S&P Global
Market Intelligence

American International Group, Inc. NYSE:AIG

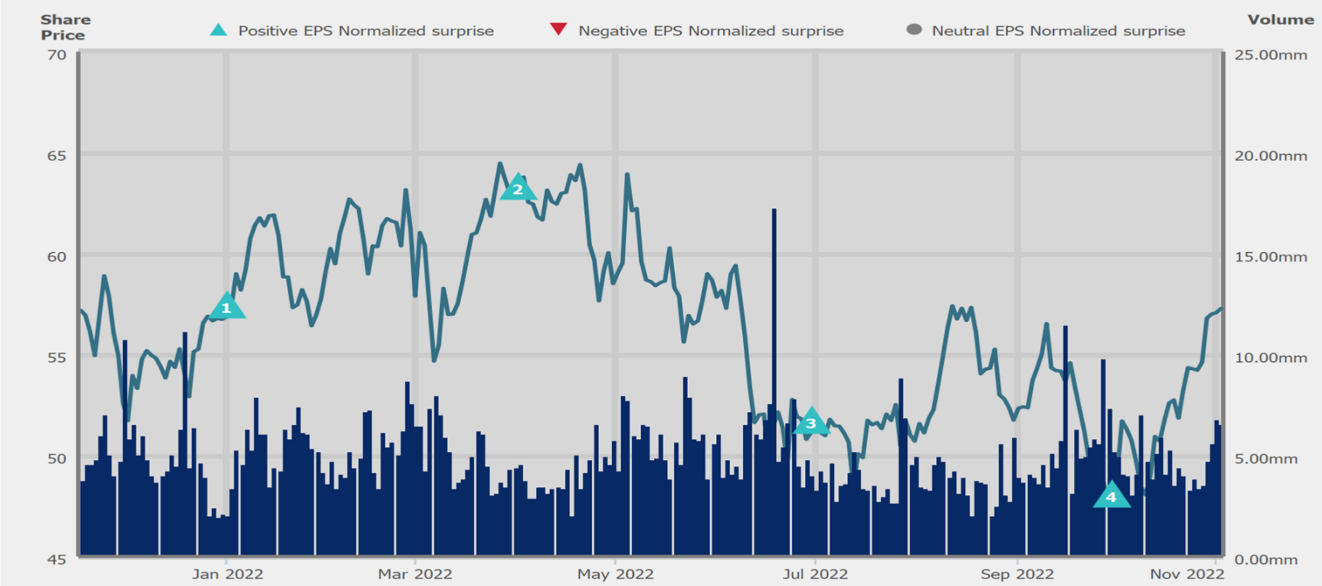
FQ3 2022 Earnings Call Transcripts

Wednesday, November 2, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.52	0.66	▲26.92	1.29	4.38	NA
Revenue (mm)	11275.61	14602.00	▲29.50	12592.29	46542.97	NA

Currency: USD
Consensus as of Nov-03-2022 10:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	1.18	1.58	▲1 33.90 %
FQ1 2022	1.17	1.30	▲2 11.11 %
FQ2 2022	1.14	1.19	▲3 4.39 %
FQ3 2022	0.52	0.66	▲4 26.92 %

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Call Participants

EXECUTIVES

David Hughes McElroy
Executive VP & CEO of General Insurance

Mark Lyons;Executive Vice President, Global Chief Actuary & Head of Portfolio Management

Peter Zaffino;Chairman and CEO

Quentin John McMillan
VP, MD & Head of Investor Relations

Shane Fitzsimons
Executive VP & CFO

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Piper Sandler & Co., Research Division

Presentation

Operator

Good day, and welcome to AIG's Third 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 provide details on important factors that could cause actual results or events to differ materially. Except as required by the 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 include a discussion of the financial 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 Life and Retirement and Other Operations 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. As such, we will be intentional when referring to AIG's Life and Retirement segment versus Corebridge Financial when commenting on financial results. Corebridge Financial will host its first earnings call post IPO next week on November 9, and its management team will provide additional details on the Corebridge Financial third quarter results.

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

Peter Zaffino;Chairman and CEO

Thank you, Quentin. Good morning, and thank you for joining us today to review our third quarter financial results, which I'm pleased to report were very strong, along with the excellent progress we've made on our strategic priorities. Following my remarks, Shane will provide more detail on the third quarter financial results, and then we'll take questions. Kevin Hogan, David McElroy and Mark Lyons will join us for the Q&A portion of today's call.

The third quarter represented an inflection point for AIG, with important milestones achieved across the organization. Our team once again demonstrated its ability to execute on significant strategic initiatives that position AIG for a strong future, to apply discipline and the successful execution of these initiatives and to achieve high-quality outcomes even against a backdrop of very complicated capital and insurance markets.

Before I cover the third quarter in more detail, I'd like to comment on the successful Corebridge Financial IPO, which we completed in mid-September despite very challenging equity capital market conditions. On our second quarter earnings call, we explained that volatility in the capital markets was significantly elevated and that attempting to complete an IPO at that time would not have been in the best interest of AIG, Corebridge or our stakeholders.

As a result, we decided to defer the IPO and revisit timing in the third quarter. We knew that there would be limited open windows and remain committed to completing a transaction as soon as we believed an appropriate opportunity was available. Throughout the summer, our team did a remarkable job and worked diligently on the operational separation of Corebridge from AIG as well as to prepare the business for a successful IPO.

As we noted on our last call, we had already increased the targeted savings program at Corebridge from an initial range of $200 million to $300 million to $400 million within 2 to 3 years. With the additional time available pre-IPO, the business accelerated certain actions and is now expected to deliver run rate savings of over $100 million by the end of 2022, ahead of our original schedule.

