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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and welcome to AIG's Fourth Quarter 2023 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 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, circumstances or management's estimates or opinions should change.

Today's remarks may also refer to non-GAAP financial measures. The 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 aig.com.

Additionally, note that today's remarks will include 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. 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 earnings call on Thursday, February 15.

Finally, today's remarks, as they relate to net premiums written in General Insurance, are presented on a comparable basis, which reflects year-over-year comparison on a constant dollar basis adjusted for the international lag elimination, the sale of Crop Risk Services and the sale of Validus Re. Please refer to the footnote on Page 26 of the fourth quarter financial supplement for prior period results for the Crop business and Validus Re.

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 today to review our fourth quarter and full year 2023 financial results. Following my remarks, Sabra will provide more detail on the quarter and some perspective on the year, and then we'll take questions. Kevin Hogan and David McElroy will join us for the Q&A portion of the call.

We had a very strong fourth quarter, which highlighted a significant year of achievements at AIG. Throughout 2023, we continue to build on our underwriting excellence; repositioned the portfolio through several divestitures; made meaningful progress towards the deconsolidation of Corebridge, including 3 secondary sell-downs; delivered disciplined premium growth in businesses where we have scale and outstanding combined ratios; and continue to execute on our balanced capital management strategy. I'm very proud of the work our colleagues delivered for all of our stakeholders throughout the entire year.

In the fourth quarter, adjusted after-tax income per diluted common share was $1.79, an increase of 29% year-over-year driven by continued strong underwriting results, 17% growth in net investment income and excellent execution of our balanced capital management strategy that resulted in a 6% reduction in diluted common shares outstanding. For the full year 2023, adjusted after-tax income per diluted common share was $6.79, an increase of 33% over 2022. AIG overall produced an adjusted return on common equity of 9% for the year, up from 7% in 2022. As I will share with you today, 2023 was an extraordinary year for AIG.

During my remarks this morning, I'll discuss the following topics. First, I will provide an overview of our fourth quarter financial results. Second, I will review AIG's significant accomplishments in 2023, including our strategic repositioning and our financial highlights. Sabra will comment on the Life Retirement business in her prepared remarks. Third, I will cover insights on the January 1 reinsurance market and specifically AIG's reinsurance renewals. And finally, I'll share some thoughts on how we're building on our momentum and positioning the company as we enter 2024, including some specifics on AIG Next, our initiative focused on creating the AIG of the future. I will also discuss our capital management strategy and growth expectations.

AIG's strong fourth quarter results demonstrated our continued execution across all aspects of our strategy. Within General Insurance, underwriting income was $642 million. Gross premiums written for the fourth quarter were $7.6 billion, an increase of 4% from the prior year quarter. Net premiums written for the quarter increased by 7% from the prior year quarter to $5.7 billion. Global Commercial grew 5%, and Global Personal grew 9% from the prior year quarter. If you exclude Financial Lines, Global Commercial would have grown 11%.

In North America Commercial, fourth quarter net premiums written grew 5% over the prior year quarter led by Retail Property, which grew 32%; Lexington, which grew 20%. These were offset by North America Financial Lines, which was lower by 13%. In International Commercial, fourth quarter net premiums written grew 6% over the prior year quarter as International Property grew 28% and Talbot grew 12%. These were offset by International Financial Lines, which was lower by 7%.

In the fourth quarter, Global Commercial had very strong renewal retention of 86% in its in-force portfolio as well as very strong new business performance. North America Commercial produced new business of $503 million in the quarter, an increase of 21% year-over-year. The growth was led by Retail Casualty, Lexington and Retail Property. International Commercial produced new business of $467 million for the quarter, representing an increase of 14% year-over-year. This growth was led by Global Specialty and Talbot.

Moving to rate. In North America Commercial, overall rate increased 4% in the fourth quarter with exposure adding 3 points, and the overall pricing was up 7%. In North America Commercial, if you exclude Financial Lines and workers' compensation, overall rate would have increased 11% in the quarter. And with exposure adding 4 points, overall pricing would have been 15%, meaningfully above the loss cost trend.

North America Commercial rate increases were driven by Lexington wholesale, which was up 17%; Retail Property, which was up 19%; and Excess Casualty, which was up 13%. In International Commercial, overall rate increased 3% in the fourth quarter with exposure adding 2 points, and the overall pricing was up 5%, which is slightly below loss cost trend. The rate increase was driven by Property, which was up 12% and marine, which was up 8%.

Turning to Personal Insurance. Fourth quarter net premiums written increased 9% from the prior year quarter, primarily driven by North America. In North America Personal, net premiums written increased 37% in the quarter. As we've seen in prior quarters in 2023, the significant premium growth for North America Personal was driven by our high net worth business. And as we discussed in prior quarters, the growth in North America earned premium continued to generate a lower expense ratio, and we expect the expense ratio will continue to improve in 2024.

Now let me turn to the full year financial results. 2023 was another year of meaningful strategic repositioning and was, in many ways, our best year yet. The repositioning included the disposition of Validus Re and Crop Risk Services, which generated a combined $3.5 billion of proceeds, including a pre-close dividend.

Additionally, we settled a $1 billion intercompany loan from Validus Re to AIG and received approximately $250 million of RenaissanceRe common stock. The changes to our portfolio further reduced volatility and allowed us to focus on businesses where we believe we have better opportunities for stronger risk-adjusted returns.

