareholders through share buybacks and dividends. We also remain open to compelling inorganic growth opportunities, should they arise.

Before turning the call over to Sabra, I would like to pause and say that 2022 was another incredibly important year for AIG. Our colleagues did an exceptional job, particularly on the Corebridge IPO and the continued underwriting and operational improvements that are clearly showing through in our financial results. Our journey to be a top-performing company continues, and I fully expect 2023 to be another year with significant momentum and progress across the organization.

With that, I'll turn the call over to Sabra.

Sabra Rose Purtill
Executive VP & Interim CFO

Thank you, Peter. Today, I will review net investment income, additional color on our fourth quarter and full year 2022 results in capital management and also update you on the progress we are making on our path to a 10%-plus adjusted return on common equity or ROCE.

Turning to net investment income. On an APTI basis, fourth quarter net investment income was $3.0 billion, down $331 million or 10% compared to 4Q '21. Similar to trends throughout 2022, the decrease was due to lower alternative investment income, principally on private equity investments, and lower bond call and tender premiums and mortgage prepayment fees. For the full year, net investment income on an APTI basis was $11.0 billion, down $1.9 billion due to the same trends.

For the quarter and the full year, we achieved higher new money reinvestment rates and rate resets from floating rate securities. In 4Q '22, net investment income on fixed maturities and mortgage and other loans rose $224 million sequentially, with 29 basis points of yield improvement, which was ahead of our 10 to 15 basis point forecast. Since second quarter of '22, when we began to bend the curve on investment yields, the increase has been 55 basis points.

In 4Q '22, the average new money yield was just over 6% and about 173 basis points above sales and maturities. New money rates were roughly 157 basis points higher in General Insurance and 190 basis points higher in Life and Retirement. In addition, during the fourth quarter, we repositioned some of the General Insurance portfolio to lock in higher yields, while maintaining similar credit quality and duration. This resulted in a modest capital loss of $57 million, but we expect the portfolio to generate higher net investment income in '23 as a result. Given current market levels, we expect additional yield uplift of 10 to 15 basis points on the consolidated portfolio in 1Q '23.

Before I head into results for the quarter, I want to note that in the fourth quarter, we eliminated the 1-month reporting lag in General Insurance International, which had a $100 million positive impact on our GAAP net income for the quarter. This change did not impact 4Q APTI, which remain on the same reporting basis as the prior year. But in 2023, GI International results will be on a calendar quarter basis and 1 month different than 2022, which will create some slight timing mismatch in quarterly net premiums written comparisons, but with minimal impact for the full year. Please see Page 25 of the financial supplement for more details.

As Peter noted, AIG reported adjusted after-tax income of $1.0 billion or $1.36 per diluted share. General Insurance delivered APTI of $1.2 billion compared to $1.5 billion in the prior year quarter due to lower investment income, partially offset by a $136 million increase in underwriting income. Prior year development was $151 million favorable in the fourth quarter, up from $44 million of favorable development in 4Q '21.

Net favorable amortization for the ADC was $41 million, while North America favorable development was $148 million, and International was $38 million adverse, mostly driven by casualty.

Fourth quarter Other Operations adjusted pretax loss of $451 million improved $197 million from last year, despite $23 million of additional expenses related to the Corebridge separation. Annualized adjusted ROCE was 7.5% in 4Q '22, down from 9.9% in 4Q '21, principally due to lower alternative investment income.

Turning to Life and Retirement. Strong sales momentum continued in the fourth quarter. Life and Retirement APTI was $781 million, down from $969 million in 4Q '21, due to lower investment income on alternatives and other yield enhancements, partially offset by higher base investment income and more favorable mortality.

Individual Retirement sales were $3.8 billion, a 16% increase over the prior year quarter with Fixed Annuity sales up 78% and Fixed Index sales up 34%, near record sales for both products.