We were also prepared to secure the capital structure of Corebridge prior to the IPO and access the debt markets in late summer during a short window when conditions became more favorable. In August, Corebridge issued $1 billion of hybrid debt securities and in early

September drew down on a $1.5 billion bank facility to complete its initial capital structure. Using part of the net proceeds from these debt transactions, Corebridge closed out the remaining $1.9 billion due to AIG under a promissory note.

Throughout this time, we also engage in continuous discussions with our financial and other advisers about equity market conditions, investor sentiment and our ability to execute the IPO in a complicated market. While equity markets remain uncertain, volatility was not as extreme leading up to Labor Day. We were confident we could complete the IPO within an acceptable valuation range, and we continue to believe it was very important for the future of AIG and Corebridge to establish Corebridge as a public company in 2022.

Throughout the third quarter, we also made significant progress in the implementation of a new investment management model for AIG and Corebridge. As you know, in mid-2021, we finalized a strategic partnership with Blackstone, which includes the transfer of $50 billion of Corebridge AUM to Blackstone, with that number growing to $92.5 billion over 6 years.

In addition, earlier this year, we announced a partnership with BlackRock, under which we will transfer up to $150 billion of liquid assets from both AIG and Corebridge. To date, we have transferred $100 billion of assets, with $37 billion moving from AIG and $63 billion moving from Corebridge. The complexity of operationally separating Corebridge from AIG as well as implementing our new operating model for investment management cannot be understated.

Keep in mind, these businesses have been in a combined structure for over 2 decades, with aspects of each business shifting over time between segments until just a few years ago. And until we announced our intention to separate Corebridge from AIG in late 2020, investments was a stand-alone unit at AIG, servicing all businesses across the organization. Our partnerships with Blackstone and BlackRock enable us to accelerate the reshaping of our investment portfolios.

With respect to the financial commitments Corebridge made as part of the IPO, I'd like to reiterate them as they too will create significant value for shareholders over time. We continue to expect Corebridge to pay $600 million in annual dividends, with its first quarterly dividend of $148 million declared 15 days after the IPO close and already paid, to have the financial flexibility to repurchase shares or reduce AIG's ownership stake as early as the second quarter of 2023 and to achieve a return on equity of 12% to 14% over the next 24 months.

Completing the Corebridge IPO within a very narrow window was a testament to the careful preparation, hard work and dedication of our teams at AIG and Corebridge and to the quality of the business. This was a major accomplishment for our teams, and we are all very proud of the outcome.

Turning to other highlights in the third quarter. Adjusted after-tax net income per diluted common share was $0.66. General Insurance delivered very strong performance and continued profitability improvement despite significant natural CATs in the quarter. The accident year combined ratio, ex CATs, was 88.4%, a 210 basis point improvement year-over-year and the 17th consecutive quarter of improvement.

This result was primarily due to Global Commercial, which had an excellent quarter, with an accident year combined ratio, ex CATs, of 83%, a 590 basis point improvement year-over-year, driven by International Commercial, which had an impressive 80.4% accident year combined ratio, ex CATs. The accident year combined ratio was 98.2%, a 200 basis point improvement year-over-year. The calendar year combined ratio was 97.3%, a 240 basis point improvement year-over-year.

CAT losses in the third quarter were $600 million, or 9.8 points of the combined ratio. Shane will break this number down for you in his remarks. Our CAT total includes losses from AIG Re related to Hurricane Ian, which came in at $125 million. This result reflects the terrific work the team has done to reduce peak zone exposure in our assumed reinsurance business, particularly in Florida, where we've reduced limits deployed by approximately 60% since 2018 and have minimal exposure to Florida domestic insurers.

Considering Hurricane Ian and other CATs in the third quarter, our CAT losses validate the quality of our underwriting, our reinsurance strategy and our ability to successfully manage volatility. With respect to PYD, there was a favorable release in the third quarter of $72 million or 90 basis points of the calendar year combined ratio.

In Life and Retirement, the business had another quarter of strong sales with premiums and deposits coming in at approximately $9 billion, up from $7.2 billion in the prior year, with positive year-over-year growth in each of its 4 business segments. Effective capital management remains a priority for AIG. In the third quarter, we repurchased $1.3 billion of common stock and paid $247 million of dividends. We also announced $1.8 billion of debt repayments, which we commenced in the third quarter and closed last week, further strengthening our balance sheet. And lastly, AIG ended the third quarter with $6.5 billion of parent liquidity.

Now let me provide additional detail on General Insurance and the continued, sustained improvement and very good absolute performance in our underwriting. When referring to gross and net premiums written, note that all numbers are on an FX-adjusted basis. Gross premiums written increased 5% to $9.2 billion, with Global Commercial growing 8% and Global Personal decreasing 3%. Net premiums written increased 3% to $6.4 billion.

The growth was in our Global Commercial business, which grew 6%, with Global Personal decreasing 4%. North America Commercial net premiums written increased 7%, and International Commercial net premiums written increased 5% or approximately 8%, excluding the impact of nonrenewal and cancellations related to known Russia exposure.

In North America Commercial, we saw very strong growth in net premiums written in Lexington led by wholesale property, retail property and Glatfelter. In International Commercial, we also saw strong growth in net premiums written in Global Specialty, led by International Specialty, marine and energy as well as property.

In Global Commercial, we also had very strong renewal retention of 85% in our in-force portfolio, with North America up 400 basis points year-over-year to 86% and international at 85%. As a reminder, we calculate renewal retention prior to the impact of rate and exposure changes. And across Global Commercial, our new business continues to be strong. North America new business was $458 million led by Lexington. International new business was $474 million led by specialty.

Turning to rate. Momentum continued in North America Commercial with overall rate increases of 9% in the third quarter, excluding workers' compensation. Areas within North America Commercial achieved double-digit rate increases. These included Lexington, which increased 20%; cyber, which increased 32%; and excess casualty, which increased 12%. International Commercial rate increases were 6%, driven by Talbot, EMEA, Asia Pacific, each of which increased 10%.

