S&P Global
Market Intelligence

# American International Group, Inc. NYSE:AIG

*Earnings Call*

*Thursday, August 1, 2024 1:30 PM GMT*

# Call Participants

**EXECUTIVES**

**Donald John Bailey**
*Executive VP, CEO of North America Insurance, Global Head of Distribution & Field Operations*

**Jon Hancock**
*Executive VP & CEO of International Insurance*

**Peter Zaffino;Chairman and CEO**

**Quentin John McMillan**
*VP, MD & Head of Investor Relations*

**Sabra Rose Purtill**
*Executive VP & CFO*

**ANALYSTS**

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

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

**Michael Augustus Ward**
*Citigroup Inc., Research Division*

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

**Robert Cox**
*Goldman Sachs Group, Inc., Research Division*

# Presentation

**Operator**

Good day, and welcome to AIG's Second Quarter 2024 Financial Results Conference Call. This conference is being recorded.

Now at this time, I would like to turn the conference over to Quentin McMillan. Please go ahead.

**Quentin John McMillan**
*VP, MD & Head of Investor Relations*

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

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

Additionally, note that following the deconsolidation of Corebridge Financial on June 9, 2024, the historical results of Corebridge for all periods presented are reflected in AIG's condensed consolidated financial statements as discontinued operations in accordance with U.S. GAAP.

Finally, today's remarks related to General Insurance results, including key metrics such as net premiums written, underwriting income and underwriting margin, are presented on a comparable basis, which reflects year-over-year comparison on a constant dollar basis as applicable and adjusted for the sale of Crop Risk Services and the sale of Validus Re.

We believe this presentation provides the most useful view of General Insurance result and the go-forward business in light of the substantial changes to the portfolio since 2023. Please refer to Pages 29 through 31 of the earnings presentation for reconciliations of such metrics reported on a comparable basis.

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

**Peter Zaffino;Chairman and CEO**

Good morning, and thank you for joining us today to review our second quarter 2024 financial results. We have transformed AIG and have done the foundational work for the next chapter, and I'm excited to take you through it today. Following my remarks, Sabra will provide more detail on the second quarter. Then our North America and International leaders, Don Bailey and Jon Hancock, will join us for the Q&A portion of the call.

Our prepared remarks have a lot of detail, particularly related to our deconsolidation of Corebridge. We intend to provide ample time for Q&A.

I want to start with highlights of our outstanding second quarter performance. As Quentin mentioned at the beginning of the call, all figures I will reference today will be on a comparable basis, excluding the impact of Validus Re and Crop Risk Services, unless otherwise noted in order to provide a clear view of our underlying performance.

Adjusted after-tax income was $775 million or $1.16 per diluted share, representing a 38% increase in earnings per share year-over-year, driven by strong organic growth, a continuation of our very strong underwriting performance, ongoing expense discipline, volatility containment and a decrease in shares outstanding.

General Insurance net premiums written grew 7%, led by Global Commercial, which grew over 8%. Underwriting income was $430 million. The underlying underwriting income, excluding catastrophes and prior year development, improved $110 million or 17% year-over-year. The calendar year combined ratio was 92.5%, a slight increase of 10 basis points from the prior year.

The accident year combined ratio, excluding catastrophes, was 87.6%, a 170-basis-point improvement from the prior year. The cat loss ratio was 5.7% or $325 million of total catastrophe-related losses. Consolidated net investment income on adjusted pretax income basis was $884 million, a 14% increase year-over-year.

During the quarter, we returned nearly $2 billion to shareholders through $1.7 billion of stock repurchases and $261 million of dividends. We ended the second quarter with a total debt-to-total capital ratio of 18%, including AOCI, and we have strong parent liquidity of $5.3 billion. Overall, I'm very pleased with our ability to continue to deliver outstanding financial performance, and I'm equally pleased with the progress we're making on multiple strategic initiatives.

