

# American International Group, Inc. NYSE:AIG

## FQ1 2021 Earnings Call Transcripts

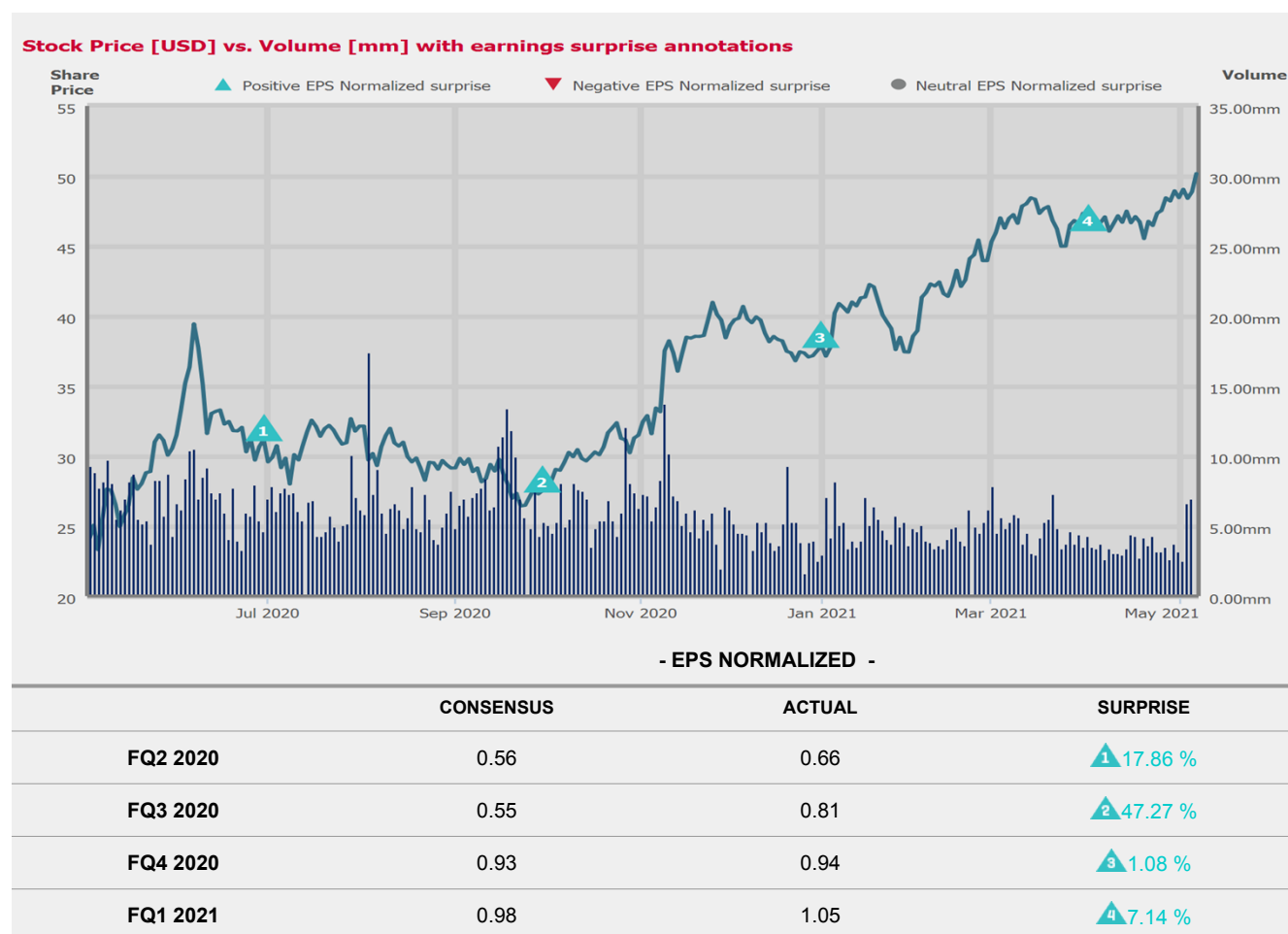
**Friday, May 07, 2021 12:30 PM GMT**

S&P Global Market Intelligence Estimates

|                | -FQ1 2021- |          |          | -FQ2 2021- | -FY 2021- | -FY 2022- |
|----------------|------------|----------|----------|------------|-----------|-----------|
|                | CONSENSUS  | ACTUAL   | SURPRISE | CONSENSUS  | CONSENSUS | CONSENSUS |
| EPS Normalized | 0.98       | 1.05     | ▲ 7.14   | 1.14       | 4.39      | NA        |
| Revenue (mm)   | 10737.65   | 14454.00 | ▲ 34.61  | 11021.55   | 44661.09  | NA        |

Currency: USD

Consensus as of May-07-2021 10:30 AM GMT



# Table of Contents

|                     |       |    |
|---------------------|-------|----|
| Call Participants   | ..... | 3  |
| Presentation        | ..... | 4  |
| Question and Answer | ..... | 11 |

# Call Participants

## EXECUTIVES

**David Hughes McElroy**  
*Executive VP & CEO of General Insurance*

**Kevin Timothy Hogan**  
*Executive VP and CEO of Life & Retirement*

**Mark Donald Lyons**  
*Executive VP & CFO*

**Peter Salvatore Zaffino**  
*President, CEO, Global COO & Director*

**Sabra Rose Purtill**  
*Deputy CFO and Head of Treasury, Investor & Rating Agency Relations & Corporate Development*

## ANALYSTS

**Brian Robert Meredith**  
*UBS Investment Bank, Research Division*

**Elyse Beth Greenspan**  
*Wells Fargo Securities, LLC, Research Division*

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

**Paul Newsome**  
*Piper Sandler & Co., Research Division*

**Ryan James Tunis**  
*Autonomous Research LLP*

**Thomas George Gallagher**  
*Evercore ISI Institutional Equities, Research Division*

# Presentation

## Operator

Good day, and welcome to AIG's First Quarter 2021 Financial Results Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Ms. Sabra Purtill, Head of Investor Relations. Please go ahead.