Our team analyzes loss cost trends every quarter. On our last call, we indicated that our loss cost trend view in the second quarter for North America Commercial lines had migrated upwards to 6%. Due to inflationary and other related factors that have resulted in an increase in property loss costs, we are increasing our aggregate loss cost trend to 6.5%, both in North America and international. Overall, we continue to receive rate above loss cost trends, which contributes to margin expansion on a written basis.

Moving to Global Personal Insurance, we continue our work across the portfolio to prioritize growth in A&H, to reposition our capabilities in Japan Personal and to transform our North America high net worth portfolio. Starting with North America, personal net premiums written declined 11%, driven by warranty as well as our ongoing reshaping of our high net worth business that we've discussed on prior calls.

We continue to make progress in our high net worth business by reducing peak zone aggregation, improving the overall quality of the portfolio, transitioning a portion of the portfolio where appropriate to excess and surplus lines and enhancing the value we offer to clients. Third quarter results reflect this repositioning, with North America's gross and net premiums written declining as we continue to reduce exposures and increase reinsurance sessions to mitigate volatility.

North America Personal Insurance's premium declines were partially offset by continued momentum in individual travel and Personal A&H. In International Personal, net premiums written declined 2% due to a reduction in warranty that was partially offset by a rebound in individual travel as well as growth in A&H, which is our largest and most profitable International Personal portfolio.

One item to note in the International Personal Insurance third quarter accident year loss ratio is that it reflects approximately $100 million of losses related to COVID claims in Japan and, to a lesser extent, Taiwan. These losses were primarily due to the Japanese government instituting a policy relating to deemed hospitalizations resulting from COVID, which impacted our A&H book.

This government policy was revised in the third quarter, and as a result, we expect the issue to have a de minimis impact in future quarters, starting with the fourth quarter of this year. Additionally, some of these losses related to cleanup expense benefits offered to small businesses, which AIG no longer provides.

Turning to PYD, we conducted our annual review of approximately 75% of pre-ADC loss reserves in the third quarter. We applied conservative assumptions in this review as we believe it is appropriate to be prudent given current economic conditions. As a result of our review, we recorded $72 million of net favorable development for the third quarter or 90 basis points of the loss ratio. This reflects $42 million of amortization from the ADC combined with $30 million of other favorable development.

Our international operations were favorable in every region totaling $328 million, whereas North America was unfavorable by $256 million. Furthermore, in North America, virtually every line of business was favorable, except for U.S. financial lines, which was unfavorable by $660 million net of the ADC, predominantly in accident years 2018 and 2019 and, to a lesser extent, 2020.

Let me unpack the drivers of unfavorable development in U.S. financial lines a bit more because it's been an area of focus for us for several years given AIG's history in this line of business. The unfavorable development was primarily driven by excess D&O written out of both the U.S. and our Bermuda business. And while there was some movement on the primary side, the excess book was the most significant driver. D&O prior year emergence continues to be driven by large losses. Many from security class actions and earlier accident years also experienced stacking exposures where primary mid-excess and high-excess policies were all exposed on the same insured.

This issue is similar to what we saw across the portfolio when we first started our remediation strategy. The company had too much vertical limit on a per account basis. As we've discussed on prior calls, our underwriting strategy and ventilation standards were completely overhauled over the last few years, including U.S. financial lines to prevent stacking and overexposure to anyone insured. And we've dramatically reduced limits deployed on individual policies, obtained tighter terms and conditions and achieved higher attachment points on primary limits. Shane will provide more detail on PYDs in his remarks.

Now I'd like to spend a few minutes talking about Hurricane Ian, which was a very tragic event on a human level that also left devastating physical damage. AIG rapidly deployed significant resources to the affected areas, providing immediate support and infrastructure to help individuals, businesses and communities rebuild. Hurricane Ian is projected to be the second largest insured natural CAT loss in U.S. history.

There remain a considerable number of variables contributing to industry ultimate losses, but based on what we know today, total insurable losses are expected to be in the range of $50 billion to $60 billion. For context, Hurricane Katrina and Irma, the first and third largest U.S. natural CAT losses in the last 100 years, are estimated at $85 billion and $40 billion of insured losses, respectively, on an inflation-adjusted basis.

While Hurricane Ian will have an impact on the broader insurance, reinsurance and retro markets, we believe AIG is well positioned. Very importantly, we have strong and strategic relationships with our major reinsurers, and we are confident in our ability to obtain similar levels of capacity for 2023 as we did in 2022. In addition, we've improved and continued to improve our portfolio, and therefore, the reinsurance we require will reflect this during 2023. And we see significant growth opportunities across the market, especially in the near term and for property specifically, and our significant financial flexibility will allow us to be nimble as we deploy capital at attractive risk-adjusted returns to Retail Property, wholesale property, Talbot, global specialties and AIG Re.

With respect to the industry and markets more broadly, as we noted on our second quarter call, there are a few things you need to believe about the market prior to Ian in order to understand the impact Ian may have in the future. If you believe, as we do, that the retro market was already contracting from last year's available capacity, which itself was reduced from the prior year and the anticipated capital for 2023 was already going to further contract approximately 10%, the retro market and the property CAT market would have already been challenged even prior to Ian.

In addition to reduced capacity over 2022, prior to Ian, there was also an expectation of increased retentions, more specific peril coverage as well as rate increases resulting from several factors including increased frequency and severity of CATs over the last several years. Keeping this context in mind, 2022 will be another year with over $100 billion in natural CAT industry losses. Prior to 2017, on an inflation-adjusted basis, there were only 2 years, 2005 and 2011, that had greater than $100 billion of global natural CAT losses. And in both of these years, losses were led by primary perils.

Since 2017, 5 of the last 6 years have had greater than $100 billion in global natural CAT losses, with the predominant portion of losses in the aggregate coming from secondary perils. Furthermore, other issues potentially impacting 1/1 capacity prior to Ian were the strengthening of the dollar, euro-denominated capacity likely decreasing due to currency devaluation, asset valuations, inflation and demand surge from the post pandemic economy, just to name a few.