We reshaped the reinsurance structure of our high net worth business and launched a newly formed MGA called Private Client Select. We made significant progress towards Corebridge's separation, another major strategic milestone on our journey to becoming a less complex company.

We completed 3 secondary offerings in 2023 that generated approximately $2.9 billion in cash, we worked with Corebridge on the divestiture of Laya Healthcare and announced the sale of the U.K. Life business. In 2023, AIG received $1.4 billion of capital from Corebridge through $385 million of regular dividends, $688 million of special dividends and $315 million of share repurchases. At the end of 2023, our ownership stake in Corebridge was approximately 52%.

In 2023, we continue to execute on a thoughtful and balanced capital management strategy. During the year, AIG returned $4 billion of capital to shareholders through $3 billion of share repurchases and $1 billion of dividends. We reduced our common shares outstanding by 6% and increased quarterly dividends by 12.5%.

On August 1, the AIG Board of Directors increased our share buyback authorization of $7.5 billion. At the year-end 2023, we had $6.2 billion remaining on that authorization. We reduced AIG net debt by $1.4 billion in 2023 after successfully conducting a senior notes tender offer in November. We finished 2023 with very strong parent liquidity of $7.6 billion, which gives us ample capacity to continue executing on our capital management priorities.

Turning to the full year results for General Insurance. Throughout 2023, we delivered terrific financial performance. General Insurance full year underwriting income was $2.3 billion, a 15% increase year-over-year. For the full year, the General Insurance accident year combined ratio, excluding catastrophes, was 87.7%, an improvement of 100 basis points year-over-year.

Global Commercial achieved an accident year combined ratio, excluding catastrophes, of 83.3% for the full year, an improvement of 120 basis points year-over-year driven by loss ratio improvement. The calendar year combined ratio was 87.1%, a 250 basis point improvement year-over-year.

Excluding Validus Re and Crop Risk Services for the full year results, the Global Commercial accident year combined ratio, excluding catastrophes, would have increased by 50 basis points to 83.8%, and the calendar year combined ratio would have increased by slightly over 20 basis points to 87.3%.

In Global Personal, the full year accident year combined ratio, excluding catastrophes, was 99.3%, in line with the prior year. For the full year, General Insurance grew net premiums written by 7% year-over-year, driven by 5% growth in Global Commercial and 10% in Personal Insurance. North America Commercial grew 5% and International Commercial grew 6% year-over-year.

A couple of highlights. Lexington and Global Specialty had outstanding years. We remain very focused on these businesses and made investments to accelerate growth and continue to deliver strong underwriting profitability.

Lexington grew its net premiums written by 17% year-over-year. Growth was driven by historically high retention, which was 80%, $1 billion of new business and rate increases of approximately 18%.

Global Specialty, which includes businesses in marine, energy, trade credit and aviation, grew its net premiums written 10% year-over-year driven by 88% retention, almost $750 million of new business and rate increases of 7% for the year.

Also, there are 2 parts of our business that impacted growth in Global Commercial, which I would like to offer some perspective. First, if you exclude Financial Lines, our net premiums written growth would have been 10%.

Second, as we've outlined on prior calls, we decided to not renew 2 programs that had significant property catastrophe exposure that no longer met our underwriting guidelines. We do not believe that the premium increases on a risk-adjusted basis for these 2 programs delivered an acceptable return. The decision to nonrenew impacted the gross and net premiums written for Lexington specifically as well as the Global Commercial business throughout 2023. If you exclude Financial Lines and these 2 programs that I just mentioned, our year-over-year net premiums written growth would have been 13%, which gives you a sense as to why we have significant confidence in our core portfolio where we saw meaningful overall growth for the year.

It's worth providing a little bit more detail on Financial Lines. In Financial Lines, particularly in our public directors and officers book of business, we continue to exercise underwriting discipline by maintaining our primary position in our portfolio to being very prudent on large account excess layers, where there is significant exposure to vertical loss, and these layers are highly commoditized where typically the best price wins.

We've spoken about the cumulative rate change in Financial Lines before, but I want to provide a little bit more detail. The compound annual growth rate for Financial Lines achieved from 2019 through 2023 was 49%. If you exclude 2023, the compound annual growth rate was 63%. It's a business we're very focused on and our underwriters are continuing to carefully monitor market conditions and underwrite conservatively.

Now I'd like to provide you with some insight into the current reinsurance market generally and an overview of our January 1 reinsurance renewals. As I mentioned on previous calls, AIG's reinsurance purchasing is deliberately weighted to January 1, which enables us to strategically optimize the outcome across our reinsurance placements and provides us with clarity on our cost of reinsurance at the beginning of the year.

Before I go into detail on this year's outcomes, I want to speak about how we evaluate our reinsurance purchased. We've seen significant changes in the global property market over the last 2 years, and analyzing and quantifying changes and the portfolio's risk profile has become increasingly complex.

Currently, one of the most overused phrases that has been used with more frequency in the last year is risk-adjusted pricing or risk-adjusted rate changes, which have multiple interpretations, particularly when it comes to property treaty reinsurance. Calculating the risk-adjusted rate change can be complicated and is often inconsistent. I want to outline how AIG determines risk-adjusted pricing changes, which we believe is an industry-best practice.