There are several things I want to cover on this call to give you a sense of where we are now, how we got here and what the future holds. In addition to walking through our financial results on today's call, I plan to outline the recently announced transactions for our personal travel business and Private Client Select, provide a quick update on [indiscernible] reinsurance renewals and a market update, discuss our disciplined execution of our capital management strategy and provide an update on an AIG Next.

I should note that our strong financial results in the quarter were complicated by the complex accounting treatment of deconsolidation. In Sabra's prepared remarks, she will explain the impact to our capital structure, including shareholders' equity, as well as details on the GAAP accounting implications to our financial statements.

Before I go further, I want to take a moment to comment on the deconsolidation of Corebridge, which marked a major milestone for both AIG and Corebridge. It's important to reflect on the 4-year journey, the significant accomplishments along the way and the rationale behind this pivotal decision for AIG. At the height of the pandemic in 2020, we undertook a detailed analysis to explore strategic options to maximize value for AIG's shareholders, including evaluating whether to separate our Life and Retirement business, which would eventually become Corebridge, from AIG. In October 2020, we announced our intention to separate.

There were many noteworthy accomplishments along the way, and I'd like to highlight a few. In July of 2021, AIG announced that Blackstone Group will become an anchor investor in the new stand-alone company with its acquisition of 9.9% of Corebridge. Corebridge also entered into a long-term strategic asset management relationship with Blackstone to manage up to $92.5 billion of assets under management over the subsequent 6 years.

At the end of March of 2022, AIG announced a strategic partnership with BlackRock where they would manage $150 billion of certain fixed income and privately placed assets, of which $90 billion would come from the Corebridge portfolio. In mid-September of 2022, AIG flowed a 12.4% of Corebridge in the largest U.S. IPO of the year, a particularly noteworthy achievement during a time of significant market volatility.

During 2023, executed 3 marketed deals, reducing our overall ownership to 52% by year-end. In 2023, Corebridge divested, with considerable strategic and transactional support from AIG, Laya Healthcare and U.K. Life. These sales generated over $1.2 billion of proceeds for Corebridge investors.

In May of 2024, AIG announced that it would sell 122 million shares of Corebridge, representing an approximately 20% stake in the company, to Nippon Life Insurance Company, one of the most respected life insurance companies in the world, subject to customary regulatory approvals and closing conditions. Lastly, in mid-June of this year, AIG announced it had met the requirements for the deconsolidation of Corebridge for accounting purposes.

We remain committed to fully selling down our remaining ownership stake in Corebridge over time, subject to market conditions and other considerations. It's been quite a journey, and we have accomplished a tremendous amount.

Now let's turn to the travel business. During the quarter, we also announced the sale of our global individual personal travel insurance and assistance business, which is another important strategic step in positioning AIG for the future to further simplify our portfolio. The transaction includes the global Travel Guard insurance business as well as its service companies and infrastructure and excludes our travel insurance businesses in Japan and our AIG joint venture arrangement in India with the Tata Group. AIG will continue to provide corporate group travel coverage through our Accident & Health business.

The annual net premiums written for travel are approximately $750 million, most of which are reported under North America Personal Insurance. The sale is expected to close by the end of 2024, subject to customary regulatory approvals and closing conditions.

And last week, we announced another significant transaction involving our high-net-worth business. As we've discussed in prior quarters, over the course of several years, we've been deliberately transforming our high-net-worth business to be better positioned for the future. We've done this through a series of strategic actions, including the most recent announcement about entering into a strategic relationship with Ryan Specialty to become our Excess & Surplus line's distribution partner for high- and ultra-high-net-worth markets through our managing general underwriter, Private Client Select insurance services.

We like the business, and we're committed to it. We've invested over $100 million in infrastructure and digital capabilities for our high-net-worth business over the past several years, and we believe the business is well positioned for the future.