Group Retirement deposits grew 20%, driven by higher out-of-plan Fixed Annuity sales and large plan acquisitions. The Life Insurance business had solid sales with an improving mix of business in the U.S. and continued growth in the U.K.

In Institutional Markets, premiums and deposits were $1.6 billion, driven by $1.3 billion in pension risk transfer activity. New product margins in L&R were attractive and in excess of long-term targets, supported by higher new money yields, including from Blackstone. After years of spread compression, L&R spreads are expected to improve in 2023.

I wanted to make you aware of an update to our LDTI estimate. In the first quarter of 2023, we will adopt a change in accounting principle for LDTI with a transition date of January 1, 2021. Our current estimate is that as of September 30, 2022, the adoption would increase shareholders' equity between $800 million and $1.3 billion and AIG's adjusted shareholders' equity would increase between $1.2 billion and $1.7 billion. This increase in the estimate has been predominantly driven by capital market movements during 2021 and 2022.

Turning to full year 2022. AIG reported adjusted after-tax income of $3.6 billion or $4.55 per diluted share compared to $4.4 billion or $5.12 per diluted share in 2021. These results include much stronger underwriting profitability in GI, offset by lower alternative investment income, as previously described.

General Insurance APTI for the full year 2022 was $4.4 billion, up 2% from 2021 due to the $1 billion increase in underwriting profitability, offset by lower investment income. L&R APTI was $2.7 billion, down from $3.9 billion in 2021, principally because of lower investment income.

Other Operations adjusted pretax loss improved about $400 million in 2022 due to lower general operating expenses and higher income on short-term investments. Full year 2022 included additional expenses from the Corebridge separation of $51 million. And in 2023, we expect an incremental cost of $75 million to $100 million in Other Operations' GOE related to the separation.

Adjusted book value per share was $73.87 at December 31, 2022, up 7% from year-end 2021. Full year adjusted ROCE was 6.5%, down from 8.6% in 2021, primarily due to lower alternative investment income, which was down $1.8 billion from 2021 or about 340 basis points of ROCE compared to 2021. At year-end, our primary insurance subsidiaries remain above target ranges for statutory capital, with GI's U.S. pool estimated in the range of 485% to 495% and L&R estimated in the range of 410% to 420%.

In addition to the strong financial results, we also executed on multiple capital management priorities in 2022. As Peter described, we established a separate debt capitalization structure for Corebridge and subsequently reduced AIG holding company debt by $9.8 billion. This reduction in AIG debt will lower AIG's holding company interest expense from about $1 billion in 2021 to roughly $500 million in 2023, excluding interest expense on Corebridge issued debt.

In 2022, we also returned over $6.1 billion to shareholders with $1 billion of dividends and $5.1 billion of share repurchases, yielding a 10% reduction in shares outstanding. We ended the year with Parent liquidity of $3.7 billion.

Looking ahead, we remain highly committed and laser-focused on delivering a 10%-plus ROCE after the deconsolidation of Corebridge. As Peter and Shane have shared previously, achieving this goal is based on sustained and improved underwriting profitability; executing a leaner operating model across AIG; separation and deconsolidation of Corebridge; and continued balanced capital management, including reducing AIG common shares to between 600 million and 650 million shares through repurchases, while targeting debt to total capital leverage at the lower end of the 20% to 25% range post deconsolidation. Progress on each of these will increase ROCE, along with additional tailwinds from higher reinvestment yields and alternative returns more consistent with long-term averages.

As Peter mentioned, expense reduction remains an important goal. In the following years, we expect to achieve $300 million of additional savings from AIG 200, with the majority earning in through 2023; $300 million of AIG corporate general operating expense moving to Corebridge upon deconsolidation; and additional savings as we transition to a leaner operating model. As a reminder, every $500 million of expense savings equates to 1 point of ROCE improvement.

I will now turn the call back over to Peter.