To begin, you must determine the baseline structure and all the variables required to assess and quantify the risk-adjusted pricing change. To do that, the base analysis should be set at the identical structure and coverage with the exact terms and conditions of the prior year structure. The analysis needs to compare the cost of capital year-over-year and any model changes from vendor model output such as RMS to determine if the loss costs have increased or decreased at the attachment point and the vertical limits deployed.

Also, an analysis is needed for any changes to the coverage provided in the treaty placement. For instance, over the last few years, many programs have gone from an all-risk coverage basis to a named or peak peril basis.

To correctly calculate the risk-adjusted rate change, perils no longer covered need to be analyzed and priced separately and the impact of any reduced coverage should be factored into the assessment of the price change. This can be particularly difficult when assessing perils that would not be economically viable to place on a standalone basis with significant limits, which could include wildfire, flood or terrorism. There needs to be consideration given to the volatility associated with the expected loss in calculating the risk-adjusted rate change.

Given the complexity of these calculations, the methodologies applied should be done with consistency and discipline. When applying the methodology I just described, AIG had a tremendous outcome with our reinsurance partners at the January 1 renewal season, building upon the very strong result achieved in a very challenging market in 2023.

Now let me turn to AIG's reinsurance renewals at January 1 of this year. To level set, the natural catastrophe insured loss activity remained at the forefront of the market with a record-setting 37 events in 2023 that exceed $1 billion of insured loss. These events contributed to a total annual insured loss currently estimated at over $100 billion, marking the sixth time in the past 7 years that insured loss from natural catastrophes has exceeded $100 billion. Over the last 7 years, there's been nearly $1 trillion of aggregate losses with over 60% driven by secondary perils.

The headline is that we were able to significantly improve our property cat structure and reinsurance coverage provided. When you review what we purchased last year, including for Validus Re, the overall spend has reduced by approximately $200 million and our core property treaties, excluding Validus Re, have slightly lower ceded premium year-over-year.

Let's start with our property catastrophe placements. Our core commercial North America retention of $500 million remained unchanged for the second straight year. The attachment on our dedicated Lexington occurrence tower was unchanged at $300 million. In both cases, the model [detachment] point is lower, and the exhaust limit is higher.

Our International Property cat per current structures renewed with a reduced retention in Japan to $150 million, a $50 million improvement from the prior year. The rest of the world attachment remains unchanged at $125 million.

We were very pleased to have achieved broader coverage across all of our core occurrence towers. With nominal attachment points unchanged, or in the case of Japan decreasing, the model probability of attaching our cat reinsurance improved with respect to key perils and across every major territory following the growth achieved in the property portfolio in 2023.

Our property cat aggregate cover was also successfully renewed with improved coverage, further reducing our volatility from frequency of loss. The aggregate now includes a standalone supplement dedicated to losses in North America arising from secondary perils. Importantly, it also now covers contributing losses from our high net worth portfolio.

Our annual aggregate deductible for North America is $825 million. The North America other perils deductible is $350 million, which is a new deductible. And Japan and the rest of the world deductibles are $200 million and $175 million, respectively. These are subject to each and every loss deductibles of $20 million other than for North America wind and earthquake, which are at $50 million.

Our return period attachment point is lower year-over-year. For all of our major proportional treaties across a range of classes, we improved or maintained our ceding commission levels, reflecting our market-leading underwriting expertise and position in the market.

Turning to casualty. The challenges we've spoken about previously regarding the impact of inflation, both social and economic and litigation funding in the U.S. were a focal point for reinsurers at 1/1.

For casualty at AIG, we remain very focused on our underwriting standards and the positioning of the portfolio. Our team has done a terrific job of reunderwriting the entire business, particularly considering the amount of work that was needed to reposition it to where it is today.

Additionally, our pricing assumptions today have loss trends ranging from the high single digits to over 10%. These were increased over the past 2 years, given inflationary dynamics.

I do want to make a few comments about the last 10 years of casualty results for the industry. The industry as a whole has reported meaningful reserve releases in 4 of the past 10 calendar years, including in calendar year 2017. At the same time, there have been 6 years of significant reported industry strengthening in the last 10 calendar years, including in all of the most recent 5 calendar years.

Focusing on AIG, for accident years 2016 through 2019, our initial loss picks in our Casualty lines, excluding workers' compensation, averaged 78%. Looking specifically at accident years 2016 and '17, the initial loss picks were approximately 81% in both years. These loss picks exclude unallocated loss adjustment expense.

We significantly strengthened the reserves by over $1 billion for accident years 2016 through 2019, which revised our year-end ultimate loss picks to 91% in 2016 and 96% in 2017 at an average of 87% over accident years 2016 through 2019. To further analyze our casualty results compared to industry results for other liability and commercial auto using the most recent Schedule P data, they are well above the average industry loss picks on both measures.

Our initial and year-end ultimates for both lines are roughly 10 to 20 points higher than the overall industry average. In addition, we have reinsurance in place for 2016 and 2017 to mitigate our gross results. As we outlined last quarter, we put a comprehensive reinsurance treaty in place starting 2018 that provides us with substantial amount of vertical protection.

Our renewal of the casualty reinsurance protections allowed us to maintain the same net retained lines with no impact on ceding commissions, which is an outstanding outcome. At January 1, our reinsurance partners maintained their significant support of AIG with consistent capacity and improved reinsurance terms that demonstrate a clear recognition of the quality of our portfolio and our underwriting teams.