When considering the impact of Ian and the complexity it adds to already challenging market conditions, there are a few additional factors to consider. In Florida, residential total insured values have increased by more than 50% over the last 10 years. The significance of commercial losses, which will likely exceed 40% of the ultimate losses for Ian, compared to the average of prior natural catastrophes, where commercial losses were 30% of the ultimate loss. The prevalence of commercial losses exacerbates the complexity of CAT modeling generally and the resulting deficiencies regarding appropriate CAT load and pricing.

When considering the modeled estimated output for losses related to Ian, for example, commercial losses were deficient by 2.5x and personal by 1.5x after adjusting for inflation and other factors. Furthermore, when major CATs occur in Florida, a disproportionate amount of the loss finds its way to the reinsurance market because of the proportional and low attaching excess to loss placements completed by Florida domestic insurers as their capital structures require significant reinsurance. Available reinsurance capacity is forecasted to be the lowest aggregate limit available in over a decade, making conditions in the property CAT reinsurance market even more challenging.

Now turning to Life and Retirement. Adjusted pretax income was $589 million, decreasing from $877 million in the prior year period, mainly due to lower alternative investment income and lower call and tender income. There were no significant reserve adjustments arising out of the third quarter actuarial assumption review. As I mentioned earlier, Life and Retirement had excellent sales with premiums and deposits of approximately $9 billion, up 23% year-over-year. Sales of annuities over the course of 2022 have benefited from our relationship with Blackstone with $5 billion of assets originated year-to-date in private ABS, direct credit lending and structured assets.

While our strategic partnership with Blackstone is still in the early days, the quality and the performance of the portfolio relative to what the business could have done on its own are very encouraging. Sequential improvement in fixed income and loan portfolio yields accelerated, with a 24 basis point improvement in base investment yields. Year-over-year fixed income and loan portfolio yields also improved 8 basis points, confirming the business has surpassed year-over-year yield compression for the first time in recent memory. Shane will provide more information on the Life and Retirement segment and Corebridge in his remarks.

Shifting to capital management, we continue to be balanced and disciplined as we maintain appropriate levels of capital in our subsidiaries for profitable growth opportunities across our global portfolio as well as reduced levels of debt while returning capital to shareholders through share buybacks and dividends. Looking ahead, with respect to share buybacks, we have $4.3 billion remaining on our current share repurchase authorization and expect to end 2022 with over $5 billion of share repurchases for the full year. And balance sheet actions we've taken put us in a position of strength with significant financial flexibility that AIG has not had in many years.

As we look to 2023, our lockup agreement with the underwriters of the IPO with respect to Corebridge common stock expires in March. Subject to ordinary course blackout periods, this means that our likely windows for a secondary offering of Corebridge common stock in the first half of 2023 will be in mid- to late March as well as mid-May to late June. Our current expectation is that the net proceeds will largely be deployed to share repurchases.

While we remain committed to consistently returning capital through share repurchases for the foreseeable future, we believe there will be attractive organic growth opportunities in General Insurance and AIG Re given current market dislocations that may prove compelling. Lastly, as we discussed on our second quarter call, we continue to expect that post deconsolidation of Corebridge, AIG will achieve a return on common equity at or above 10%. Shane will provide more details in his remarks.

As we approach year-end and plan for 2023, our path forward is clear with General Insurance solidifying its position as a global market leader, the deconsolidation and eventual full separation of Corebridge firmly underway and a significantly strengthened balance sheet. With that, Shane, I'll turn the call over to you.

Shane Fitzsimons
Executive VP & CFO

Thank you, Peter. As Peter noted, I will provide more detail on the third quarter results, specifically EPS, reserve reviews, net investment income, capital management and the path to achieving an above 10% return on common equity. Adjusted after-tax income was $509 million or $0.66 per share compared to $837 million or $0.97 per share in the prior year quarter. This was driven by a $741 million decline in net investment income, offset by improved underwriting results in General Insurance and solid performance in Life and Retirement as well as improved GOE and Other Operations.

General Insurance finished the third quarter with adjusted pretax income of $750 million. Underwriting income was up $148 million despite Hurricane Ian, offset by a $209 million decline in net investment income due to alternative investment returns. Life and Retirement contributed adjusted pretax income of $589 million, which is $288 million below prior year quarter driven by lower alternative investment and call and tender income.

Other Operations adjusted pretax loss of $614 million compared to $562 million prior year quarter, mostly due to lower alternative investment income, partially offset by lower interest expense. This quarter, Other Operations included $16 million of additional expenses for setting up Corebridge as a stand-alone company. Excluding such expenses, GOE improved by $17 million versus prior year.

As Peter noted, results in General Insurance reflects strong underwriting performance with continued combined ratio improvement of 240 basis points to 97.3%, an accident year combined ratio ex CAT of 210 basis points to 88.4%. North America Commercial accident year combined ratio, ex CAT, improved 590 basis points over the prior year quarter to 84.6%. International Commercial accident year combined ratio, ex CAT, at 80.4% showed 640 basis points of improvement.

North America Personal reported an accident year combined ratio, ex CAT, of 112.8%, primarily reflecting higher reinsurance costs and lower ceding commission for high net worth business. International Personal accident year combined ratio, ex CAT, was 99.9%, wholly due to increased frequency of A&H claims in Japan and Taiwan. Net CAT losses, excluding reinstatement premiums, were

$600 million or 9.8 loss ratio points in the third quarter, which included $450 million from Hurricane Ian and $84 million from Japanese typhoons. Additionally, the reinstatement premium impact across all CAT events was $55 million.

Switching to reserves, nearly $40 billion of reserves were reviewed this quarter, bringing the year-to-date total to approximately 90% of carried pre-ADC reserves. As Peter noted, prior year development, excluding related premium adjustments, was $72 million favorable this quarter compared to favorable development of $50 million in the prior year quarter.