We're also committed to delivering solutions and growing our admitted capabilities. As we previously communicated, our plan for the portfolio has been to establish an MGU with appropriate infrastructure and core foundational capabilities, enable multiple points of distribution and eventually attract more capital resources for the MGU, all while continuing to drive exceptional value for our high-net-worth clients as we grow the business. AIG will provide exclusive E&S paper at all 50 states through Marbleshore Specialty Insurance Company, subject to regulatory approvals. This progress reflects the momentum we've created with expanded capabilities and broader partnerships.

Now turning to General Insurance results. Gross premiums written for the quarter were $9.9 billion, an increase of 7% from the prior year. Net premiums written for the quarter were $6.9 billion, a 7% increase from the prior year, with 8% growth from Global Commercial and 5% growth from Global Personal.

Global Commercial had an excellent quarter, with strong net premiums written growth of 8% driven by significant new business, impressive retention and continued accident year combined ratio improvement.

In North America Commercial, net premiums written grew 10%, Lexington grew 16%, led by wholesale casualty, which grew 35%; Western World, which grew 20%; and wholesale Property, which grew 12%. Retail casualty grew 11%, with 21% growth in our Risk Management business, and we had 16% growth in Excess Casualty. And Captive Solutions grew 30%, driven by new business.

In International Commercial, net premiums written grew 6%. Global Specialty grew 8%, led by 18% growth in Energy. Talbot grew 12%, and Retail Property grew 11%.

In the second quarter, Global Commercial produced record new business of nearly $1.3 billion, which is an 18% increase from the prior year quarter. North America Commercial produced new business of $753 million in the quarter, an increase of 26% year-over-year and an increase of over 60% from the prior quarter.

The growth was led by Lexington, which had 31% new business growth year-over-year and 75% new business growth from the first quarter, the highest new business volume of any quarter in my tenure. Lexington also achieved a significant milestone, with over $1 billion of gross premiums written this quarter, a 16% increase from the prior year quarter. This is the highest-gross-premiums-written quarter for Lexington since we repositioned the business in 2018.

In other businesses, retail casualty new business grew over 40%, led by our Risk Management business and Excess Casualty. International Commercial produced new business of $522 million for the quarter, an increase of 9% year-over-year. This growth was led by Global Specialty, which had 17% new business growth led by energy and marine; Casualty, which had over 30% growth; and Property, which had over 10% growth.

In addition, Global Commercial had very strong renewal retention. International retention was 89%, and North America retention was 87%.

Moving on to global Personal Insurance. Net premiums written grew 5% year-over-year. North America personal net premiums written increased 8% from the prior year quarter, primarily driven by the high-net-worth business. International Personal net premiums written increased by 4% year-over-year, driven by growth in Personal Auto and Accident & Health new business.

Shifting to the combined ratio. As I noted earlier, the second quarter General Insurance accident year combined ratio, excluding catastrophes, was 87.6%, a 170-basis-point improvement year-over-year, driven by a 140-basis-point improvement in the expense ratio.

In Global Commercial, the second quarter accident year combined ratio, excluding catastrophes, was 83.5%, a 180-basis-point improvement. The North America Commercial accident year combined ratio, excluding catastrophes, was 84.7%, a 250-basis-point improvement. And the International Commercial accident year combined ratio, excluding catastrophes, was 82.1% or a 130-basis-point improvement.

The Global Personal accident year combined ratio, excluding catastrophes, was 96.8%, a 130-basis-point improvement from the prior year quarter. North America Personal improved its accident year combined ratio, excluding catastrophes to 101.8%, a 530-basis-point improvement. International Personal improved its accident year combined ratio, excluding catastrophes, by 50 basis points to 94.8% driven by improvements in the expense ratio.

Now I want to shift to provide some context around midyear reinsurance renewals and recent conditions in the reinsurance market. As we have previously discussed, we purchased the vast majority of our treaty reinsurance at January 1. However, approximately 20% of our overall core reinsurance purchasing occurs in the second quarter. We were able to execute on all of our strategic reinsurance goals this quarter, achieving risk-adjusted rate decreases and lowering or maintaining retentions across all of our major purchases.