I'll now turn to discuss our efforts to create a future state business structure for AIG post deconsolidation of Corebridge. As part of this effort, we've launched a new program, AIG Next, to create a company that's leaner, less complex and more effective with the appropriate infrastructure and capabilities for the size of business we will be post deconsolidation.

AIG Next will focus on the following key principles: driving global consistency and local relevancy across our end-to-end processes to improve operational efficiency and effectiveness, reducing organizational complexity to create a better and differentiated experience for our clients and colleagues, creating an agile and scalable organization to support business growth, optimizing our ecosystem to modernize our data analytics, digital and technology capabilities, clarifying roles' responsibilities while eliminating duplication and increasing our speed of execution.

As we've stated in the past, we expect the simplification and efficiencies created through this program to generate $500 million of sustained annual run rate savings and to incur approximately $500 million of onetime spend to achieve these savings. As part of AIG Next, we are creating a leaner parent company with a target cost structure of 1% to 1.5% of net premiums earned. Some of the current costs and other operations will be eliminated contributing to the $500 million savings, and others will be moved into the business where the service is utilized.

In 2023, we began this work, as we've moved approximately $140 million of expenses from other operations into General Insurance for services that are more closely aligned to our business operations. Even with this shift, the full year combined ratio of 90.6% improved 130 basis points year-over-year, and the full year GOE ratio only increased 40 basis points due to offsetting savings within General Insurance.

Throughout the year, we've built efficiencies into our business, which have allowed general insurers to absorb these costs. We've already begun to make meaningful progress against our $500 million savings target and have established a team to drive and govern the AIG Next program with focus and discipline.

Sabra and I will provide more detail on next quarter's call regarding the specific cost to achieve by category and the expected timeline for the realized benefits in 2024 and 2025. As we are approaching the final steps of the Corebridge deconsolidation, we remain agile and continue to explore all options based on market conditions with respect to our remaining ownership of Corebridge, always focusing on what's aligned with the best interest of our stakeholders.

Sabra will take you through a pro forma capital structure based on assumptions about the deconsolidation. Throughout 2024, we expect to continue to execute the capital management strategy we've outlined before. Our insurance company subsidiaries continue to have excess capital to support the type of organic growth we have seen through 2023 and would expect to see in the future. We made enormous progress on our debt structure and maturities. Since year-end 2021, we've reduced over 50% of AIG's debt outstanding, which is over $11 billion of debt reduction.

The primary focus in 2024 will be on returning capital to shareholders through share repurchases and dividends. Since the start of 2024, we have repurchased an additional $760 million of common shares. We expect to continue at this pace for the first half of 2024, subject to market conditions, which should bring us near the high end of our target share count range.

Post Corebridge deconsolidation, we should achieve the low end of our range, which is approximately 600 million of common shares. The AIG Board increased the dividend in 2023, reflecting our confidence in the future earnings power of AIG, and we will continue to evaluate our dividend policy in 2024.

And lastly, as I enter my seventh year at AIG, I've never been more optimistic about our opportunities for growth and the momentum that AIG has entering 2024. We now have a terrific business. Global Commercial, which we've been working on for years to reposition, is now one of the most respected portfolios in the industry.

While there's always pruning to do in any business, the remediation is now behind us. We're well positioned to grow based on AIG's strong retention, strong opportunities for new business, excellent combined ratios and a company that has been able to distinguish itself amongst our clients and distribution partners.

In Personal Insurance, we will continue to make investments, particularly in our Japan business, our global A&H business and our high net worth business where we anticipate continued growth and more importantly, profitability improvement.

With that, I will turn the call over to Sabra.

Sabra Rose Purtill
Executive VP & CFO

Thank you, Peter. This morning, I will provide more detail on AIG's fourth quarter results. But first, as we are getting closer to Corebridge deconsolidation, I would like to start with an illustrative pro forma.

With AIG's current ownership of Corebridge at 52%, the next transaction may likely result in deconsolidation. Today, Corebridge is consolidated in both AIG's balance sheet and income statement with offsets of noncontrolling interest for the portion that AIG does not own. You can see those adjustments in the financial supplement on Pages 8 and 11.

When we deconsolidate, we will report Corebridge as an investment with dividends reported in net investment income and Corebridge shares included in parent investments. Corebridge's balance sheet and income statement will no longer be in our financials.

If we were able to deconsolidate Corebridge now, accounting rules require us to fair value their assets and liabilities and recognize the net difference between that valuation and the current GAAP carrying value in AIG's equity. That process also includes some changes primarily driven by differences in basis and deconsolidation of variable investment entities.

The example I will provide is a hypothetical pro forma view. Please remember that there are many factors, and each one impacts the output. This view builds on the remarks I provided last quarter about pro forma adjusted shareholders' equity.

For simplicity, in this example, we used Corebridge's current stock price as a proxy for fair value. But the process is more complicated than that and is more dependent on interest rates than stock price as the investment portfolio has to be valued on the day of deconsolidation, which will change based on interest rates.

As a very high-level illustration, as of year-end, the fair value of Corebridge's net assets and liabilities was about $2 billion higher than the book value on AIG's balance sheet. As a result, deconsolidation would have increased AIG's book value per share by almost $3 a share.

However, for AIG's adjusted shareholders' equity, the fair value adjustment would have resulted in a reduction of about $4 billion or around $6 per AIG share, given Corebridge's stock price relative to its adjusted book value.