Prior year emergence in accident year 2019 and 2020 was largely due to policies written in 2017 and 2018. And an accident year 2020 was largely due to policies in private and not-for-profit where gross premiums have been reduced by 54% since 2018, and limits provided have been reduced by 85%. In 2018 and prior, AIG wrote multiyear policies that contributed to accident year 2019 and 2020 losses. So for example, a policy written in 2017 had loss emergence in accident year 2020. We have strategically shifted away from this business, which now makes up less than 1% of policies in those lines.

As we've discussed previously, we overhauled the General Insurance underwriting strategy, including U.S. financial lines, resulting in reduced limits deployed on individual policies, tighter terms and conditions on higher attachment points on primary limits and termination of certain businesses. Since 2018, we have seen the following. Total primary limits exposed in U.S. financial lines have been reduced by $32 billion on a comparative basis or nearly 80% through the third quarter of this year.

Total primary limits in both corporate and national D&O have been reduced by nearly 50% on a comparative basis, and private and not-for-profit primary limits have been reduced by nearly 85%. And in all cases, rates have increased substantially over this time period. Since 2018, we have achieved cumulative rate increases of nearly 85% in both primary corporate and national D&O on a third quarter cumulative basis and over 115% in private and not-for-profit primary business.

Overall, we recognize bad news early but wait to recognize good news over time as we monitor developments, which we believe leads to a conservative view on our reserves. Along these lines, we've built in an expectation of higher inflation given the uncertainty over its potential impact on our reserves.

Turning to Life and Retirement. Adjusted pretax income was $589 million compared to $877 million in the prior year quarter. The decrease was due to lower alternative investment, call and tender and fee income, partially offset by higher investment income from fixed maturity and loan portfolios, less adverse mortality and an improved outcome in the annual actuarial assumption review, which, other than DAC acceleration of $57 million, showed no meaningful net movement in reserves this year.

Product margins were attractive and in excess of long-term targets in all businesses, supported by robust new business origination from Blackstone. Corebridge now expects spread compression to convert to expansion beginning in 2023. Strong sales momentum continued in Individual Retirement, with $3.8 billion in sales, a 16% increase year-over-year and led by over 100% growth in fixed annuity sales on a record $1.7 billion in index annuity sales.

Group Retirement deposits grew 11%, driven by higher large plan acquisitions in the third quarter. The Life business had solid sales with an improving mix of business in the U.S. and continued underlying growth in the U.K. In Institutional Markets, premiums and deposits of $1.9 billion were up from $1 billion in the prior year quarter, with larger GIC issuances on higher pension risk transfer transactions. Mortality, including COVID losses, was once again below original pricing expectations. COVID losses remain within original sensitivities of $65 million to $75 million for each 100,000 U.S. population deaths.

Adjusted pretax net investment income for the third quarter was $2.54 billion, a decline of $741 million or 23% compared to prior year quarter, with $431 million attributable to Life and Retirement. $665 million of the decline was due to alternative investment income and $150 million was due to reduced call and tender income, offset by increase in the fixed maturity and loan portfolios of $153 million from yield uplift.

Our fixed maturity and loan portfolio saw a lift in yield of 17 basis points in the third quarter, building on top of the 9 basis points from the second quarter, and we expect 10 to 15 basis points additional in the fourth quarter. The new money yields on our fixed maturity and loan portfolio was approximately 120 basis points above the assets rolling off during the third quarter, roughly 60 basis points higher in General Insurance and 130 basis points higher in Life and Retirement.

Now turning to the balance sheet and capital management. We began 2022 with $10.7 billion of parent liquidity. And since then, we have paid dividends totaling $768 million, repurchased approximately $4.4 billion or 77 million shares of common stock, bringing our ending count to 747 million shares, a 9% reduction year-to-date.

Including recently announced bond make-whole calls of $1.8 billion, we established a Corebridge debt structure of $9.4 billion and reduced $9.8 billion of AIG debt. We completed the Corebridge IPO with its parent liquidity at $1.7 billion. AIG received $1.6 billion of net proceeds from the IPO, and we exited the third quarter with $6.5 billion of AIG parent liquidity, including $1.8 billion to fund the make-whole calls.

At third quarter end, our GAAP leverage was 36.5%, a 540 basis points increase quarter-over-quarter. The decrease in AOCI added 320 basis points to the overall leverage ratio, with over 80% of the change relating to Life and Retirement. AIG's debt leverage ratio, excluding AOCI, was 27.5%, up 220 basis points from the second quarter as a result of the issuance of Corebridge debt as planned prior to the IPO. Including the impact of the make-whole calls post quarter end, AIG's leverage is 34.7% or 26%, excluding AOCI. Total adjusted return on common equity was 3.7%, down from 6.5% in 3Q '21. The decrease is mostly caused by a decline in net investment income.

Moving to the risk-based capital ratio, our primary operating subsidiaries remain profitable and well capitalized, with General Insurance's U.S. pool fleet and Life and Retirement's U.S. fleet RBC ratios both above our target ranges. We continue to make progress on the 4 priorities to achieve a 10% or greater return on capital employed. They are: underwriting profitability; leaner operating model; separation of the Life and Retirement business; and capital management. 2 points of improvement in combined ratio or $500 million of expense savings or $5 billion in share repurchases approximate to 1 point improvement in ROCE.

We expect to achieve expense savings from multiple areas, including: the remaining $350 million of savings yet to be realized from AIG 200; roughly $300 million of corporate GOE and approximately $400 million of interest expense that will be transferred to Corebridge; an additional expense savings as we transition AIG to a leaner operating model. Additionally, we've seen a 26 basis point yield uplift in the fixed maturity and loan portfolios in the past 2 quarters. Over time, we expect the yield uplift from net investment income could add 1 to 2 points to ROCE.