## Sabra Rose Purtill

*Deputy CFO and Head of Treasury, Investor & Rating Agency Relations & Corporate Development*

Thank you. Good morning, and thank you all for joining us. Today's call will cover AIG's first quarter 2021 financial results announced yesterday afternoon. The news release, the financial supplement and financial results presentation were posted on our website at [www.aig.com](http://www.aig.com), and the 10-Q for the quarter will be filed later today after the call.

Our speakers today include Peter Zaffino, President and CEO; and Mark Lyons, Chief Financial Officer. Following their prepared remarks, we will have time for Q&A. David McElroy, CEO, General Insurance; and Kevin Hogan, CEO, Life and Retirement, will be available for Q&A.

Today's remarks may contain forward-looking statements, including comments relating to company performance, strategic priorities, including AIG's intent to pursue a separation of its Life and Retirement business, business mix and market conditions and the effects of COVID-19 on AIG. These statements are not guarantees of future performance or events and are based on management's current expectations. Actual performance and events may materially differ.

Factors that could cause results to differ include the factors described in our 2020 annual report on Form 10-K and our other recent filings made with the SEC. AIG is not any -- under any obligation and expressly disclaims any obligation to update forward-looking statements, whether as a result of new information, future events or otherwise.

Additionally, some remarks may 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.

I'll now turn the call over to Peter.

## Peter Salvatore Zaffino

*President, CEO, Global COO & Director*

Hello, and thank you for joining us today. This morning, I will start our call with a high-level overview of AIG's consolidated financial results for the first quarter. I will then review results from General Insurance and the significant progress we've made with our portfolio, which allowed us to pivot from remediation to growth heading into 2021. Following that, I will review first quarter results for Life and Retirement. I will then provide an update on the work we're doing on the separation of Life and Retirement from AIG. And lastly, I'll provide an AIG 200 update. Mark will give you more details on the financial results, and then we will take questions.

AIG had an excellent start to the year, and we have significant momentum across the entire organization. In the first quarter, we delivered outstanding performance in General Insurance. We saw continued solid results in Life and Retirement. We made meaningful progress on the separation of Life and Retirement from AIG, and we significantly advanced AIG 200 with the transformation remaining on track to deliver \$1 billion in savings by the end of 2022 against the cost to achieve of \$1.3 billion.

In addition, our balance sheet and financial flexibility remain exceptionally strong, allowing us to focus on profitable growth across our portfolio; prudent investments in modern technology and digital capabilities; separating Life and Retirement from AIG in a manner that maximizes value for our stakeholders and positions both companies for long-term success; and returning capital to our shareholders when appropriate.

As you saw in our press release, our adjusted after-tax income in the first quarter was \$1.05 per diluted share compared to \$0.12 in the prior year quarter. We ended the first quarter with parent liquidity of \$7.9 billion, and we repurchased \$92 million of common stock in connection with warrant exercises and an additional \$270 million against the \$500 million

buyback plan we mentioned on our last call. We expect to complete the additional \$230 million of that buyback plan by the end of the second quarter.

Turning to General Insurance. Net premiums written increased approximately \$600 million year-over-year or approximately 6% on an FX constant basis driven by nearly \$1 billion or a 22% year-over-year increase in our global commercial businesses. This 22% increase in global Commercial was driven by higher retentions; excellent new business production, particularly in international; strong performance in first quarter portfolio repositioning; and continued rate momentum.

North America Commercial net premiums written grew by approximately 29%, an outstanding result, due to a variety of factors, including increased 1/1 writings of Validus Re, continued strong submission flow in Lexington, rate improvement, strong retention and higher new business in segments we have been targeting for growth.

In addition, as a result of the improved quality of our North America Commercial portfolio and our improved reinsurance program, which now includes lower attachment points in North America, we did not need to purchase as much CAT reinsurance limit in 2021, the benefits of which will come through in future quarters.

International Commercial had an exceptionally strong first quarter with the year-over-year growth in net premiums written of approximately 13% on an FX constant basis. Increases were balanced across the portfolio with the strongest growth in International Financial Lines, followed by our Specialty business. Looking ahead, we expect overall growth in net premiums written for the remainder of 2021 to be higher than the 6% we saw in the first quarter of this year with more balancing growth across our global commercial and personal portfolios.

With respect to rate, momentum continued with overall global commercial rate increases of 15%. North America Commercial rate increases were also 15% driven by improvements in Lexington Casualty with 36% rate increases, Excess Casualty with 31% rate increases and Financial Lines with rate increases over 24%. International Commercial rate increases maintained strong momentum at 14% in the first quarter of 2021, which is typically the largest quarter of the year for our European business. These increases were driven by Energy with 26% rate increases; Commercial Property with 19% rate increases; and Financial Lines with 20% rate increases.

Turning to global Personal Insurance. Net premiums written in the first quarter declined 23% on an FX constant basis due to our Travel business continuing to be impacted by the pandemic as well as reinsurance cessions to Syndicate 2019, our partnership with Lloyd's. Adjusted for these impacts, global Personal Insurance net premiums written were down only 1.6% on an FX constant basis. We expect to see strong year-over-year growth for the remainder of the year with a rebound in global Personal Insurance as the effects of COVID subside, the repositioning and reunderwriting this portfolio nears completion and a full year of reinsurance cessions relating to Syndicate 2019 will be complete.

We are very pleased with the continued improvement in our combined ratios, including and excluding CATs. I don't need to remind everyone where we were when I outlined our turnaround strategy 3 years ago. In the first quarter this year, the adjusted accident year combined ratio was 92.4%, a 310 basis point improvement year-over-year, driven by a 440 basis point improvement in our adjusted commercial accident year combined ratio. The adjusted accident year loss ratio improved 160 basis points to 59.2%, driven by a 330 basis point improvement in global Commercial.

The expense ratio improved 150 basis points, reflecting the impact of AIG 200 savings and continued expense discipline. We expect to continue to improve the expense ratio throughout 2021, particularly as we deliver on our AIG 200 programs.

To provide further color on combined ratio improvements, in North America, the adjusted accident year combined ratio improved to 95.6%, a 210 basis point improvement year-over-year. This reflects a 370 basis point improvement in the North America Commercial Lines adjusted accident year combined ratio, which came in at 93.9%.