Peter Zaffino;Chairman and CEO
Thank you. Michelle, we'll take our first question, please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the path to the double-digit ROE target. So the starting point is the 6.5% from '22, but I know that, that does include some contribution from L&R and will in the near term. So can you help us with what the starting point would be, if you stripped out the earnings contribution and equity of Life and Retirement? Just trying to get a sense of the ROE of the ongoing business and how the walk and that starting point changes, if you weren't including the Life and Retirement business.

Peter Zaffino;Chairman and CEO

Thanks, Elyse. I would think in terms of how you should think about this, and for us to get to the 10% ROE, Sabra outlined in detail, there's really 3 major ways in which we'll get there. One is through the underwriting results, the other is expense savings. The other is sort of the capital rebalance with share repurchases and other capital management. So you should think about that as a 300 to 350 basis point target in terms of us getting to the double-digit ROCE. Of course, net investment income can benefit, and that's more of a timing issue. We've never said, even in the prior calls, that contribution from increased NOI. NII will be the one that needs to contribute to get us to the 10%, but I think -- I would think of it in that range for the different components.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, you guys had taken up your loss trend assumption to 6.5% last quarter. I'm assuming that didn't change, but correct me if I'm wrong. And Peter, you spoke to pricing of 6%, which would put written pricing below loss trend, but you also did say, right, that rates got better as we ended the year in December. So would you expect the 6% to go above loss trend in the first quarter?

Peter Zaffino;Chairman and CEO

Yes. Thank you. The first part, Elyse, we do not change our loss cost assumptions from what we had outlined in the third quarter, so 6.5% remains our view. When you look at the fourth quarter, like you said, overall, there was around 6%. But when you -- you have to take a couple of things into consideration. One is fourth quarter is our seasonally sort of lowest-sized quarter. But if you look at financial lines, like financial lines is even throughout the entire year, first quarter through fourth, so had a little bit more of a contribution to the overall rate index in the fourth quarter.

Our International was very well balanced. We had strong rate in areas where we felt we needed it, which is like Property, Excess Casualty. We're driving rate as we have been for the last several years in Lexington, the Excess & Surplus Lines. And then I look at the full year in terms of North America, the Excess Casualty, Retail Property, Lexington, all getting double-digit rate increases. And so like we have been very focused on the rate above loss cost to continue to develop margin. I think that's been evidenced through the culture that we've developed in terms of underwriting excellence. We are very focused on making sure that we continue that, and it's terms and conditions and adjustments to how we structure businesses going forward. December was much stronger than the first part of the quarter. And as we look to January, that momentum is continuing. Dave, maybe just spend a minute on what happened in Financial Lines and D&O specifically?

David Hughes McElroy
Executive VP & CEO of General Insurance

Yes. Thank you, Peter. And thank you, Elyse. To Peter's point, we have to be careful around generalizations because we are actually hitting rate over trend in most of our big businesses. The outlier is Financial Lines. And Financial Lines, you also have to unpack a little bit and understand that excess D&O, and excess D&O in large public companies is probably driving some of the macro numbers, but it's not driving the behavior underneath. So in our Financial Lines business, we have professional liability. We have cyber. We have private company business. We have financial institutions. And all those businesses are actually getting rate over trend. But sometimes, when you aggregate up the excess public company business, it suppresses it.

And in that case, Elyse, it's hard to rationalize. I'll be very frank. That's a place where, if you're primary, you're still getting rate. You're still getting flat maybe down a little bit, but you have risk-adjusted rate that's helping.

In the Excess business, it's been very competitive. It's a different sort of market. And it's actually a market that I would say that cycle manage and companies that are being thoughtful need to actually wrestle with, whether that's a place they're going to trade, okay? If the rates are going down 20% to 30%, it's probably influencing some of the numbers that you look at on an aggregate basis. And inside that portfolio, your decisions are going to have to be made as to how you trade there, okay?