Now let me link these items to the AIG year-end pro forma estimates that I provided last quarter of adjusted shareholders' equity of approximately $33 billion, adjusted for the sale of Validus Re, to be used in evaluating the ROCE target.

At December 31, 2023, AIG's adjusted shareholders' equity was approximately $53 billion. With the pro forma fair value decrease of $4 billion at deconsolidation, adjusted shareholders' equity would be roughly $49 billion, including about $8 billion of value for our Corebridge shares.

To get to the E, we subtract the value of Corebridge shares. And for the purposes of this exercise today, we also subtract year-end parent liquidity of almost $8 billion, most of which is to be used for 2024 capital management, interest and other parent expenses as Peter described. That results in pro forma adjusted shareholders' equity of about $33 billion invested in our business plus whatever liquidity is at the parent as the focus of our 10%-plus target. This example is illustrative based on year-end financials and subject to change based on markets and the actual path to deconsolidation, but I hope it is helpful.

Now I will turn to fourth quarter results. Fourth quarter consolidated net investment income on an APTI basis was $3.5 billion, up 17% over the fourth quarter of 2022. General Insurance net investment income was 38%, while Life and Retirement was up 15%. Higher new money reinvestment rates in both businesses drove the improvement.

Fourth quarter new money rates on fixed maturities and loans averaged 6.5%, about 180 basis points higher than the yield on sales and maturities in the quarter. Fourth quarter new money rates were 160 basis points higher in GI and 190 basis points higher in L&R.

With higher reinvestment rates, the yield on General Insurance fixed maturities and loans, excluding calls and prepayments, rose to an annualized yield of 3.8% in the quarter, up from 3.0% in 4Q '22 and up 9 basis points sequentially. L&R's fourth quarter portfolio yield was 5.0% compared to 4.4% in 4Q '22 and up 10 basis points sequentially. In the first half of 2024, we currently expect continued yield pickup on fixed maturities over the prior year but less improvement sequentially, given the cessation of Fed interest rate hikes and the current shape of the yield curve.

In contrast, alternative investment returns were weak this year, coming in slightly negative in the fourth quarter and at only 2.4% for the full year. GI alternative income was $41 million in the fourth quarter, down 11% from the prior year quarter for an annualized return of 3.9%. L&R's alternative portfolio generated a loss of $24 million in the quarter for an annualized yield of negative 1.8% compared to income of $16 million last year.

Turning to General Insurance. As Peter said, our underwriting results remain very strong. The 4Q '23 calendar year combined ratio was 89.1%, 80 basis points better than the fourth quarter of 2022. And the accident year combined ratio ex cats was 87.9%, 50 basis points better.

Global Commercial Lines delivered outstanding fourth quarter results with a calendar year combined ratio of 85.4%, a 90 basis point improvement over the prior year. The accident year combined ratio ex cats was 82.4%, a 170 basis point improvement reflecting exceptional underwriting profitability in both North America and International.

The fourth quarter included only 1 month of Validus Re due to the timing of the divestiture. Excluding Validus Re from fourth quarter results, the pro forma Global Commercial Lines calendar year combined ratio would have been 85.1%, 30 basis points lower than reported. The accident year combined ratio ex cats would have been 82.5%, only 10 basis points higher.

The fourth quarter calendar year combined ratio for Global Personal Insurance was 98.8%, 90 basis points better than 4Q '22. The accident year combined ratio ex cats was 101.8%, 140 basis points higher driven by the repositioning of the high net worth business, which made significant progress in 2023.

Fourth quarter underwriting income for GI was $642 million, up slightly from $635 million in 4Q '22 as improved accident year results, including catastrophe losses, were offset by lower favorable prior year development, net of reinsurance and prior year premiums. Catastrophe losses totaled $126 million in the quarter, down from $235 million last year. The largest event was Hurricane Otis in Mexico.

For the fourth quarter and the year, catastrophe losses, excluding Validus Re, would have been $111 million and $937 million, respectively. Favorable prior year development totaled $69 million in the fourth quarter compared to $151 million in 4Q '22. Including the impact of prior year premiums, the total impact of prior year loss reserve development was favorable by $37 million compared to favorable development of $150 million in 4Q '22.

Fourth quarter net favorable development this quarter includes $41 million of ADC gain amortization and $28 million of net favorable development from annual DVRs and other reserve reviews, particularly prior year catastrophes. The $28 million included $75 million in additional reserves for Russia-Ukraine related claims, offset by net favorable development on shorter tail lines and older catastrophes.

Turning to L&R. Fourth quarter results were solid, especially considering the continued headwinds from alternative investment returns. Fourth quarter APTI was $957 million, up 12% over the prior year driven by base spread expansion, strong sales and growth in assets under management and administration. Base net investment spreads in Individual and Group Retirement together widened 23 basis points in the quarter.

Fourth quarter premiums and deposits were $10.6 billion, up 20% from 4Q '22. For the fourth quarter, Corebridge's earnings included in AIG adjusted after-tax income decreased by about 25% due to the reduction in AIG ownership from 78% last year to 52% as of year-end. For the full year, Corebridge earnings in our adjusted after-tax income declined 20%.

Turning to other operations. Fourth quarter 2023 adjusted pretax loss improved by $52 million from 4Q '22 due to a $72 million reduction in AIG general operating expenses. Total other operations GOE was $242 million for the quarter, including $61 million for Corebridge.