In International, the adjusted accident year combined ratio improved to 90.2%, a 340 basis point improvement year-over-year. This reflects a 490 basis point improvement in the International Commercial Lines adjusted accident year combined ratio, which came in at 86.8%, a 150 basis point improvement in the International Personal Lines adjusted accident year combined ratio, which was 94%.

With respect to catastrophes, first quarter 2021 was the worst first quarter for the industry in over a decade in terms of weather-related CAT losses, largely due to winter storms in Texas. Net CAT losses in General Insurance were \$422 million, primarily driven by the Texas storms and do not include any new COVID-related estimated losses for the first quarter.

Now let me touch on reinsurance assumed. As I noted, Validus Re saw strong 1/1 renewals across most lines, with attractive levels of risk-adjusted rate improvement. The team focused on prudent capital deployment and portfolio construction, while improving technical ratios and reducing volatility. With respect to April 1 renewals, within International Property, rate adjustments varied from mid-single digits to upwards of 30% on loss-impacted accounts, and our Japanese renewals were very successful with 100% client retention, net limits largely similar year-over-year and risk-adjusted rate increases, which were in the high single digits.

Before moving on, I want to highlight the quality and the strength of our General Insurance portfolio. Of course, optimization work will continue, but the magnitude of what was accomplished over the last 3 years is worth reflecting on because the first quarter of 2021 was an important inflection point for our team. Our focus pivoted from remediation to driving profitable growth.

These are a couple of concrete examples of how we have repositioned the global portfolio. Gross limits in global Commercial will reduce by over \$650 billion. North America Excess Casualty removed over \$10 billion in lead limits and increased writings in mid-excess layers in order to achieve a more balanced portfolio. And in Lexington, we repositioned this business to focus on wholesale distribution. The team grew the top line in 2020 for the first time in over a decade. The portfolio is now more balanced, and the submission flow has increased over 100% the last couple of years.

The enormity of the turnaround and the complexity of execution that was accomplished cannot be understated. We now have a disciplined culture that is grounded in underwriting fundamentals, a well-defined and articulated risk appetite. We remain laser-focused on terms and conditions and obtaining rate above loss costs. And we have an appropriate reinsurance program in place to manage severity and volatility. Our global portfolio is poised for improving profitability and more predictable results.

While all this was taking place in General Insurance, our colleagues in Life and Retirement did an excellent job, maintaining a market-leading position in the protection and retirement savings industry and, together with our investment colleagues, consistently delivered solid performance against the backdrop of persistent low interest rates and challenging market conditions.

Turning to Life and Retirement's first quarter. This business also had strong results. Adjusted pretax income in the first quarter was \$941 million, and adjusted return on common equity was 14.2%, reflecting our diversified businesses and high-quality investment portfolio. The sensitivities we provided last quarter generally held up with respect to equity markets, 10-year reinvestment rates and mortality, although first quarter results were towards the higher end of our mortality expectations net of reinsurance and other offsets.

We continue to actively manage impacts from the low interest rate and tighter credit spreads environment, and the range we previously provided for expected annual spread compression of 8 to 16 basis points has not changed. Our high-quality investment portfolio is well positioned to navigate uncertain environments, as demonstrated by our steady performance through the macroeconomic stress and high levels of volatility in 2020. And our variable annuity hedging program has continued to perform as expected, providing offsetting protection during periods of volatile capital markets.

We believe Life and Retirement is positioned to deliver strong, sustainable financial results due to the quality of its balance sheet, diversified product offerings and distribution, effective hedging programs and disciplined risk management.

With respect to the separation of Life and Retirement from AIG, we continue to work diligently and with a sense of urgency towards an IPO of up to 19.9% of the business. We made significant progress on several fronts, including preparing standalone audited financials and having an independent party conduct a thorough actuarial review. No concerns have been raised about Life and Retirement's portfolio as a result of this work.

As I noted on our last earnings call, we did receive a number of credible inquiries from parties interested in purchasing a minority stake in Life and Retirement and our Investment Management group. We conducted a robust evaluation of those opportunities to determine if they offered a better long-term outcome for our stakeholders than an IPO. At this time, we believe an IPO remains the optimal path forward to maximize value for our stakeholders and to position the business for additional value creation as a standalone company.

In addition, an IPO allows AIG to retain maximum flexibility regarding the operations of the business as well as the separation process. Overall, I'm pleased with the progress we've made.

Turning to AIG 200. All 10 operational programs are deep into execution mode. Our transformation teams continue to perform exceptionally well, despite the continued remote work environment. Recent progress on IT modernization has enabled us to reach the halfway point or \$500 million of our run rate savings target. \$250 million in cumulative run rate savings has been realized in APTI through the first quarter of this year, with \$75 million of incremental savings achieved within the first quarter income statement.

Key highlights on our progress include the successful transition of our shared services operations in over 6,000 colleagues to Accenture at year-end 2020. This partnership is going extremely well, with KPIs at or better than pre-transition levels. We also negotiated a multiyear agreement with Amazon Web Services to execute on an accelerated cloud strategy, which is a significant step forward in modernizing our infrastructure.

And with the new highly experienced leader in Japan, we made significant progress during the first quarter on our AIG 200 strategy in Japan and are on track to finalize target outcomes as we modernize this business by developing digital capabilities with agile product innovation.

Before turning the call over to Mark, I want to thank our global colleagues for their resilience and excellent support of our clients, policyholders, distribution partners and other stakeholders. The last year, in particular, brought unimaginable stress and tragedy across the world. And for our colleagues that came during a time of significant and foundational change, yet they never lost sight of our purpose at AIG and continue to be focused and dedicated to the important work we do, each other and the communities in which we live and work, I could not be prouder of what we've achieved together.

We are in great businesses, have global scale, loyal clients, exceptional relationships with distribution of reinsurance partners, world-class experts and industry veterans, and we strive to be a responsible corporate citizen with a diverse and inclusive workforce that delivers value to our shareholders and all other stakeholders. I am confident AIG is on its way to becoming a top-performing company in everything that we do.