In our case, it represents a small amount of the portfolio. But I'm conjecting that, that's actually where the commoditization of the business is going to cause a little bit of pain in the 2023, 2024 year, okay? But it's -- I do -- Peter hit it. We look at rate over trend on a very granular basis, and I think we're comfortable with what that means to our big businesses and even in Financial Lines, what it means to our subproducts there. And I think that's an important part of our story.

Peter Zaffino;Chairman and CEO

Thanks, Dave. And don't forget, like the cumulative rate increases we've achieved in D&O over the last 3 years have been north of 80%. So again, it's a line, as Dave says, we're laser focused on. We're not going to chase the market down. But the cumulative rate increases and margin development hasn't been fully recognized, and we're going to look to 2023 with a lot of discipline.

Operator

Our next question comes from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

There's been an enormous amount of conversation, and you obviously did a lot to add to about Excess Casualty -- or excess of loss reinsurance and -- but as a large account commercial writer, I assume you're using a lot of facultative as well. And I was curious if the comments that you're making extend into not just sort of excessive loss, but also facultative and even quota share as being as impacted as some of the other pieces of the business and how that would affect AIG.

Peter Zaffino;Chairman and CEO

Thanks, Paul. We do purchase facultative in certain segments of our business, but we were really referencing the core treaties. When we look at risk appetite, when we are thinking through our ability to protect the balance sheet and where we want to structure treaties, we don't require facultative reinsurance for other segments in order to supplement the core structure. So when I was referencing in my prepared remarks, the treaty structures, we did an exceptional job. The team really focused on modeling changes, inflationary changes and where we thought capital was going to be less expensive versus more expensive.

An example of that would be taking big excess of loss CAT across the world. It gets too expensive for allocation of capital, and that is something we moved away from. So we've built more vertical towers in North America and in international and Japan specifically. So I think the overall market has responded most to Property. Casualty has started to tighten up. I still think that there's ample capacity in quota shares. They may be with some tighter terms and conditions and ceding commissions or, by and large, it was placeable. And yes, facultative, I think, has become harder to place on property just based on the capital available. But for us, we don't heavily rely on facultative to deliver results. It's really our core treaty structures.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Makes sense. Can you also talk about the change in conditions in commercial lines? Obviously, AIG led the market in changing terms and conditions in commercial lines. Is the impact pretty much fully there now today at AIG? And have you seen -- are you seeing any change in the market as well for terms and conditions that's meaningful sort of outside the pricing change?

Peter Zaffino;Chairman and CEO

I think we've done an exceptional job on the underwriting side with terms and conditions. I think the entire team has focused over the last several years as not only -- certainly pricing's an output, but how we structure our insurance deals, how we focus on client needs, but also how we customize terms and conditions to make sure that we have the appropriate policies and endorsements in the marketplace. I don't think it's over. It's something that's a nuance. But as we look to the property market in 2023, it's one of the areas where, when you report out rate, you really have to understand the risk-adjusted implications of rate increases.

For instance, in Excess & Surplus Lines property, I expect to see higher deductibles, more wind deductibles, tighter terms and conditions. We've seen what used to be all risk, which covered all perils, now to name perils, and so you can strip out a lot of coverage in terms of when you're placing it, whether you're trying to solve for wind or quake or flood, you don't provide all of the perils. And so if you said to me, what's one of the big areas that you'll see an improvement in 2023, it will be on the terms and conditions and how we price those perils. And I think we will offer, particularly in Excess & Surplus Lines, the appropriate coverage, but we will be restrictive on terms of conditions if we don't feel we're getting paid for. So I don't think it's over.

Operator

Our next question comes from Erik Bass with Autonomous.

Erik James Bass
Autonomous Research US LP

Just hoping you could help us think about the base NII trajectory for 2023. So we've seen a nice step up in the past couple of quarters, and you gave some guidance for the first quarter. But how much of the increase is coming from resets on floating rate assets? And how much is the tailwind from higher reinvestment yields and the portfolio changes that you're making that should continue to build throughout the year?