On a consolidated basis, AIG's fourth quarter adjusted after-tax income rose 21% to $1.3 billion driven by 19% growth in General Insurance APTI. The annualized adjusted return on common equity was 9.4% for the quarter, almost 2 points higher than the fourth quarter of 2022.

Moving to the balance sheet. Book value per common share ended the year at $65.14, up 18% from year-end 2022 and up 16% from September 30, primarily due to the impact of lower interest rates. Adjusted book value per share was $76.65 at year-end, up 1% from year-end 2022 and down 2% for September 30, reflecting the net impact of income, dividends, share repurchases and Corebridge secondary sales.

At December 31, AIG's consolidated debt and preferred stock to total capital, excluding AOCI, was 24.3%, down 1.3 points from year-end 2022. With first quarter 2024 debt reduction, leverage is likely to be at the low end of our 20% to 25% range upon deconsolidation.

As Peter noted, we made substantial progress towards our 10%-plus ROCE goal this year. 2023 full year adjusted ROCE for AIG was 9.0% compared to 7.1% in 2022 and was 12.5% in General Insurance and 11.5% in L&R. The actions to reach 10% or greater will be driven by the 4 levers we have discussed before, including AIG Next. We are confident in our ability to achieve this goal, subject to market conditions and look forward to updating you on our progress.

With that, I will turn the call back over to Peter.

Peter Zaffino;Chairman and CEO
Thank you, Sabra. Michelle, we're ready for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Zaremski with BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe first on the expense ratio. I appreciate the color, Peter, you gave us on the continued improvement. Anything -- looks like this quarter, specifically, though, it took -- it was a bit higher than expected. Anything we should be thinking about? Or I don't know, if it's profit share, given the excellent loss ratio or just anything, any noise in there or seasonality?

Peter Zaffino;Chairman and CEO

Thanks, Mike. We outlined in my script that the business has been taking a lot of additional costs. Think about cyber and usage on the cloud. And so that might have been held centrally in the past. That has now been put into the business. And so you see that they're absorbing most of it, but there is some timing on that.

Also in Personal Insurance, there is a lot of noise in the quarter. There's some onetime true-up adjustments. There's also some profit sharing, as you mentioned, in some of our Personal Insurance businesses. And so -- and there was also some catch-up on some of the reinsurance on earned premium.

So I'm not concerned at all about the uptick in expenses. It was very nominal. When I look at what the business has actually absorbed in terms of increased costs year-over-year, they've really built capacity to be able to invest in the future. And the fourth quarter reflected that, but there was a little bit of noise as well, particularly on the Personal Insurance side.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. And then my final follow-up is on the -- specifically on the accident year loss ratio. You've -- the Validus is property-centric, and it's going to be kind of fully out of the numbers next quarter. You talked about nonrenewing some property throughout the year.

And I understand Financial Lines has got a lot of pricing, but Financial Lines pricing isn't great trailing 12-month basis. So just on the underlying loss ratio, given just all the dynamics, should we be thinking about any material changes to the underlying loss ratio as the year progresses, given the moving parts?

Peter Zaffino;Chairman and CEO

I don't think so. I think the accident year loss ratio that we finished the year is what I would expect in 2024. Like you said, there's always a mix of business changes. There's always a little bit of noise. There could be some shift in composition. As you mentioned, property, we think we have tremendous opportunities there based on having 5 or 6 entry points across the world in terms of getting the best risk-adjusted returns.

When I look at what we've done in property over the last 5 years, we've gone from combined ratios in North America that are well north of 130 combined into the 70s and 80s now. So I think we have a really good platform. We're able to scale up businesses when we see opportunities. But I would think absent big mix of business changes, I would not expect any changes in the loss ratio.

And I signaled on the call that the remediation is largely behind us. I mean, again, you're always going to be reunderwriting, but large programs or portions of the business in commercial, we really like what we have, and I think that there's real good opportunities for growth.

Operator

Our next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Great. One quick question just to make sure I understand it. So you talked about pricing assumptions for casualty, assuming loss trends of either high single digits or low teens. Did that match the loss trends embedded in the reserves?

Peter Zaffino;Chairman and CEO

Sabra, do you want to talk about the reserves commensurate to the increase in premium and then -- sorry, an increase in rate change, particularly on excess?

Sabra Rose Purtill
Executive VP & CFO

Yes. So when we've -- and we've talked about it in the past, we've taken a proactive approach to try and to react quickly to bad news that we see in trends. And as you know, even back in 2017, we moved to increase the reserves on casualty lines.

Our underlying assumptions for casualty loss trend is in the 10% range. It does vary between primary and excess. Our book historically has been a little bit more balanced towards excess, and that's why you can see some of the changes in the loss ratios accident year by accident year.

I would note that we do our deeper dive on the casualty lines largely in the third quarter. There are some that are in the second quarter, and we did complete those reserves this year without any meaningful changes in the reserves.

Peter Zaffino;Chairman and CEO

So another observation, Meyer, on that is that the rates as we got to the back half of the year in Casualty, particularly in Excess Casualty, started to accelerate into double digits. And also not that this is a bellwether because there's different mix of business, but our casualty submissions in Lexington in the fourth quarter were up 100%, which just means it's getting harder to get casualty placements done in the admitted market. Pricing is going up driven by rate, terms of conditions are being tightened and there's more activity in E&S.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. That's very helpful. Second question, I guess, maybe jumping off from that. I guess I'm a little surprised that there's still, if I understand correctly, the same level of proportional sessions on North American casualty despite the fact that overall profitability has gotten so much better and higher interest rates. And I was hoping you could take us through your thinking on that.