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

**Mark Donald Lyons**  
*Executive VP & CFO*

Thank you, Peter, and good morning, everyone. Since Peter has already provided a good overview of the quarter, I'll just add that we posted a 7.4% annualized adjusted return on common equity at the AIG level, an 8.2% adjusted return on tangible common equity at the AIG level, an 8.5% adjusted return on segment common equity for General Insurance and a 14.2% adjusted return on segment common equity for Life and Retirement.

Now moving to General Insurance. First quarter adjusted pretax income was \$845 million, up \$344 million year-over-year, primarily reflecting increased underwriting income in International as well as increased global net investment income driven by alternatives. Catastrophe losses totaled \$422 million pretax or 7.3 loss ratio points this quarter compared to 6.9 loss ratio points in the prior year quarter. The CAT losses were mostly comprised of \$390 million related to the winter storms, primarily impacting Commercial Lines, including AIG Re. The net impact of the winter storms reflects the benefit of our Commercial reinsurance program and changes to our PCG portfolio as a result of Syndicate 2019.

Overall, prior year development was \$56 million favorable this quarter, which included \$58 million of net favorable development in North America, driven by \$52 million of favorable development from the ADC amortization and \$2 million of net unfavorable development in International. It's worthwhile to note that General Insurance still has \$6.6 billion remaining of the 80% quota share ADC cover. There was also, embedded within these figures, \$33 million of unfavorable development related to COVID-19 claims that relate back to 2020 loss occurrences or a movement of less than 3%. Emanating primarily from Validus Re and Talbot are Lloyd's Syndicate.

Our General Insurance business continued to materially improve driven largely by strong accident year 2021 ex-CAT showings in both North America and International Commercial lines. So rather than double up on facts that Peter has shared, the main drivers of the attritional underwriting gain improvements were for North America Commercial, Lexington, Financial Lines, and Excess Casualty. And from International Commercial, the main drivers of improvement stem from Property, Talbot and Financial Lines. As Peter noted, on a global Commercial Lines basis, the accident year combined ratio, excluding CAT, was 90.4%, which represents a 440 basis point improvement over the prior year's quarter with 75% of that improvement attributable to a lower loss ratio and 25% of the improvement attributable to a lower expense ratio.

Turning to Personal Insurance. Starting in the second quarter of this year, meaning next quarter, our year-over-year comparisons will begin to improve, given the timing of the initial COVID-19 impact and the formation of Syndicate 2019 in May of 2020. Although North American personal lines had a 74% drop in net premiums written, as Peter highlighted, it's also important to understand that the other units within the segment, which represented nearly 50% of the quarter's net earned premium, is comprised mostly of Warranty and Personal A&H business had their net premium only fall off marginally. Our International Personal Lines business, which by size, dominates our overall global Personal Insurance business, continues to perform well with 150 basis points improvement in the accident year ex CAT combined ratio, reflecting an improved loss ratio and expense discipline.

Now to expand on some of Peter's marketplace commentary, various areas continued to accelerate the adequacy of achieved rate beyond that of prior quarters. For example, the level of Excess Casualty rate increases continued and then many units exceed prior results, such as CAT excess coverage out of Bermuda, North America Corporate and National Admitted Excess and the Lexington. The increase achieved in the first quarter of 2020 and compounded in the first quarter of 2021 alone, ignoring prior to 2020 rate increases, exceeded 150% for Bermuda-based capacity business, which makes sense given recent years' price efficiency on these capacity excess layers, and approximately 115% for the other mentioned units. U.S. Financial Lines on the same compound basis has seen an excess of 80% increases for the staples of D&O and EPLI.

Internationally, the 14% first quarter overall rate increase saw continued rate expansion in key markets such as the U.K. at plus 23%; Global Specialty at plus 15%; Europe and the Middle East at 14%; Latin America at 13%; and Asia Pacific also at 13%, when excluding the tempering influence of predominantly Japan at 3%.

Lastly, Cyber achieved our highest rate increase yet at 41% for the quarter. These increases are clearly broad based by region and line of business all around the world.

I'd now like to spend a few minutes on 2 observations: one, the impact of net rate change versus gross rate change; and two, some examples of new business rate adequacy relative to a renewal rate adequacy. So first, our achieved North America Commercial rate change for the quarter on a net basis is now estimated to be at least 150 basis points stronger than the corresponding gross rate change largely due to our increased net positions across selected product lines.

Last year, much of the achieved gross rate increase was being ceded to reinsurers, where now there is much less so. The shift to higher net positions resulted directly from our prior stated strategy of improving the gross book such that we had increased confidence to retain the appropriate amount of net, and because we could not take a higher net position previously because of the legacy imbalance of very large limits written.

Now moving on to relative rate adequacy. We see continuing indications in North America of new business having stronger relative rate adequacy over renewal rate levels in most lines of business. This likely doesn't reflect different class mixes, but instead an additional margin for a lesser-known exposure. However, this should be expected and is also historically supported given where we are in the underwriting cycle as new business is less established with an insurer versus an existing client renewal relationship.

A further related item involves renewal retention. As General Insurance implemented revised underwriting standards, renewal retentions predictably would have been impacted, especially in the target line. Now even with superior risk selection, rate and term condition changes that have been achieved, renewal retentions have improved to the mid-80% in the aggregate across all Commercial Lines in both North America and across internationally.

We also see improvement in the Lexington, where E&S has lower industry retentions based on the nature of the business, and this is very positive for the book, and we see it across Specialty lines and across most admitted retail books. This is indicative of the reunderwriting actions being successful, having settled down and now with General Insurance being comfortable with the underlying insured exposures that meet our risk appetite.

Based on current market conditions and our view of the foreseeable future, we continue to anticipate earned margin expansion throughout 2021 and into 2022, resulting from AIG's favorable underwriting actions taken, favorable global market conditions, materially improved terms and conditions and a more profitable, less volatile business mix.

