American International Group, Inc. NYSE:AIG

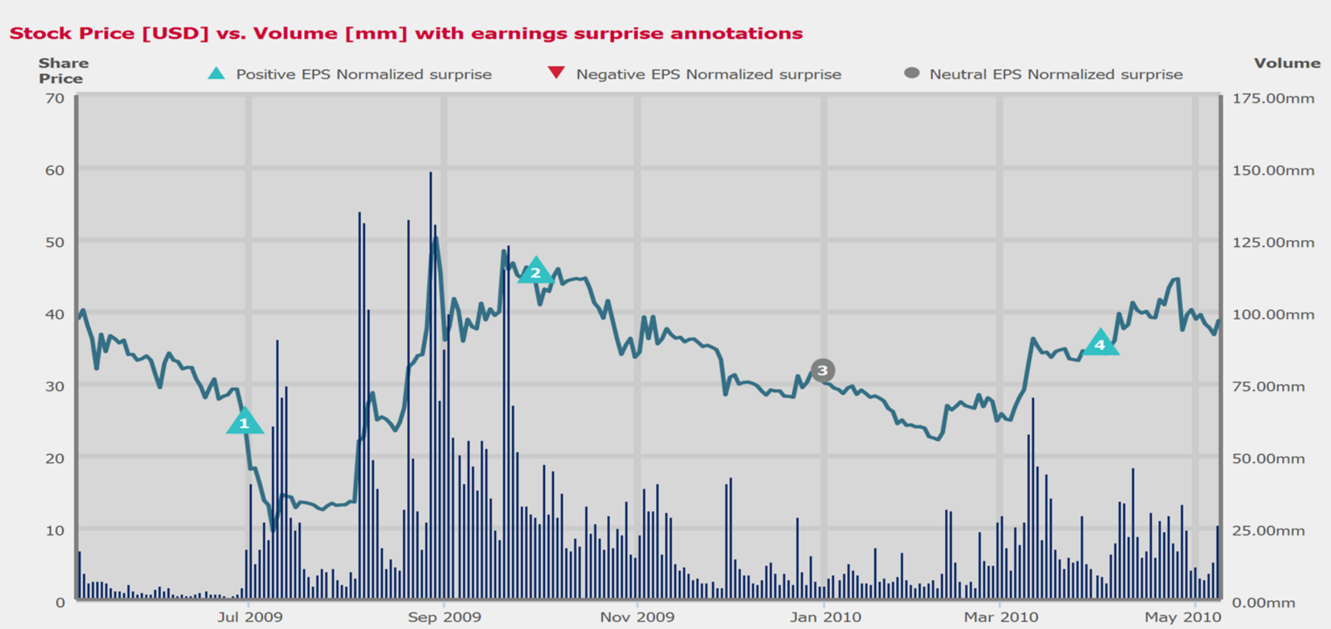
FQ3 2010 Earnings Call Transcripts

Friday, November 05, 2010 12:00 AM GMT

S&P Capital IQ Estimates

	-FQ2 2010-	-FQ3 2010-		-FY 2010-	-FY 2011-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.98	0.93	-	(1.91)	3.94
Revenue (mm)	19184.85	14141.97	35.00	66097.00	71797.00

Currency: USD
Consensus as of Oct-26-2010 1:13 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	0.96	2.57	167.71 %
FQ3 2009	1.14	2.85	150.00 %
FQ4 2009	(3.94)	(53.23)	NM
FQ1 2010	0.48	1.21	152.08 %

Call Participants

EXECUTIVES

Robert Herman Benmosche
Former Chief Executive Officer, President and Director

Presentation

Robert Herman Benmosche
Former Chief Executive Officer, President and Director

Welcome, and thank you for listening today. Today, I'm very pleased to report that we continue to achieve huge progress in realizing our goals to completely repay taxpayers and merge with one of the largest, most diversified property and casualty companies in the world, a leading U.S. life insurance and retirement savings operation and other businesses that enhance this portfolio. As I said to you just a few weeks ago, this will be a momentous achievement for all of us and a new beginning.