Peter Zaffino;Chairman and CEO

Sure. Look, our casualty placements have evolved over time to reflect the portfolio, the gross limit deployment. And if I could take you back to even 2016 and '17 where we had quota shares before we arrived where we had a 50% quota share on Primary Casualty and then we had a 37.5% placement on Excess Casualty. That's just continued to evolve as we got into 2018, where we bought a large excess of loss placements for our worldwide Casualty portfolio for 75 ex of 25.

And then at the end of 2018, we bought a 50% quota share for our casualty portfolio within the United States. And the reason why I just give you that as a baseline is we've changed, evolved. We've had reinsurance in place since 2016. But when you look at what we place on the quota share today, it's basically 20%. So we've taken that down while we've improved ceding commissions over 800 basis points from the original placement to 20% from north of 50.

So I think we have been recognizing that we don't need to do as much proportional. But there's a balance in those placements between the excess and the quota share partnerships with reinsurers. They like a balance between the excess of loss and quota share in terms of our underwriting and feel very comfortable that, that's a good amount to cede off for looking at our overall casualty portfolio.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was on the equity that you laid out, Sabra. So $33 billion pro forma adjusted equity. And then I believe you said parent liquidity would come on top of that. So can you just give us a sense of once you're through deconsolidation, what type of liquidity you would like to have in parent? Because I'm assuming it would be $33 billion plus the parent liquidity would be the equity that we should consider in reference to the double-digit plus ROCE target.

Peter Zaffino;Chairman and CEO

Thanks, Elyse. I'll turn it over to Sabra in 2 seconds. But I just want to caution us that we tried to outline what we expect shareholders' equity with a variety of different variables, but it was all pro forma.

So I think Sabra can answer the question sort of technically as to how we should be looking about our capital relative to how we get to the 10% ROCE. But I just don't want to go into too many more variables because that was a pro forma that had a lot of assumptions. Sabra?

Sabra Rose Purtill
Executive VP & CFO

Yes, certainly. Look, we have a framework around our liquidity position. And clearly, given the timing of the Corebridge secondaries and the Validus sale in the fourth quarter, parent liquidity was at very attractive and high levels at year-end.

The way we think of it in a normal framework is we look at what our forward holding company needs are. So think about common dividend payments of roughly $1 billion a year. AIG-only interest expense, roughly $500 million a year. And then parent expenses, which as we've talked about, we're focused on getting those down to 1% to 1.5% of NPE range. So that's what we think about in terms of a normal liquidity position, which is lower, obviously, than where we ended the year.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, appreciate all the color on the call on premium growth, right, I think it was around 9% in the quarter kind of ex Validus and Crop. And so as we think about the moving pieces and just your view of price, loss trend, et cetera, would you expect top line growth kind of on an adjusted basis to be within that range in '24? Are there other things that we should consider?

Peter Zaffino;Chairman and CEO

Well, when you take out -- again, there's a lot of moving pieces, but like you take out Validus, Crop Risk Services, and so we have a baseline. And then when we look at our commercial portfolio -- I look at the fundamentals, Elyse, in terms of how are we growing the business. And we gave you highlights in the fourth quarter about our new business, which was simply terrific, and that momentum continues. Our retentions have been fantastic. And so again, it's a portfolio that we have done such a great job to get to a place where we really like and find opportunities for stability and more growth.

Agree on the rate. I mean, again, the fourth quarter was just a moment, but we would expect Financial Lines in 2024 not to keep up at the same pace on excess. We'll see as we get into the market, but really like the opportunities in our core businesses to drive growth.

Lexington, I know there's been a lot of discussion in this quarter around is excess and surplus lines slowing down, things going back to the admitted. There's no evidence to suggest that's true.

Again, submission count is significantly up. And it's not just property. Property, if I looked at the fourth quarter, was the lowest submission count growth, and that was up over 30%. As I said, property's around 30%, casualty was up over 100%, and health care was around 50%. So there's a lot more opportunity to continue to grow in excess and surplus lines. And you know what, the property market, you get to the second quarter and there is your opportunity.

So like we have built a reinsurance structure. We've built a gross portfolio that we can flex depending on market conditions. I mentioned Global Specialty. We think there's growth opportunities there. We think there's growth opportunities in our Personal Insurance business.

So we're cautious but optimistic that the growth rate that you outlined in the high single digits is going to be achieved. But again, we have to be in the year, and we'll give you updates every quarter, but we're optimistic.

Operator

Our next question comes from Mike Ward with Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

Maybe kind of a similar question, but specifically on International. I think rate is a little below loss cost. So I was just wondering if you have any commentary on how you see the top line growth there playing out.

Peter Zaffino;Chairman and CEO

Mike, thanks for the question. If I look at International on the rate side, just a reminder that we do rate on gross premium written, not net. And so like as you take that from the portfolio, there's a heavy weighting our Specialty business in the fourth quarter. And the Specialty business does have a lot of quota shares and has a terrific reinsurance partnership. But it's almost 50% of the business, roughly between 40 to 50 in the quarter.