As a result, I would like to reconfirm our outlook for a sub-90% accident year combined ratio, excluding CAT by the end of 2022. Global Commercial Lines are very nearly at the sub-90% level now, and global Personal Lines is running at 96% for the first quarter. Given our portfolio composition, the market conditions and our strategic repositioning of North America Personal, we anticipate greater continued margin expansion within Commercial Lines than Personal Lines. We are highly



confident that we will achieve our sub-90% target and have several paths to help us get there, some via mix, some via reasonable market conditions persisting and some via expense levers.

Now I'd also like to unpack some of Peter's high-level net written premium growth comments for 2021 with an emphasis here on next quarter -- second quarter. North America Commercial is expecting to see growth of approximately 10% for the second quarter of 2021 relative to the prior year quarter driven mostly from Lexington across a host of product lines and Admitted Casualty, both primary and excess. This growth will be two-pronged as growth on the front end will be coupled with lower reinsurance cessions, especially from those lines subject to the casualty quota share.

North America Personal is expected to see significant second quarter 2021 growth, but it is driven by the Syndicate 2019 reinsurance cession change that we've been signaling. You will recall, North American Personal had a negative \$150 million net written premium in the second quarter of 2020 due to many Syndicate 2019 treaties becoming effective, including an unearned premium cover for the PCG high net worth book. That distortive spike in cession, which is not repeatable in the second quarter of 2021, will give the appearance of considerable growth but instead will provide a PCG net premium that is more stable on an ongoing basis. So overall, for North America, both Personal and Commercial combined, we anticipate net written premium growth between 35% to 40% for the second quarter over the second quarter of the prior year. International Commercial in the second quarter of 2021 is expected to be roughly plus 7% net written premium growth driven by Global Specialty, Financial Lines and Talbot, and International Personal is expected to be approximately flat relative to the prior year quarter.

Now turning to Life and Retirement. Adjusted pretax income increased by 57% or \$340 million compared to the first quarter of 2020, with favorable equity markets driving higher private equity returns, lower deferred acquisition cost amortization, a rebound in most areas of sales and higher fee income. The increase also reflects favorable short-term impacts from tighter credit spreads, driving higher call and tender income and higher fair value option bond returns. This increase was partially offset by adverse mortality as U.S. COVID-related population death of approximately 205,000 in the first quarter were higher than earlier anticipated, which was also reflected in our own experience.

In terms of premiums and deposits, we continue to see encouraging improvement in retail sales. Individual Retirement premium and deposits grew 8% from the prior year quarter, which we consider a pre-COVID quarter, as the sales pipeline carried through March of last year, with index and variable annuities both exceeding prior year levels.

In Group Retirement, group acquisition deposits increased significantly from prior year, although both periodic and non-periodic deposits declined leading to a marginal reduction in overall gross group premiums and deposits of 2%.

In Life Insurance, premiums and deposits grew 6% overall with year-over-year growth in both the U.S. and international.

Finally, while Institutional Markets did not conclude any significant pension risk transfer transactions in the quarter, the pipeline of direct and reinsurance transactions going into the second quarter is very strong, particularly with many defined benefit plans nearing fully funded status.

Turning to net flows and related activity. Our portfolio reflects the dynamic environment quarter-by-quarter of the last year. Individual Retirement net flows improved by approximately \$1 billion over the first quarter of 2020 driven by variable annuities and retail mutual fund. And yet when excluding retail mutual funds, net flows were positive, led by index annuities rebounding to be plus \$1 billion for the quarter, which is vertically identical to 1 year ago, but with steady progress from a low of \$439 million in the second quarter of 2020 to the plus \$1 billion this quarter.

Surrender rates were up slightly over the last few quarters within Individual Retirement, for fixed and index, whereas variable annuity surrender rates have been more comparable as have for Group Retirement. Similarly, the Life business has seen consistently lower lapse and surrender rates over the last 4 quarters than prior.

Life and Retirement continues to actively manage the impacts from the low interest rate and tighter credit spread environment, and the previously provided range for expected annual spread compression has not changed. New business margins generally remain within our targets at current new money returns due to active product management, disciplined pricing approaches and our significant asset origination and structuring capabilities.

Moving to Other Operations. Adjusted pretax loss was \$530 million, which was inclusive of \$176 million of losses from the consolidation and eliminations line, which principally reflects adjustments offsetting investment returns in the subsidiaries by being eliminated in Other Operations, so it wouldn't be double counting.

Before consolidation and eliminations, adjusted pretax loss was \$354 million, which was \$481 million better than the first quarter of 2020, which included a \$317 million adjusted pretax loss related to Fortitude and a \$30 million onetime cash grant given to employees to help with unanticipated costs when the global pandemic began last March.

The first quarter also reflects lower corporate interest expense and lower corporate general expenses, and we expect this to continue throughout 2021. However, one might expect some continued volatility within the consolidations and eliminations line, which can fluctuate based on investment returns.

Now shifting to investment. Net investment income on an APTI basis was \$3.2 billion or \$492 million higher than the first quarter of 2020. Adjusting first quarter 2020 for Fortitude's investment income to make the comparison apples to apples, this quarter's net investment income on an APTI basis was actually \$611 million higher than the prior year or plus 23%, reflecting strong private equity and real estate returns as well as bond tender and call premiums, which more than offset the lower income on the AFS fixed income portfolio. We continue to have a high-quality investment portfolio that is positioned well under any market condition.

Turning to the balance sheet. At March 31, book value per common share was \$72.37, down 5.3% from year-end, reflecting net unrealized mark-to-market losses on the investment portfolio. Adjusted book value per share was \$58.69, up nearly 3% from December 31.

At quarter end, AIG parent, as Peter noted, had cash and short-term liquidity assets of \$7.9 billion, and we repaid our March debt maturity of \$1.5 billion and repurchased the \$362 million of shares, as Peter outlined. Our GAAP debt leverage at March 31 was 28.4%, flat to year-end given downward fixed income market movements negatively impacting AOCI, despite the repaid debt maturity mentioned earlier.

Our primary operating subsidiaries remain profitable and well capitalized. For General Insurance, we estimate the U.S. pool fleet risk-based capital ratio for the first quarter to be between 465% and 475%, and Life and Retirement fleet is estimated to be between 435% and 445%, both well above our target ranges.