What I would like to talk about today is where we stand with our repayment effort and how our business performed this quarter. However, before I do so, I would like to acknowledge the investment community's great interest in AIG and your desire for more direct engagement with the company to form such as quarterly conference calls. We actually just concluded a process where we talked with market participants, clients, distribution partners, consumers and others with views of AIG. We are glad to have some objective data indicating that our subsidiary brands are strong, that there's some optimism within the investment community about AIG's future.

As I have said publicly, the reason that we have not conducted quarterly conference calls with analysts to date was because for quite some time we simply did not know how many shares AIG would have outstanding. But with the recent announcement of our roadmap for repaying all of our obligations, we now know that number of shares. I believe it's critical for investors to be able to understand and engage with the company that they own. In that context, I would expect that starting next quarter, we will hold conference calls with the investment community after we announce our financial results. And on those calls, we will answer your questions. Moreover, beginning next year in connection with our expectation that we will issue common stock to the public, we will want to meet with you and review with you our business performance and our outlook on the future, which, by the way, is an optimistic one.

As I have said to you many times, and this quarter is no different, our business performance shows a clear pattern. Our Insurance businesses are profitable. Client retention rates are strong. Surrender rates are improving to normal levels. Sales and distribution relationships are gaining momentum. And employee turnover is well within the norm.

We have a very strong team, and we continue to believe that when we complete our restructuring, AIG will consist of two core businesses: Chartis, one of world's largest, most powerful property casualty franchises; and SunAmerica Financial Group, one of the U.S.' most powerful life and retirement services franchises. These will be complemented by businesses that diversify our risk profile and contribute to our success, such as our Aircraft Leasing business, International Lease Finance Corporation and United Guaranty Corporation, our Mortgage Guaranty Insurance business.

Earlier this week, we announced what many people have been eagerly awaiting for two years, that we have raised a substantial amount of money to repay the government. Between the IPO of AIA and the sale of ALICO, I am delighted to note that we have raised some $37 billion that will go towards repaying taxpayers. We expect that we will be able to use this money to completely repay the credit facility with the Federal Reserve Bank of New York and to make additional payments to the U.S. Treasury once we finalize the details of the agreement in principle with the government that we announced on September 30.

In addition, you'll recall that we announced on September 30 that we will sell AIG Star and AIG Edison to Prudential for $4.8 billion, consisting of $4.2 billion in cash and $600 million in assumption of debt. So when that transaction closes, the cash proceeds also will be used for repaying taxpayers. And given our recent successes with each of these properties, we are more confident than ever that AIG will repay the taxpayers with a profit.

Let me now turn to our quarterly financial results. Hopefully, you have had a chance to look at our earnings release, which hits all the details of our quarterly business. As you see the past quarter, AIG reported a net loss for the quarter of $2.4 billion, although our continuing insurance operations saw a stable, positive operating income totaling $2.1 billion. The majority of our loss stem from restructuring-related charges totaling $4.5 billion that were partially offset by a $1.4 billion tax benefit related to a deferred tax valuation allowance release. Also offsetting our operating results was the interest and amortization of the Fed Credit Facility, as well as impairment charges on certain aircraft in the ILFC fleet.

We continue to amortize the prepaid commitment fee asset, which was originally $23 billion and is related to the 80% ownership that the government took of AIG at the time we received our loans from the Fed. In fact, when we repay the credit facility in full, we will write off the remaining balance of the prepaid commitment fee asset and deferred gain, which stood at $4.7 billion at the end of the third quarter.

We reported a loss of about $200 million in the quarter on an adjusted net income basis. Our adjusted net income exclude net realized capital losses; discontinued operation, including goodwill charges; gain or losses on the sales of businesses; and the effects of derivatives not on hedge accounting.

Despite challenging condition of the property and casualty market, Chartis had a good quarter, earning $1.1 billion this quarter in operating income before net realized capital gain compared with $719 million in the third quarter of 2009. Results were primarily driven by an improvement in underwriting income and also reflect the consolidation of Fuji Fire & Marina Insurance Company, following our previously announced acquisition of the controlling stake in this publicly traded Japanese insurance company.

Chartis posted a combined ratio for the quarter of 99.3 compared to 105.2 in the prior-year period. Excluding catastrophe losses, the current-period combined ratio was 98.4 compared to 104.5 in the prior year, a 6.1 point improvement. Including Fuji, worldwide net premiums of $8.6 billion increased by 7% compared to the same period last year. Excluding Fuji, Chartis net premiums declined 4% from challenging economic conditions affecting ratable exposures in a competitive property casualty market.