Peter Zaffino;Chairman and CEO

Thanks, Erik. As you know, this has been an active strategy for us, particularly over the back half of 2022. I think the team has done an exceptional job. And Sabra, maybe you can just provide a little bit of insight in terms of some of the NII and the reinvestment rates.

Sabra Rose Purtill
Executive VP & Interim CFO

Yes, happy to do that. And I would just note, we added a new footnote on Page 47 of the financial supplement that gives you the walk of the yield on fixed maturity securities and loans. So you can see the quarter-to-quarter improvement in the portfolio yield on that portfolio, which basically begin to bend the curve in the second quarter for a step-up in yields. And we also, there, give you the impact of the other yield enhancements, which year-over-year was about a $400 million headwind for AIG consolidated NII.

But to go back to your question about the path forward, and I'll put alternatives to the side. I mean, those are obviously volatile quarter-to-quarter. But like I said, that was 340 basis points of headwind year-over-year. 2021 was an exceptional year for alternative returns, whereas full year 2022 was about a 5.6% yield. So more in line with our average assumption.

But to go back, so in the quarter, as I said, the new portfolio yield or the new money rates were just above 6% and about 173 basis points over the assets going forward. And if you look at in the quarter, fourth quarter '22 grew about $160 million just due to the rate resets and about 14 basis points from the pickup in yield on the portfolio. Now in 2023, the impact is going to really depend on the path and timing of market rates, fed rate hikes, changes in credit spreads as well as the movement in the yield curve. As you know, the GI has got a shorter duration than L&R. And right now, we've got an inverted curve. So depending on where you're investing, and you're going to have different impacts on your yield.

So what I would just kind of point you to is, for the full year, we are projecting about $8 billion of reinvestment on the GI portfolio, $20 billion in Corebridge. And for the first quarter, we're projecting about 10 to 15 basis points of yield uplift just based on where we are for rates. Since the market is expecting additional rate increases, I would -- from the Fed, I would expect to see more pickup from the floating rate note resets during the course of the year. And then like I said, really what we pick up in the second or third quarter is going to be a function of how the shape of the yield curve changes.

But the point I would just make in total is that we are definitely having a tailwind from higher rates and higher spreads in the market. In addition, during the last several months, because of the -- basically the changes in the spreads and where some of the opportunities were, we were able to move up in quality on the bond portfolio investments while still getting a pickup in the yield because of the market environment.

So at this point in time, I think it's premature to give any sort of actual projection on a dollar basis. But from a yield pickup trend, we're very confident that we'll continue to see that during 2023.

Erik James Bass
Autonomous Research US LP

That's helpful. And then secondly, I just was hoping you could help us think about the trajectory for the other operations loss both before and after the Corebridge separation. So it sounds like GOE there should go up in 2023 because of some of the Corebridge expenses, maybe that's offset a little bit by interest savings. But then you'll get a big step down when you deconsolidate Corebridge, when the $300 million comes out. Is that the right way to think about it?

Peter Zaffino;Chairman and CEO

Yes, Erik, it is. We -- in Other Operations, think about it in a couple of components. I think you've outlined most of them, is that upon deconsolidation, we would have $300 million or there thereabouts go with Corebridge. I mean, there could be some stair step up. I mean, it's hard in 2023 to look at each quarter because we're building Corebridge, as we've talked about before, as a stand-alone public company. So those amounts will be in each quarter, depending on the progress that we're making. So think about the $300 million.

I think we'll have savings in Other Operations throughout the year separate from that in the $100 million to $200 million range. And then as we get to the future target operating model, we've given guidance from the past that we anticipate that we'll get around $500 million, not out of all -- that will not all come out of Other Operations. It come out of the combination of what is General Insurance in the parent company today. But that will take deconsolidation. It will take us to get to the target operating model. But I think in the short run, you should think about Corebridge's $300 million, and that between $100 million to $200 million of other reductions in Other Ops is how I would think about it in 2023.