The outlook for the second half of 2024, particularly with respect to natural catastrophes, is uncertain. The 5 leading forecasters are predicting above-average hurricane activity for the 2024 season.

While there was a lot of positive sentiment across the industry following modest natural cat loss activity in the first quarter, I've learned over my career to wait until the wind and typhoon seasons are over before declaring how the year will be impacted by natural disasters. It's simply too unpredictable.

When reviewing capacity in the market, it's important to analyze the available capacity from the rated market and the alternative capital market. We're all well aware of what happened with rated reinsurers in 2022. On average, they moved attachment points significantly higher to higher-return periods, and they restricted coverage mostly to named perils. If you were to look at the complementary alternative capital market, it has approximately $110 billion of estimated capital deployed and, in many ways, more stated available capital in any individual year over the prior 10 years.

However, you need to review what makes up that $110 billion to appreciate the true availability for reinsurance. The cat bond market and ILW market make up approximately 50% of the alternative capital market, the highest nominal amount of any time in history, and those products are accompanied with basis risk and, in some cases, meaningful basis risk.

Additionally, the collateralized market is back to 2016 levels, which is somewhere between $45 billion to $50 billion of capital. The market is deploying 90% of the collateralized limit as occurrence reinsurance or occurrence retro, leaving less than 10% of the remaining collateralized reinsurance available for aggregate covers.

Why do I outline this level of detail? Because we remain very disciplined and maintain our aggregate cover at the same attachment point, and AIG utilizes approximately 50% of the globally available ILS reinsurance aggregate cat capacity. This purchase protects us from the potential frequency of cat and allows us to prudently manage volatility. And again, based on my experience, once insurers give up lower occurrence or aggregate attachment points, you simply do not get them back.

Further, analyzing industry data from over 150 companies published by Aon between 2013 and 2024, average attachment points went up on an inflation-adjusted nominal basis everywhere in the world, in some cases, significantly during that period. For example, in Asia, average attachment points increased over 270%; EMEA and the U.K., over 250%; and in the U.S., over 280%. AIG has structured its treaties to have lower attachment points with less volatility.

When examining occurrence attachment points across the world from 2022 to 2024, which is another very good measurement, AIG has maintained or reduced its attachment points, making it the lowest amongst our peer group.

For the balance of 2024, we have approximately $95 million remaining on our International aggregate cover, excluding Japan, and $270 million on our North America aggregate cover, including wind and quake. This is well within our established risk appetite and believe we remain well protected against both the frequency and severity of cat events. Reinsurance premiums are well embedded in our original pricing, and our portfolio for Property is performing exceptionally well.

Now I'll provide a high-level summary of our capital management strategy and the milestones we've accomplished. We've made enormous progress executing against our capital management goals in a disciplined manner, with a focus on positioning AIG for the future and driving value for our shareholders. We have deployed over $30 billion in cash towards that capital management strategy over the last 3 years, which has provided AIG with maximum flexibility.

To provide context on the magnitude of what we accomplished, there are some key highlights. In 2021, AIG had greater than 850 million shares outstanding and approximately $25 billion of outstanding debt and preferred stock. Using current liquidity and proceeds generated from divestitures and earnings, over the past 3 years, we repurchased over $13.5 billion of shares, reducing our overall share count by over 200 million shares or approximately 25%. As of June 30, 2024, we have less than 650 million shares outstanding. We expect to further reduce this in the second half of 2024 and in 2025, depending on the timing of the closing of the Nippon Life transaction, subject to regulatory approvals, as well as additional future sell-downs of our remaining Corebridge shares, subject to market conditions.

By the end of 2025, we expect our share count to be in the 550 million to 600 million target range, consistent with the guidance that I provided last quarter, representing a total of $10 billion of share repurchases over the course of 2024 and 2025, subject to market conditions. Since 2021, we paid approximately $3 billion of shareholder dividends. We increased the dividend by more than 10% in each of the last 2 consecutive years. Additionally, we reduced AIG's debt outstanding from $25 billion to $9.8 billion and have achieved our target debt-to-capital leverage ratio range of 15% to 20%, with the second quarter leverage of 18% versus 27% 3 years ago.