Chartis continues to pursue risk management initiatives to manage its aggregate exposure to certain lines of business and remains price disciplined where the markets rates are unsatisfactory.

Turning to SunAmerica Financial Group. That segment also had a good quarter, especially considering the low interest rate environment, reporting operating income before net realized capital gains of $978 million compared to operating income of $1.2 billion in the prior-year quarter. The decrease reflected a decline in net investment income from partnerships and $94 million less income related to the change in the fair value of the retained interest in Maiden Lane II, as well as higher deferred acquisition costs and sales inducement amortization due to net realized capital gains of $20 million compared to net realized capital losses of $1.4 billion in the third quarter of 2009. The improvement in realized gains principally resulted from lower OTTI charges and a decrease in derivative fair value losses on interest rate and foreign exchange derivatives, net of foreign exchange transactions.

Premiums, deposit and other considerations totaled $4.4 billion, an increase of 2% compared to third quarter of 2009 as group retirement products and individual variable annuities reported increases in sales. Individual variable annuity sales increased due to competitive product enhancement, reinstatement of new sales activity at a number of key broker dealers and an increased wholesaler productivity, although individual fixed annuity deposit decreased primarily due to the low interest rate environment in 2010.

Life insurance sales were significantly higher than in the third quarter of 2009, driven by higher term and private placement variable universal life sold through independent and career agent. Surrender rates have improved compared to the prior year for group retirement products, individual fixed annuity and individual variable annuities as surrenders have returned to more normal levels.

ILFC reported an operating loss of $218 million for the third quarter of 2010 compared to operating income of $365 million in the third quarter of 2009. ILFC's losses stem largely from the asset impairment charges totaling $465 million that I mentioned earlier. I would like to highlight that at September 30, ILFC had committed to purchase 115 new aircraft deliverable from 2011 through 2019 at an estimated aggregate purchase price of $13.5 billion, the majority of which is due after 2015, with $282 million payable through 2011. 100% of the 2011 deliveries have been leased.

UGC, AIG's mortgage guaranty insurer, reported an operating loss of $124 million for the third quarter compared to a pretax loss of $461 million in the same period in 2009. The improvement reflects lower levels of newly reported delinquencies in first-lien and international products, higher mortgage cure rates on existing first-lien and international delinquent loans, higher rescission rate on first-lien claim and the recognition of stop loss limits on certain second-lien policies, partially offset by increased delinquencies in private student loans.

In conclusion, let me comment a bit on our recapitalization. As you know, we announced an agreement in principle with our key partners in the government to complete a repayment of our debt to taxpayers. We are focusing our full attention on completing the definitive documentation of that agreement and then executing the transactions it outlines. We continue to work on selling Nan Shan and unwinding the legacy exposures of the AIGFP business, both of which are on track. Of utmost importance, however, is the continued stabilization and strengthening of AIG's continuing businesses. We would anticipate that by early next year, we will have repaid the Fed Credit Facility and executed the steps needed so that Treasury can assume ownership of the Fed's remaining preferred shares in AIA and ALICO SPVs and exchange the TARP Series E and Series F preferred shares and the Series C preferred shares currently held by the AIG Credit Facility Trust into AIG common equity. Upon the exchange, Treasury will own 92.1% of the common stock of AIG. And once completed, we expect that over time, the Treasury will sell its stake in AIG on the open market. As you know, we are well on our way to turning this roadmap for a government exit from AIG into a reality.

On that note, I would like to once again to recognize the dedication and hard work of our employees. We have accomplished so much in a very short period of time. And for that, I am very grateful. Also, I would like to thank our employees and all the people who have sent me words of support and encouragement after our disclosure last week of my latest challenge, cancer. I just want you to know I feel great, I am still jogging about three miles every day or so, and I have every intention of staying in my job and seeing this through with all of you.
I also want to thank the Fed and the U.S. Treasury and the American people. Thank you. Because of all of you, AIG will be able to repay our debt and ensure that we emerge as strong, independent, focused and worthy of investor confidence. Thank you for listening today.