And with that, I will now turn it back over to Peter.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Thank you, Mark. And Jake, I think we're ready to start Q&A.

# Question and Answer

## Operator

[Operator Instructions] And we will begin with Elyse Greenspan with Wells Fargo.

### **Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

My first question is on the -- sorry, the Life and Retirement separation. I appreciate the update in terms of working towards the IPO. Is the plan in terms of timing for that to still take place at some point later this year? Or do you have a more finer tune around that?

### **Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Yes. Thanks, Elyse. As I said in my prepared remarks, we're working with a sense of urgency on the IPO. We've made really significant progress working on standalone financial statements, actuarial, have set up the organization to operationally separate. So we're working very hard on several fronts related to the IPO.

I mean, the ultimate timing of completing this step should depend on a number of factors. Some are out of our control, such as regulatory and market conditions, but we're still working towards the same time line, which is by the end of 2021. But again, depending on those factors, it could always slip into the first quarter 2022. But it's -- the company is focused, and we're going through all the details and moving forward.

### **Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

Okay. And then my second question is on the market commentary you guys gave. A lot of helpful color. Mark, you said that you guys expect continued earned margin expansion throughout 2021 and into 2022. So is -- I guess, you're kind of giving us a market view, it sounds like, for the next year.

Is the expectation that rates would stabilize and get closer to trend in 2022? I'm just trying to put that together. You're just kind of giving us the outlook that rates should remain strong through 2021, and then we'll see how 2022 transpires with earned versus plus trends.

### **Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Let me start with your question on rate, and then I'll turn it over to Mark to provide a little more context and then talk about the earned. But I think, look, this is the third year where we're seeing rate, at least at AIG, above loss cost. And again, you really have to just take a look at the overall portfolio because quarter-to-quarter, it may be a little bit different, meaning just the seasonality of our business, whether it's Validus Re having a big inception date in the first quarter, crop specialty Europe driven more towards the first quarter.

So when we look at it, we're looking at first quarter to first quarter, and there has been no slowdown in terms of the rate environment and believe that we're building margin above loss cost rate on rate, and I think that's kind of where Mark was alluding to.

The market environment, Elyse, is always hard to predict, but we think the market that we're in is the market we're going to see for the remaining part of the year, and it's very hard to predict beyond that.

Mark, do you want to add any more context?

### **Mark Donald Lyons**

*Executive VP & CFO*

Just a bit. Thank you, Peter. I think Peter nailed it both, Elyse. I want to reemphasize, though, what Peter said. Every quarter's mix is pretty different, and I know that's a written viewpoint that earns in. But we've already written business in -- that we can -- last year that's going to earn into 2021. And we've already written one quarter that's going to go into 2022.

So we're not counting -- we believe we're going to have the margin expansion, as has been noted. That doesn't really depend on the existing level of rate levels in the market.

**Operator**

Next question will come from Brian Meredith with UBS.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

So a couple here. Quickly, just Mark, I'm curious, you said you had some COVID development in the quarter. Where did that come from? And are we pretty close to, you think, kind of being done with the COVID-related losses, at least in the General Insurance business? I understand there could still be some more in Life.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Go ahead, Mark.

**Mark Donald Lyons**

*Executive VP & CFO*

So yes, we can localize a lot of that to contingency business out of Talbot. And on Validus, I think there was really just 2 contracts involved, so it's not like a widespread in any way. So that overwhelmingly accounts for it.

And I think for your second question, yes, we didn't put any additional provisions. We're happy where we are associated with it. So I think we're on the downflow, to say the least.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Got you. And then my second question, I guess, for Peter for both of you all. What is your kind of view with respect to loss trend or kind of tort inflation and loss trend as we kind of -- the economy reopens here, courts reopen? Kind of how are you thinking about that from a reserving perspective and maybe also from a pricing perspective?

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Yes. So I'll have Mark add to my comments. We're watching it very carefully, Brian. It's something that, again, as it emerges throughout the world, the economy starts to reopen, we look at it line of business by line of business, lead versus excess, different trends that we're seeing in the portfolio emerging over the last year and then how we forecast that to look for the future.

So I think the balance of the portfolio is being shaped in a way to mitigate that, and we're very focused on making sure that, even in the growth that we outlined in the first quarter that we're growing, where we know that we're going to get the risk-adjusted returns in terms of deploying the capital.

So I think we're very disciplined. It's circular with underwriting actuarial claims. We're learning a lot and making sure that we're positioned the portfolio accordingly.

Mark, do you want to add anything to that?

**Mark Donald Lyons**

*Executive VP & CFO*

Yes. Thank you, Peter. I think I may have commented on this before, but I think it's probably worth bearing again is, long term, there's generally been a 200 basis point addition beyond economic inflation for social inflation. Clearly, that's been south of that over the last few years.

But that's one way of looking at it by having a range of loss trends and not necessarily just point estimating it, and it really varies by line of business, clearly. I think in the past, I've also commented that our loss trend in Excess Casualty, for example, is very close to double digits, number one, and so really it varies across the board.

And when you get to Peter's comment on portfolio, think of the best way to insulate yourself from unexpected spikes in economic or social inflation, irrespective of which one, is by having the portfolio change. And the mix away from leads and having more mid excess, not just in casualty, but other places, aggregated lead moves that portfolio further away from risk insulating you more from any compound views of that. So I think that's how we look at it. And I think all of that is important and it comes to bear.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Yes, yes. Mark, I was just -- part of my question, though, was also just asking this. Do you think about, when you make reserve assumptions or pick assumptions, are you making different assumptions with respect to what potential loss trend and when you're pricing the business?

**Mark Donald Lyons**

*Executive VP & CFO*

Not materially because you have calendar year views, right? So claims when they're settled or when they're reported don't care what their accident year was.

**Operator**

We'll now hear from Paul Newsome with Piper Sandler.

**Paul Newsome**

*Piper Sandler & Co., Research Division*

And congratulations on the quarter. I was hoping you could turn to maybe a big picture question about the Life Insurance business and just -- is there kind of a path to positive net flows?