We are confident about delivering on our 10% plus ROCE commitment, and we will continue to execute on a prudent capital management strategy, which will reduce the share count to 600 million to 650 million range while maintaining leverage at the 20% to 25% level post deconsolidation.

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

Peter Zaffino;Chairman and CEO
Thank you, Shane. And operator, we're ready for questions.

Question and Answer

Operator

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

Peter Zaffino;Chairman and CEO

Operator, maybe we'll go to the next one in the queue, and then we'll come back to Elyse.

Operator

So our next question comes from John Heagney from Dowling & Partners. [Operator Instructions]

Peter Zaffino;Chairman and CEO

Do you want to try the next one in the queue, operator, please?

Operator

Let's try J. Paul Newsome from Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Sorry about the confusion from the folks on the questions, hopefully, you can hear me. I actually wanted to ask you about sort of a little bit different broad M&A question about the turmoil in the market. I think, obviously, we've seen environments where there's quite a bit of change. And I don't know if you think or you're seeing maybe the sellers getting a little bit more willing to sell given the volatility of the environment, and just your general thoughts on M&A would be fantastic.

Peter Zaffino;Chairman and CEO

Yes. So let me first take a step back, thank you for the question, and talk a little bit about our capital management strategy. And as we've outlined in the past, that we're focused on putting additional capital in the subsidiaries for organic growth because we see great opportunities. We worked very hard on reducing leverage. So while we've leveraged up Corebridge, we've been redeeming debt at the AIG level, focused on returning capital to shareholders through share repurchases, and we'll look very hard at the dividend for 2023.

And our view on M&A is, where there are compelling opportunities, I think you have seen weakness in this quarter in terms of some of the reporting. But our strategy is much more where it's compelling, where it's strategic. And I think if we use Glatfelter as an example, Glatfelter was a best-in-class program underwriter that had great distribution. We were not performing well in our Programs business. So we were able to reduce our position in programs and bring Glatfelter and Tony Campisi and the leadership team to AIG, and they just have thrived here together, where we've improved combined ratios, we've grown, and we've improved our overall performance.

So I think we will look for ways. We don't really have portfolios that need to be rehabilitated like we would have the Programs 3 years ago, but we could find those bolt-ons and things that are additive to AIG, where we are both better from being together. So I think that's how we would think about acquisition in the sort of medium term.

Paul Newsome
Piper Sandler & Co., Research Division

Fantastic. Shift to a different question, maybe some thoughts on Validus in the context -- in the reinsurance business, in the context of the broader steps that you folks have done to reduce CAT exposure and maybe a little bit about the trade-off. I mean -- because, obviously, the big achievements that you've done under AIG is reduce the CAT exposure immensely. And how do you think about sort of, as we go forward, the trade-off that there seems to be a lot of opportunities in property CAT, kind of exposed areas but especially in the reinsurance market. But obviously, you've managed that trade-off pretty aggressively in the past.

Peter Zaffino;Chairman and CEO

Yes. So I think the market that's in front of us is going to reward those who are disciplined leading up to it. We have been very thoughtful and careful about reducing aggregate where we felt we had too much in peak zones as well as too much exposed to natural catastrophes. So we've talked over time that we've reduced enormous limits over the period that we've been reunderwriting.

Now on the AIG reassumed side, that's been just disciplined. We didn't like the risk-adjusted returns as we've cited in my prepared remarks, that we took down the aggregate by 60%. And I think the premiums, if you look on a gross basis in terms of CAT year-over-year, we're going to be down like 40%. And actually, some of that would be greater in North America.

We will look at opportunities in terms of -- we have plenty of aggregate for CAT, but it'll all be what's the best risk-adjusted opportunities. I mean the good news is we have multiple entry points. So we have Lexington on an E&S basis. We have retail property capabilities across the world. We have a terrific syndicate in Talbot that can access specialty classes that are more first party. We have a tremendous global specialties business that did phenomenal, I think, in the quarter and showed their sort of global leadership. And then we have the assumed business for AIG Re, where there are opportunities to deploy capital there, we are going to be prepared. So I think that the market will be very good for us to deploy more property. But again, we'll be disciplined, and we'll see what really transpires over the next 60 to 90 days. Next question, please.

Operator

And our next question comes from Meyer Shields from KBW.

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

Great. Am I coming through?

Peter Zaffino;Chairman and CEO

Yes, Meyer. Good to talk to you.

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

Fantastic. Okay. And Peter, just hoping you could talk a little bit about casualty loss trends because you mentioned property as one of the reasons for raising the overall trend 6.5%. And we obviously saw the financial lines issues that, at least superficially, could lead into other casualty lines. Can you sort of close the loop on that?

Peter Zaffino;Chairman and CEO

Sure. I'll ask Mark to provide more detail. I think what we do in our prepared remarks is say that we're looking at property, casualty, all of our lines and business in great detail. Really, what's been driving the upper end of the ranges up has been more the first-party business because of all the economic factors that are driving them. But Mark spends enormous time with the staff and the underwriting claims, looking at all the casualty trends as well. Mark, do you want to provide more detail, please?

Mark Lyons;Executive Vice President, Global Chief Actuary & Head of Portfolio Management

Sure. Peter, thank you. So yes, on the follow-up on that, Meyer, would be -- let's put it this way. The excess casualty loss cost trends are double digits. And the primary trends aren't too much lower than that, but they're single digits but on the upper end. So we think we've captured it in a pretty good fashion. But the incremental move from quarter-to-quarter, as Peter denoted, is marginally -- increases on the liability side, but it's mostly due to the much more apparent trends on the property loss cost side, which on a weighted average basis, drives it up.

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

Okay. That's very helpful. The second question, I guess, in recent quarters, we've been hearing about increasing competition in, I guess, in excess public D&O, which seems a little bizarre. Are you seeing any other individual product lines where there's incremental softness?