Our insurance company subsidiaries are in a very strong capital position, with capital ratios above target ranges, which will enable us to continue to grow profitably without having to contribute additional capital. We ended the second quarter with $5.3 billion of parent liquidity, and we continue to explore compelling and strategic inorganic opportunities that are complementary to our current business.

As part of positioning AIG for the future, over the past several years, we've been on a journey to simplify AIG. We're weaving the company together to operate seamlessly as one cohesive organization across underwriting, claims and all of our functional areas with the skills and capabilities to compete in the future.

As a company, we've completed multiple transformation programs. These efforts, including AIG 200, have resulted in a reduction of our expense base of approximately $1.5 billion since 2018 while investing for the future. For example, over the last 2 years, we've invested approximately $300 million in data, digital workflow, AI and talent to accelerate our progress. If you look over the past 5 years, it includes technology, end-to-end process workflow and foundational data investments that were part of AIG 200, our investment has been over $1 billion.

Also at the beginning of 2024, we formally launched AIG Next to further accelerate the realization of additional operational efficiencies. As part of the AIG Next program, we're redefining our existing retained parent costs to reflect only expenses related to being a global regulated public company, such as costs related to corporate governance, enterprise risk management and audit. Our objective is to decrease retained parent cost to $325 million to $350 million or 1% to 1.5% of net premiums earned going forward. Expenses not defined as parent company costs will be fully embedded within the General Insurance results, [ where they'll be ] redundant.

All of the factors being equal, we would expect our full year 2025 calendar year combined ratio to be the same or lower than the full year 2023 metric on a comparable basis as a result of the actions were taken as part of AIG Next. We originally provided guidance that we would reach the combined ratio at the exit run rate at the end of 2025, and we now believe we can achieve it in the 2025 calendar year.

Additionally, while I've not spoken in detail about AI in the past, we've been making substantial progress, and I want to provide a high-level overview. AIG is advancing its data and digital strategy using artificial intelligence, large language models and data ingestion applications, with the objective of increasing underwriting efficiency and augmenting execution capabilities. We've spent considerable time over the past 12 to 18 months, creating a blueprint for the future that we use each of these components together, where each one is integral and connected, and we redesign and refine the end-to-end underwriting workflow processes.

Our primary objective is to construct an AI-powered underwriting portfolio optimization capability that provides faster, more thorough, deeper analysis and improve customer service in quoting, binding and policy issuance by enabling increased underwriting productivity through the automation of manual processes. This will drive more accurate, informed decisions by leveraging better data through foundational sources such as broker and agent submissions and supplemented with validated sources of additional third-party data. We will then combine this enhanced capability with advanced modeling and amplified compute capabilities. Underpinning this work is a robust governance framework designed to keep pace with the rapidly evolving global AI regulatory landscape.

I will discuss 2 areas of focus: underwriting efficiency and underwriting management. With underwriting efficiency, we're developing a mechanism using large language models by which submissions are automatically filtered through real-time underwriting guidelines, allowing underwriters more capacity and the ability to assess many more submissions that meet our defined underwriting criteria, objectives and risk appetite.

In underwriting management, we're dynamically managing the review of submission data with the disciplined application of underwriting guidelines and portfolio objectives, allowing underwriting leadership to more deeply and accurately analyze market conditions and enabling dynamic adjustments to underwriting guidelines, pricing and limit deployment.

As we build our authentic ecosystem, we're using a multi-vendor technology strategy with multiple partners that is designed to evolve over time. Our platform has been built for flexibility, configurability and adaptability to accommodate current and future technology. This includes the ability to support the expansion of generative AI capabilities for scalability globally across our platform while keeping the underwriter at the center of decision-making.

This is just a glimpse into the significant work we've been doing to use generative AI and large language models as part of our overall data and digital strategy. We'll continue to advance these efforts over the remainder of this year and as we enter 2025.