Operator

Our next question comes from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is just on net premium written growth in General Insurance. I mean we saw it slow in 2022, particularly towards the back end of the year. And it sounds pretty interesting, some of the opportunities you have, both in Validus Re and Lexington. But I just wanted to get sort of a high level perspective from you on what the strategy has been to sort of slow some of that premium growth in the back half of this year. And how you see that potentially inflecting as we go into 2023?

Peter Zaffino;Chairman and CEO

Thank you for the question. You have to really look at the full year, I believe, in terms of showing the progress of what we've done as a company. First and foremost, again, I'll mention it again, which is a culture of underwriting excellence. When we look at Commercial with a 340 basis point improvement in the fourth quarter in terms of its action year combined ratio, ex CATs, 440 for the year, I mean that's substantial progress. I mean, we made enormous improvements in profitability.

And so we've shaped the portfolio the way we like it, where again, the fourth quarter, not all roads lead to Financial Lines. But again, it was just a disproportionate amount of premium relative to the overall size. Fourth quarter's small. We saw real good growth in the businesses that we want to grow in, which is in the Excess & Surplus Lines, Global Specialty. But as we've been talking about, I hope it's evidenced through what we did at 1/1, which is why we wanted to put it in the prepared remarks, which is, I kept talking about taking aggregate down where we didn't think we were getting the appropriate risk-adjusted returns.

But when we thought we felt that the risk-adjusted returns were there, like in the reinsurance business, we expanded significantly and expect to see that through 2023. Can't really predict the market, but I don't believe this is all played through. We had a very complicated 1/1, but you have Japan coming up.

And the hardest part in terms of the reinsurance market and thus then the primary market on peak zone is going to be Florida at [6/1]. And so we think there's great opportunities in Excess & Surplus Lines continue to grow. Again, Global Specialties, Retail Property across the world. We'll watch International, but I don't believe that the treaty increased pricing that happened, which was substantial at 1/1, will play its way through the International business until 2024. Because a lot of the deals, 60% of it comes up at 1/1, was priced off of prior year treaties.

And so I think this has momentum. We are incredibly well positioned. We have no aggregate restrictions. And where we see risk-adjusted returns that are attractive, which we already have, we're going to deploy capital. That was the whole idea of putting more capital in subsidiaries, and then it goes to other lines of business. I mean, you cross-sell what we do in casualty, how we play in these different markets, we have such tremendous following as lead experts in underwriting that we believe, across the world, our platform will be very helpful to our clients, and we expect to find really strong areas for growth.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

That's really helpful. Second one I had is more specifically on Casualty -- Excess Casualty pricing. We've heard some peers kind of talk about pricing and expressed the need for it to reaccelerate. And I think some investors seem to be getting a little more cautious about the potential for continued deceleration there. I felt like your prepared remarks were a little more optimistic. I'd just be interested in your perspective on the portfolio at AIG, what you're seeing in the market and where you'd expect things to go there.

Peter Zaffino;Chairman and CEO

We watch it carefully. I mean Excess Casualty, we're still getting very strong rate we have for the last couple of years. And that didn't stop in the fourth quarter. My prepared remarks were really just focused on, I don't think the market that we entered in the fourth quarter is the market that we're in. There's been a lot of changes over the last 60 days. And like every other line of business, it needs to stand on its own. It needs to develop margin. We want to be conservative in our position and making certain that the underwriting terms and conditions are appropriate. But we're watching it carefully. I haven't seen a substantial downturn in terms of pricing. It's been right in the sort of same range for, as I said, the last 6 quarters. And it's something that we're going to watch very carefully in 2023.

Okay. We greatly appreciate the engagement and all the questions and appreciate the interest. And so I just wish everybody a great day, and thank you for being here.

Operator
Ladies and gentlemen, this concludes your conference for today. Thank you for your participation. You may now disconnect.