Peter Zaffino;Chairman and CEO

Thanks, Meyer. Dave, why don't you talk a little bit about what we're seeing in D&O. We really are not seeing it in other lines to the extent that what's going on in D&O, but we've been very disciplined, and Dave could provide a little bit more context.

David Hughes McElroy
Executive VP & CEO of General Insurance

Thank you, Peter and Meyer. Yes. The rates have rolled back after 4 years of cumulative increases north of 100% in public D&O. It's -- I'm not sure the logic path of that, okay? At the same time, we also have to discern different markets sitting inside what would be the public D&O. So primary versus first excess versus high excess versus Side A and classes and market cap differentiation, all those things have to be factored in.

I think certainly, in our book, which has a weighting to primary, there's less pricing pressure in the primary. There's respect for the company that leads the tower, claims reputation, multinational and underwrite a reputation with distribution and clients. So that's a different piece, Meyer, that I'd say.

Excess has been and will be a commodity product in many lines of business. D&O is showing up now. It often shows up in excess casualty and may show up in excess property. But right now, it's showing up in D&O. And once again, the risk matters, the account matters, the commoditization, it might be there, okay? It's -- I look at that as something maybe antithetical to the verticality in loss that's existing in the business and one that needs to be managed and managed by each individual company. And you will have that sort of a different portfolio that others may chase that down. And I would say that responsible markets will probably have a renewal retention that's lower in the excess capacity. And that will be showing up in future quarters.

It does not make sense. I'll be very frank. The verticality of loss is real right now, whether in securities class actions or derivative cases. So it's just supply-demand competition. I think for our portfolio, we're confident because of the control that we have and the weighting that we have between primary and Side A that's tied to primary and the financial strength of AIG that we will be there for the long duration claim. So with that, I'll turn it back.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Can you guys hear me?

Peter Zaffino;Chairman and CEO

Yes, Elyse. Yes. Sorry about the glitch.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

No worries. So my first question, I know the timing of the deconsolidation depends upon secondary offerings of Corebridge. But when you do ultimately deconsolidate, do you envision at that point that General Insurance as a stand-alone entity will be running at a 10% ROE?

Peter Zaffino;Chairman and CEO

Yes, we do. I mean, again, like we've said, the timing of deconsolidation is subject to market conditions and the volatility in the market. But if you take that away and look at a normal course as to we get through 2023, when we deconsolidate, we expect we'll be, with all the variables that Shane outlined in the 10% ROE, we will be at that 10% ROE.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question is on the financial line adverse development. I know you guys mentioned part of it, right, is the multiyear covers that AIG used to write, but was there an impact on your current accident year picks as a pull forward of the charge? And if there wasn't, is it just because of the changes that you made in the business over the years?

Peter Zaffino;Chairman and CEO

Mark, would you take that one, please?

Mark Lyons;Executive Vice President, Global Chief Actuary & Head of Portfolio Management

Sure, Peter. Elyse, good to hear from you. So yes, that's a good question, Elyse, and it's actually the right question. So I guess think of it like this. Shane mentioned that we did $40 billion of reserves this quarter, that makes it 90% year-to-date, only 10% remaining. And the review was -- all our reviews have been comprehensive. But I would say particularly so this quarter, with improved actuarial methodologies but really augmented with a rigorous review of individual cases with the claims department, specifically focusing on downside risk that was more qualitatively, also incorporating, so I guess a couple of things.

First, it would be that because of that concentration of real detail, the financial reserve position is strong, firstly. Secondly, as you mentioned the multiyear policies, yes, that's an impact and probably a larger impact than you might think, which kind of preceded Dave and the team. And that excess D&O and private not-for-profit are the major drivers as Peter and Shane highlighted. But I really do not see that as a follow forward into more recent accident years.

And -- but let me just give you a few fact points on that. So Dave talked about it a bit indirectly, but I think more directly, from my point of view on risk selection, which is what it's really all about at the end of the day, back in 2017, 42% of our insurance -- or given that there was a class action -- security class action lawsuit, we had 42% of them on a primary insured basis, whereas now, it's 12%. So that's a clear risk selection difference.

But from the severity point of view of how much capacity gets placed on those from -- it's an 80% reduction on capacity provided to those given that they had a security class action suit. So both elements of that, I think, are incredibly strong and point to the capacity deployment post those years, so more recently as well as the risk selection, which is the core to everything.

But a couple of other quick things. I know you like stats, Elyse. So why do I think it -- especially on the levels that we say are more susceptible [that caused it]. So on primary not-for-profit, for example, when we look back at prior policy years, now it's close to accident years, which is the real driver of underwriting decisions and improvements, the loss ratio for policy year '21 at 18 months of development is 80% lower than the prior year. And on excess P&L, which is longer tail, you have a similar 80% reduction in the loss ratio. So all of these facts point to a much stronger book of business and increased confidence that what's the most recent accident years are -- is valid. So we're not seeing any change to those loss ratios.

Peter Zaffino;Chairman and CEO

Great. Thanks, Mark. Thanks, Elyse. Next question, operator.

Operator

Our next question will come from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Can you hear me?

Peter Zaffino;Chairman and CEO

Yes, Brian. Thank you. Nice to talk to you.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Awesome. Yes. Peter, I'm just curious, there's been a lot of debate about how the kind of rehardening here of the property market kind of affected the casualty markets. Just curious, your thoughts there in specifically casualty re and then on the primary side as well.

Peter Zaffino;Chairman and CEO

Thanks, Brian. Again, we will see as we get to 1/1 in terms of what the pricing environment will be. It will be led by property. I mean I talked about it in my prepared remarks, some of the capacity issues and how reinsurers decide to deploy their capital is going to be very disciplined. I do think on the primary side of casualty, there will be some impacts. We look at just the normal economic potential headwinds, but also just deploying capital. So it's not going to be a single -- just we're going to get rate on property and not pay attention to casualty. You're going to look at it in a holistic way.