In summary, I'm very pleased with our performance in the second quarter and what we've accomplished, not only during the quarter but over the past several years to prepare AIG for a bright future.

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

**Sabra Rose Purtill**
*Executive VP & CFO*

Thank you, Peter. This morning, I will provide details on AIG's exceptional second quarter financial results, with a particular focus on the accounting treatment of Corebridge deconsolidation, General Insurance quarterly financial results, written premium rate trends, other operations, book value per share and ROE.

I will begin with Corebridge-related activity this quarter and the accounting treatment on AIG's financials. A few key dates to outline. On May 16, we announced the agreement with Nippon Life. Because that sale could close within 12 months of the announcement and reduce our ownership to well below 50%, held-for-sale accounting and the classification of Corebridge as discontinued operations was triggered for accounting purposes.

Next, we sold 30 million shares of Corebridge on May 30, which brought our ownership to 48%. However, it did not trigger deconsolidation accounting because AIG still had a right to majority representation on the Corebridge Board. On June 9, we raised our right to majority representation, and one of our designees resigned from the Corebridge Board, triggering deconsolidation accounting as well as the required filing of pro forma financials with the SEC 4 days later.

Discontinued operations and deconsolidation accounting principles drove significant changes in AIG's financials this quarter. We added a few slides in the investor deck to explain these changes, which I will refer to in my remarks.

Let me start with the impact of held for sale and discontinued operations on Slide 15. Held-for-sale accounting stipulates that when you reach an agreement to sell a business, its financials must be recast in the current period with assets and liabilities each classified in one line for both sides of the balance sheet. However, since Corebridge was a core business that we fully intend to exit, it also met the accounting criteria for continued operations, which requires a recast not just for the current reporting period but also for past periods. As a result, we reclassed Corebridge's assets, liabilities and net income into assets and liabilities of discontinued operations and income or loss from discontinued operations net of income tax in the AIG financials for the second quarter and prior periods. This treatment is reflected on Slide 15.

While AIG total assets of $544 billion as of March 31, 2024, is the same as originally reported and following discontinued operations presentation, there is a significant movement within the line items. For example, total investments and cash of $324 billion, as originally reported, decreased to $88 billion with discontinued operations presentation, with $236 billion of Corebridge investments and cash now included in assets of discontinued operations.

The next change in the quarter was deconsolidation, which was triggered on June 9. On the fourth quarter 2023 earnings call, I described the accounting steps related to this principle. Today, I'll walk through those steps with the final numbers.

Turning to Slide 16. The first step is the fair-valuing of Corebridge's assets and liabilities as of June 9. The net fair value amount was $9.7 billion, comprised principally of the $8.6 billion market value of our Corebridge shares at that date and the net fair value of intercompany assets and previously consolidated investment entities.

Next, we calculate the difference between the fair value of $9.7 billion and the book value on AIG's balance sheet, which was $6.7 billion. This resulted in a net gain on sale of Corebridge of $3.0 billion pretax or $2.5 billion after tax. After that, accounting principles require the recognition of $7.2 billion of accumulated other comprehensive loss on AIG's balance sheet, which is unrealized losses on Corebridge's investment portfolio due to higher interest rates. This recognition records a $7.2 billion loss from AOCI and AIG-retained earnings by booking it through the loss on discontinued operations in the income statement and then reducing AIG's AOCI on the balance sheet. This does not change shareholders' equity shown on Slide 17.

To determine the income statement accounting impact of deconsolidation, the $2.5 billion after-tax gain and the $7.2 billion of accumulated other comprehensive loss are added together to calculate the net after-tax loss on deconsolidation of $4.7 billion.

Finally, the next step is to add Corebridge's net income for the quarter prior to June 9, which was $325 million after tax, to the net loss on sale, resulting in a total net loss on discontinued operations of $4.4 billion recorded in AIG's income statement for the quarter.