Obviously, the Institutional business is volatile quarter-to-quarter, but maybe you could just give us a sense of -- especially as we get closer to thinking about the Life IPO, how those net flows might recover to a positive level.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Okay. Thanks, Paul. Kevin?

**Kevin Timothy Hogan**

*Executive VP and CEO of Life & Retirement*

Yes. Thanks, Paul. Look, net flows reflect the trends of premiums and deposits as against the surrender behavior. As Mark pointed out, we haven't really seen much material change in the surrender behavior a little bit within sort of expected margins, but premiums and deposits is really another story.

And we said that the second quarter last year was going to be the low water mark. It certainly was. And in fact, the first quarter of this year is one of the largest sales quarters we've had in the Individual businesses since we created AIG Financial Distributors. And while the month of January was actually still below last year, and we consider last year's first quarter a pre-COVID quarter because, really, the pipelines were full right through March, April. We saw growth from February over January, March over February a pretty significant growth.

So the end of the quarter, we're really back at what we consider to be normal run rates for that business. And as Mark pointed out, both index and variable annuity, very strong for us there.

And so the one line of business, fixed annuities, they're a little bit lower than historical levels, but we also saw recovery in fixed annuities towards the end of the quarter. And so we're feeling optimistic about the forward curve for the individual business. And as Mark pointed out, across annuities, because we've announced relative to the retail mutual funds, right, we had positive flows. So I'm confident relative to the flows in the Individual Retirement business.

For Group Retirement, it's a little bit of a different story. The group acquisitions -- the new group acquisitions actually were one of our strongest quarters and increased by \$150 million over the prior year, whereas periodicals were down about \$50 million, and I think that reflects furloughs and people leaving the workforce. And then the non-periodic were also down a little bit for a variety of reasons.

And in the Group Retirement business, we still see some modest negative flows, but I think that reflects the fact that we're a small, medium-sized plan provider. And in the consolidation that continues to go on in health care, we do see some of that large case consolidation. But the assets under management have continued to grow, obviously, supported by equity markets, and that's an important base of earnings for the fee side of the business.

So we feel confident. We're being careful about capital deployment. We're seeing conditions improve, and our diverse product range and channel allow us to be careful where we deploy the capital, and we're seeing that start to come through in the first quarter.

**Paul Newsome**

*Piper Sandler & Co., Research Division*

Is there a market component to -- or an interest rate component to keeping the ROE at least stable in Life business, in your opinion?

**Kevin Timothy Hogan**

*Executive VP and CEO of Life & Retirement*

Well, certainly, we provide the sensitivities and depending upon where equity markets are, where interest rates are, where credit spreads are and which way they're going, they have kind of a short-term impact on earnings volatility. But we price our products to make sure that we're making our returns based on broadly expected market conditions, not necessarily a single deterministic scenario. So we're not relying on market returns necessarily in the pricing of our products.

**Operator**

Next question will come from Ryan Tunis with Autonomous Research.

**Ryan James Tunis**

*Autonomous Research LLP*

I had one for Mark, and would you even be interested in David's thought if he's on the call. But I guess, thinking about classic economic inflation, wage-driven historically been kind of bad for workers' confidence. It's been a long time since we've had it.

Are the risks from that type of scenarios on that line kind of still the same as they were 20 years ago? Are there mitigating factors? Just how are you thinking about workers' comp, if we do have just a normal inflationary economic cycle.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Let me start. You got to remember that 2/3 of our business is on high retentions, and so the fluctuation of frequency and in wage inflation and loss cost inflation is largely retained by our clients. I mean, so we've seen some fluctuation just because of high attachment points in which we have in the workers' comp book.

And so Dave has been working really hard on our large account business and as well as workers' compensation in terms of the positioning in that. And I think the attachment points, the positioning of the book is really important.

Dave, do you want to just talk a little bit about what you're seeing in the marketplace and how we are reacting to it?

**David Hughes McElroy**

*Executive VP & CEO of General Insurance*

Yes. Thank you, Peter. The -- I think workers' comp, I think there was some concern with COVID that there would be presumption. That mostly does not affect our book, okay, because of the high retentions that our clients have. That's very different than the middle market books and the small commercial books that might exist.

I think the more illuminating issue is that workers' comp has been a profitable line, whether it was the state laws that muted it. And often, we get lost in our generalization of what is rate increase. Workers' comp has had modest to negative rate increase because it's been profitable for the industry. And I think it's very important for everybody to understand that, that's a discrete market, and a lot of the different parts of the market that we trade in, we -- that's absorbed by our clients.

So the -- if that same client has General Liability or Financial Lines or even Property, that's a different market with different pricing than might be existing in the workers' comp market. So workers' comp market has actually worked, and everybody talks about it in terms of the rate increase, but that's a discrete-type market that reflects that.

And I think our industry is fairly sophisticated to understand why that happens and then why other businesses need rate or need rate to expect -- to reflect exposure. So it's -- that's the workers' comp market. It's been a winner for this industry because of the reforms that happened at the state level.

**Mark Donald Lyons**  
*Executive VP & CFO*

Ryan, I'd add just one quick thing, if I could. You really started the question in the correlation on wage. And given Peter really talking about 2/3 of the book is really lost sensitive over high attachment points, it's actually more of a medical question than a wage indemnity question because medical trend is what could sneak over, especially on major permanent partial and things of that nature and permanent totals. So that's why it was actually a -- we're in a really good position on that because of the analysis that was done about 3 years ago on that book that's still holding today. So all those past assumptions are absolutely holding.

**Ryan James Tunis**  
*Autonomous Research LLP*

Understood. And then my follow-up is just thinking about -- you're running at a little bit over 92, so you need about 2 points to get sub-90. Just you said rate alone, assumingly, would be able to get you there. Obviously, I think that there are some offsetting headwinds or just other things that, along the way, you got to get past. I'm not sure if that's more new business or what. Could you just remind us of some offsets to rate in terms of getting down to that 90 over the next couple of years?