I think Dave and I have spent a lot of time on this, and we strongly believe that excess and surplus lines in casualty will grow more than admitted. On a same-store sale basis, meaning that the opportunities that exist today will find, I think, more growth in E&S and the specialty classes. And I think that the rate will reflect what the exposures are, and we would see the casualty lines being affected as well. But again, we'll see when we get into 2023.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question, I'm just curious, looking at your North American Commercial written premium growth. Given the rate and exposure that you guys are experiencing right now, I would have thought that you'd see close to double-digit growth in that line of -- in that area, not just 7%. Is there anything unusual happening there?

Peter Zaffino;Chairman and CEO

No. Dave, why don't you add on in terms of what really happened in financial lines with M&A and IPO? But no, Brian, we saw very good growth. We outlined it in my prepared remarks, Lexington property, Glatfelter, Primary Casualty. So we saw real growth across North America and felt it was strong. Had a little bit of a headwind from financial lines just based on M&A and IPO. But Dave, maybe you can just cover that a little bit.

David Hughes McElroy
Executive VP & CEO of General Insurance

Yes, Brian, I think when you unpack it and you really look at each of the key businesses, whether it's property or casualty or even our programs group and Glatfelter, there was strong growth. The vagaries of financial lines show up here, okay? It's always -- it's tied to the stock market. It's historically tied to the stock market. A lot of new business growth is tied to the stock market and particularly last year where you might have had a number of SPACs and IPOs, and they are nonrecurring in 2022.

So -- and then there's a runoff business that's also tied to the stock market. So what we saw, it's really financial lines, and I would call it a financial lines disciplined underwriting. We weren't chasing anything into this quarter and therefore, the growth was down. We're confident around the book. But it's -- that's actually where you would say the underlying growth of a significant part of our portfolio wasn't showing up in 3Q for the right reasons, okay? The stock market is a dictate of what happens in the opportunities in financial lines.

Peter Zaffino;Chairman and CEO

Thank you, Brian. I think we have time for one more question.

Operator

And our final question will come from Alex Scott from Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had for you is on the capital deployment commentary. Getting down to 600 million to 650 million share count, I just wanted to see if you could unpack sort of underlying assumptions that may be included in that. And maybe help us think through when we think about the excess capital you have today, potential Corebridge secondary proceeds. How would you think about debt reduction versus share repurchases and how that sort of triangulates to the 600 million to 650 million, if you could?

Peter Zaffino;Chairman and CEO

Yes. So thanks, Alex. We've talked about our capital management strategy over the past several quarters and focused on capital for growth, debt reduction, share repurchases. And as I said, going into 2023, we're going to focus on the dividend. The primary use of capital will be used for share repurchases and, again, like Corebridge, I think has done very well in a very challenging IPO market. We expect the value to continue to move in a very positive direction based on how strong the business is. And so I'm not going to get into like the P/E today versus the P/E of AIG, but think that the best use of capital over the foreseeable future is going to be to reduce share count to get us to the 600 million to 650 million range.

Now if I could spend 2 seconds on outlining what we've done since we've announced Blackstone in July of 2021, so you go back into early third quarter of last year and we set up Corebridge's financial structure. Not only did we do the IPO of 12.4% but set up their structure of $9.4 billion of debt, $1.7 billion of parent liquidity. During that period, we've reduced ongoing debt at AIG by approximately $12 billion, including the $1.8 billion make-whole in October. We paid common and preferred dividends of $1.3 billion during that period of time. We've also repurchased over 100 million of common shares, which is over $6 billion, and we put around $2 billion of capital in our subsidiaries for growth.

So that's a lot of capital deployment. All of it is set up to strengthen the balance sheet, strengthen AIG's strategic positioning as well as making sure that we can continue to put the capital in the subsidiaries to drive organic growth. So we're really pleased where we are, and we think that the path forward with the secondary offerings will put us even in a stronger position.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. That's helpful. And maybe as a follow-up question, just on reinsurance costs, is there anything you can tell us about your spend on your natural CAT reinsurance program as it stands today? And I appreciate that you probably don't want to provide too much and tip your hand one way or the other in terms of the way you'll work through negotiations on that next year. But any way to help us think through the current cost? And anything we should consider when thinking about the materiality of that headed into a harder reinsurance market?

Peter Zaffino;Chairman and CEO

Yes. I mean the first thing I would say is AIG is not an index of the market rhetoric. We are very different in terms of how we purchase reinsurance just based on the size and scale, geographic diversity, different products. And so like when reinsurers deploy capital -- and that's why I say we have very strategic relationships because there's enormous continuity on our programs year-over-year even when we change structures. So I think that we've gotten commitments from all of our major reinsurers to be able to deploy the same amount of capital to the extent we need it for our property CAT. That's number one.

Number two is that the portfolio has changed. I mean when you are continuing to reduce gross exposures, you don't always need the same structures. And so I think we changed the structure in '22, which was to buy sort of global occurrence that sits above our per occurrence layers across the world and reduce the aggregate limit. And so we're looking at structures right now. I mean I think you're going to get -- no matter who you speak to, the truth will be it's going to be a very late renewal season. Retro needs to be put together. Nobody is quoting now. There's not going to be any firm order terms for quite some time. And I think that we're just going to have to work through the market.

But I just don't think that AIG is going to be in a detrimental position just based on our portfolio structure, partnership and actually our performance. And I think the reinsurers would say, you have to ask them, but what they tell me is that we've exceeded expectations on all the variables in terms of the commitments we've made in terms of the underwriting, and that's on property and casualty. So I think we'll be very well positioned and we'll provide updates as we get further along into the renewal season.

Okay. Yes. I want to thank everybody today for your time, and I hope everybody has a great day. Thank you.

Operator
And once again, ladies and gentlemen, this does conclude your conference for today. Thank you for your participation. You may now disconnect.