Now I'll cover the impact on AIG's shareholders' equity. Turning to Slide 17, which has a walk of AIG's total equity from the end of March to the end of June. AIG shareholders' equity was $43.4 billion at March 31, including Corebridge on a consolidated basis. Excluding deconsolidation impacts, the second quarter change in AIG shareholders' equity was a decrease of $1.5 billion, reflecting income from continuing operations of $475 million, offset by $1.7 billion of share repurchases and $261 million of dividends paid. This results in a pro forma AIG shareholders' equity of $41.9 billion before deconsolidation.

Then you layer in the deconsolidation impacts by adding the $2.5 billion after-tax gain on sale for total AIG shareholders' equity of $44.4 billion at June 30, 2024, or a $1.1 billion net increase in the quarter, resulting in book value per share of $68.40 at June 30, a 6% increase from March 31.

Please note as well that $5.7 billion of noncontrolling interest in total equity, which represents the portion of Corebridge equity owned by other shareholders, is also eliminated with deconsolidation through the recognition in the net book value calculation of the gain on sale.

The last deconsolidation impact is on debt and leverage on Slide 18. Total debt for AIG and Corebridge at March 31, 2024, was $19.2 billion, and total equity was $49.1 billion, for a debt-to-total capital ratio of 28.1%. With deconsolidation, Corebridge's debt of $9.4 billion and noncontrolling interest of $5.7 billion are eliminated on AIG's balance sheet. This results in June 30 balances of $9.8 billion for total debt and $54.3 billion for total capital, for a debt-to-total capital ratio of 18.1%, well within our 15% to 20% target leverage range.

We hope this explanation in the slides are helpful in understanding the accounting treatment of Corebridge deconsolidation this quarter. I will now cover second quarter General Insurance and operations results.

Turning to General Insurance. Adjusted pretax income, or APTI, was $1.2 billion, up 7% on a comparable basis due to strong underwriting results and higher net investment income. General Insurance net investment income was $746 million, up 10% on a comparable basis due to higher reinvestment rates on fixed maturities and loans. Considering current interest rates and $1.6 billion of General Insurance dividends paid to parent at quarter end, we expect third quarter General Insurance investment income from fixed maturities, loans and short-term investments of about $700 million. Income on alternatives and other investment assets were $33 million and $52 million, respectively, in the quarter, up $32 million in total from $44 million and $9 million, respectively, in second quarter 2023.

Second quarter 2024 underwriting income on a comparable basis was $430 million versus $420 million in second quarter last year, driven by lower expenses, partially offset by higher catastrophe losses. Year-to-date, underwriting results have been strong, with an accident year loss ratio ex catastrophes of 56.3%, mainly driven by changes in business mix compared to the prior year. Based on earned premium roll forward and barring unforeseen significant changes in loss trends, we expect the accident year loss ratio ex catastrophes will remain strong in the second half of 2024 at approximately the same level as the first half.

Turning to natural catastrophes. The industry globally had another quarter of elevated losses with approximately 100 events. For AIG, second quarter catastrophe losses totaled $325 million or 5.7 points on the loss ratio, principally from secondary perils, including severe convective storms in the United States, floods in the Middle East and Brazil and hail in Japan, with a roughly 50-50 split between North America and International. Our largest loss in the quarter totaled $90 million from exceptionally heavy rains in the UAE.

Considering the forecast for hurricane season this year and secondary peril losses year-to-date, we believe that using AIG's last year total catastrophe losses is a good proxy for full year 2024. While actual losses will depend on the size and strength of events, our underwriting standards, limits and reinsurance programs, both occurrence and aggregate, will help reduce the net impact of catastrophe frequency and severity on AIG's balance sheet. Nevertheless, on a global basis, the third quarter is usually, by far, the highest catastrophe quarter, with losses averaging 40% to 50% of the total for the year.

Turning to reserves. Prior year development, net of reinsurance was a favorable $79 million, reflecting the net result from DVRs completed on more than $20 billion of reserves, about 45% of the total in the quarter. Overall, the DVRs, which included U.S. Casualty, resulted in net favorable development on Workers' Compensation and modest net unfavorable development of $30 million on Excess Casualty, including $66 million for accident year 2021.