**Peter Salvatore Zaffino**  
*President, CEO, Global COO & Director*

Thanks, Ryan. So there's multiple factors in terms of driving the sub-90 combined ratio. One is we had a terrific start to the year, and so you can see we're driving top line growth, driving margin, improving combined ratios. So we like the momentum that we have.

I think we're going to focus on continuing on the underwriting side. Certainly, the culture we're building out of risk selection, terms and conditions, making sure that we're getting rate above loss cost is the discipline that Dave is driving through General Insurance, and they're doing very well.

I think you'll start to see -- I talked about in my prepared remarks, the AIG 200, while we announced run rate, we got to catch up a little bit in terms of some of the implementations. So we know that we have expense tailwinds in terms of what will be coming through with AIG 200. In addition to that, just normal expense management and being very disciplined on reinvestment and making sure that we are a company that's very focused on ways in which we can improve what we're doing and create our own investment capacity.

I think you'll start to see the earned premium increasing from growth and strong new business. International had the best quarter new business that they've had since the new teams arrived. So that's -- there's a lot of momentum there. And then expect to see new business pick up as we continue throughout the year and the economy starts to recover.

And then what I also mentioned in my prepared remarks is that we are not going to need as much reinsurance going forward just based on the gross portfolio. And so like we needed to probably buy a little bit more CAT, a little bit more on the risk side. Those are all improving, and those will be tailwinds over a period of time. So there's 4 or 5 components that will drive improved combined ratio in the subsequent quarters and into next year.

**Operator**

We'll hear from Meyer Shields with KBW.

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

Can you hear me?

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Yes, Meyer.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. Sorry about that. So Mark, I'm trying to tie together a couple of comments because you're expecting, if I understand correctly, margin improvement into 2020, but we still get below the 90% on the underlying by year-end. So does that mean that we should expect to be there sooner if you won't need margin improvement later in 2022 to get below 90?

**Mark Donald Lyons**

*Executive VP & CFO*

Do you want me to start that, Peter.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Yes. Go ahead, Mark.

**Mark Donald Lyons**

*Executive VP & CFO*

So I think what we're trying to say in various ways is that looking sequentially is really not the way. You've got to really look at it quarter-over-quarter for the points that Peter brought up before about the mix being pretty different. The fact that although we've reduced the volatility dramatically, we still write volatile lines, right? So you still have a pop here or there that may not have really occurred in this quarter or the last quarter that still could at another time.

We really need to see a few more accident quarters, if you will, pop in before we can declare victory in that sense. So you can't look at each quarter as a totally independent stand-alone on a sequential basis.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. That makes sense. The second question, I guess you talked about cyber rate increases, and I don't know whether sort of the way we typically think about trend is relevant. But is there any way you can outline how cyber loss expectations are changing?

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Dave, do you want to take that?

**David Hughes McElroy**

*Executive VP & CEO of General Insurance*

Yes. The -- thank you. The -- when we looked -- sometimes there's -- we index off of rate increases. And in fact, a big part of our story here at AIG has actually been risk selective and limit management and retentions and terms and conditions. And cyber was this year's case stuff, okay?

It had been a profitable business. Ransomware started showing up, and what we've done is we've cauterized that with sublimits and coinsurance to reflect the fact that we're a big primary player, and we need to manage ransomware, and that's what we've done.

And our renewal retention has come down. Our rate increase, which may be something cited and exciting for others, is up 40 -- it's 41%. But for us, it's actually managing the risk on the other side. So I look at that rate increase as a factor as opposed to our not only vertical but horizontal risk.

It's a tough risk. We have it worldwide. We're leaders. We've been very active in terms of our prophylactic and our involvement in terms of trying to stem the actual loss itself. And we look at that as a viable product that we have controlled horizontally with reinsurance and vertically with reinsurance and with partnerships.



And we look at that not only like every other Specialty business that we have in this company. We have a lot of them. We have to attack it, and we have to underwrite it with the facts of that business, and that's what we're doing. It should be -- it should scare the industry. It certainly gives us pause, and that's why we've been underwriting it very aggressively over the last 3 years.

**Operator**

That last question will come from Tom Gallagher with Evercore.

**Thomas George Gallagher**

*Evercore ISI Institutional Equities, Research Division*

Peter, just first a question on the decision to pursue the IPO versus the private sale. Was it mainly because we've gotten so much improvement in peer L&R public valuations that the gap narrowed where it wouldn't give you as much of a benefit? But any color you can give us as to what drove that decision.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Thanks, Tom. That is certainly one component. We always said the base case was going to be the IPO of 19.9%. So when we had entertained some of the inbounds from terrific companies, we evaluated the relative merits of the sale compared to the minority IPO.

We took into account value creation, execution certainty, regulatory and rating agency implications, the delivery of Life and Retirement growth strategy over the long term, where we're going to be making the right investments to make sure we're getting the value of the 80.1%. It's a great business, and so we want to make sure that we are investing in it.

And so when we weighed all those merits, ultimately, we felt that an IPO was going to fulfill the value for our stakeholders and decided that, that was the appropriate path for us.

**Thomas George Gallagher**

*Evercore ISI Institutional Equities, Research Division*

Okay, okay. And then just a follow-up for Kevin on L&R. I think -- Peter, I think I heard you say you're reiterating the 8 to 16 basis point spread compression guide.

I guess, my question is interest rates have risen a pretty good amount. Would you change within the 8 to 16 basis point band where you expect to operate? I think you used to say it was toward the high end of that.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

Kevin, do you want to finish?

**Kevin Timothy Hogan**

*Executive VP and CEO of Life & Retirement*

Yes, absolutely. Yes, Tom. We have moved from the high end of the 8 to 16 towards the middle to the lower end based on the recent improvement in the yields. You have to monitor, obviously, the combination of where credit spreads are versus where actual base rates are. So it's not all what we saw in the base rates. You just have to look at the total reinvestment position.

**Peter Salvatore Zaffino**

*President, CEO, Global COO & Director*

All right. Great. Thanks, everyone, for joining us today, and have a great day.

**Operator**

And with that, ladies and gentlemen, this will conclude your conference for today. Thank you for your participation, and you may now disconnect.

Copyright © 2021 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

© 2021 S&P Global Market Intelligence.