And so Specialty while had good rate increase in marine, political risk had a weighting on rate in the quarter as well as Financial Lines. Financial Line is about 20% of the gross premium written in the quarter and having a negative that just weights the overall rate environment.

But we had very strong rate in property. We had very good rate, as I mentioned in my prepared remarks, of 8% in marine. And so yes, the overall index was at or perhaps slightly below loss cost trend, but it's not something we're concerned about.

The other thing too, in Specialty, you should realize is that December 1 is when all aviation renews. And so that was low single digits, again, weighting on it.

But it's mix of business, it's gross, and why I say gross is that when you take the gross to net for our Specialty business, it's basically 50% net premium written to gross. And so like we put that in the math in terms of our ceding commissions and profitability of the portfolio. But overall, we were pleased and think that there's opportunities to improve that in 2024.

Michael Augustus Ward
Citigroup Inc., Research Division

And then maybe just on the adverse PYD in Russia, Ukraine. Just is that related to aviation? And is that just accident year '22? Because I think there was some adverse in other -- '20 and '19.

Peter Zaffino;Chairman and CEO

Sabra, do you want to provide a little bit of update in terms of how we got to the adverse?

Sabra Rose Purtill

Executive VP & CFO

Sure. And I'll just start by overall. As I mentioned, we did have some favorable prior year development from older catastrophe years. So those were basically in years 2018 through 2020.

If you look at the more recent accident years, as we indicated, we did put up $75 million of additional reserves related to Russia- and Ukraine-related claims. We've been evaluating our exposure for some time. And based on the analysis where we are at the end of the year, we felt it was appropriate to increase our reserves for the quarter.

But I would also note that in the 2022 accident year, we did have some adverse development on winter storm Elliott, which was at the very tail end of the fourth quarter of 2022. And then in the older accident years, as I said in General, we netted to a favorable reserve development. But we did have some adverse development in the 2018 and 2019 accident years on some mergers and acquisitions-related exposures.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First question, I'm just curious, as we look at this, you're getting close to the 600 million kind of share count. As we think about that and the use of proceeds from Corebridge, are you willing to go kind of meaningfully below that? And if not, what is the other kind of potential uses of capital here that you're thinking about to mitigate dilution from selling down your remaining interest in Corebridge?

Peter Zaffino;Chairman and CEO

Thank you, Brian. It's a good question. It's a little leading, but we had outlined the capital management strategy for the first 6 months, and that gets us below the [650 million] share count at a base assumption of a stock price around where we are now. And so there's a few variables that could accelerate that or slow it down depending on market conditions and share price. But we know we have the liquidity, and we just wanted to outline what we thought we would do within the first 6 months.

The next is dependent upon when we do a secondary sell-down, which I would expect before the end of the second quarter another sell-down, which gives us more liquidity. And the primary focus is going to be on share repurchase and dividend payment and believe that we can then get by the end of the year down to the lower end of the range or the 600 million.

Once we're closer to that, we feel like we've made enormous progress on all the elements of our capital management strategy. It has been very balanced and believe we would have to give guidance after that in terms of what we intend to do. But I kind of want to get to the range first, in the 600 million to 650 million, and then get to the lower end of the range with proceeds, and then we would provide additional guidance.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then, Peter, I just want to chat briefly on the Financial Lines business. And it seems like everybody is cutting Financial Lines. I'm just kind of wondering like who is actually running the business? And do we think we're getting closer to a bottom here? And do you think that's still a significant headwind to 2024 premium growth?

Peter Zaffino;Chairman and CEO

Thank you, Brian, for the question. And I've been trying to find a way to bring in McElroy to close it out. So Dave, why don't you give Brian some insight, and then we'll send it back to me, and we'll finish up.

David Hughes McElroy
Executive VP & Chairman of General Insurance

Thank you, Brian, and thank you, Peter. The -- yes, honestly, Brian, you see the weighting of the Financial Lines in our portfolio. It's a bit of an outside influence. But we've also gone through the year, and I think we trade the market we're in, not the market we hope for.

So the -- I think we've been prudent around letting excess underpriced business go. I think we've been good about holding on to our primary business. So I think that actually really has held up well.

I'd also think that it's always worth understanding there's a lot of other products in the portfolio. And they've held up well, whether that's private company business or professional indemnity or the fidelity businesses. Those are strong, and we actually anticipate those will continue to hold up in '24, okay?

The seminal event is 2023 showed up with different securities class action experience than the '20 to '22 cohort here. It actually looks more like '16 to '19. The question will be whether the industry reacts to that, okay? Much more severity flowing through that year. It obviously exposes the verticality of loss.

I do think it's put a little bit of a floor on the market going into 2024. We're seeing that. We're seeing that now. There's definitely going to be more control in primary, but I'm not going to be -- we won't sit on the front cover of CNBC -- or sitting in the middle of CNBC, but we like the business. We like the pricing of the business. And we also think that it's tethered to the economy. As that shows up, that will also help with new business opportunities that we see both in M&A, both in IPOs and both in structured. So it is the first time in 3 years that I might give it a little bit of optimism. Peter?

Peter Zaffino;Chairman and CEO

Thanks, Dave. Thank you very much, and thanks, Brian. Thank you, everyone, for coming to the earnings call today and greatly appreciate the engagement. And I want to thank all of our colleagues around the world for all they've done to progress the strategic progress that we've made and just have delivered tremendous results. So everybody, have a great day, and thank you.

Operator

Thank you for participating in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.