The 2021 Excess Casualty reserve charges were for a few large known losses and commercial auto loss trends, reflecting the rebound in auto frequency and severity after the pandemic lockdown in 2020 when frequency was very low. We have not seen this increase in frequency and severity trends in the more recent accident years.

In the Casualty and Excess Casualty books overall, severity trends remain generally consistent with our assumptions. While we see some favorable trends in the 2016 to 2019 accident years, we will continue to allow time for these years to mature.

Pricing, which includes rate and exposure for Global Commercial Lines this quarter, increased 5%, excluding Workers' Compensation and Financial Lines, while our view on loss cost trends have remained stable.

In North America Commercial, renewal rates increased 2% in the second quarter or 4% if you exclude Workers' Compensation and Financial Lines, and the exposure increase was 2%. In International Commercial, overall rate was largely flat or a 1% increase, excluding Financial Lines, and the exposure increase was 3%, excluding Financial Lines.

We continue to monitor our portfolio very closely, and while rate in the second quarter is below trends on certain lines of business, such as Property, it is above trend in others. To give more insight on Property, North America retail and wholesale Property saw rate increases drop below trend in the second quarter, but that's on the back of rate increases in excess of 25% in 2023 and, cumulatively, in excess of 150% since 2018. International Property is about 100% higher. In 2023, our Property portfolio had an excellent combined ratio.

In North America Casualty lines, in particular Excess Casualty, we continue to get rate in excess of loss trend. We continue to focus on writing business that has attractive returns. And while the price adequacy of our portfolio, of course, varies by line, it remains strong overall and within our expectations.

Turning to other operations. Deconsolidation vastly simplified the income statement. Adjusted pretax loss in the quarter was $158 million, a 43% improvement year-over-year, primarily attributable to $68 million in Corebridge dividends and higher short-term investment income. Finally, with deconsolidation, we expect our 2024 adjusted tax rate to be about 24% before discrete items, in line with our second quarter.

With the deconsolidation of Corebridge this quarter, AIG's income statement and balance sheet are simpler, and we no longer have the volatility of Life Insurance and annuity accounting. With all the changes, we took the opportunity to evaluate our non-GAAP equity metrics, which were established more than a decade ago when AIG was a vastly more complicated conglomerate.

The principal change was revising our calculation of adjusted book value to only adjust for investment-related accumulated other comprehensive income, which is not within management's control and which will revert to par as bonds approach maturity. Adjusted book value per share was $72.78 per share at June 30, 2024.

In addition, we added a core operating shareholders' equity metric, which reflects the equity invested in AIG's go-forward business. It is calculated by subtracting from adjusted book value the market value of Corebridge stock and GAAP deferred tax assets related to net operating losses and tax credits. Both of these assets have significant value to our shareholders but contribute little to AATI. We believe this metric is more useful for valuing AIG's global General Insurance business and also for measuring our progress towards a 10%-plus ROE target.

Over time, as we reduce our ownership in Corebridge to zero and monetize the DTA through earnings, core operating book value will become the same as adjusted book value. Core operating book value per share was $53.35 per share at June 30, 2024.

To wrap up, AIG delivered another excellent quarter with significant financial and operational accomplishments in 2024. Achieving the deconsolidation of Corebridge was a major accomplishment this quarter, and we had continued strong profitability and growth in our General Insurance business.

With our portfolio reshaping now largely behind us, we are intently focused on achieving our 10%-plus ROE target driven by strong underwriting and top line growth, expense reduction and capital management. We continue to make progress on this goal, with a core operating ROE of 8.9% for the second quarter and 9.3% year-to-date.

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

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

# Question and Answer

**Operator**

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

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

First question on the updated kind of combined ratio trajectory or guidance for '25. So loud and clear that you'll be able to kind of hit it a bit sooner. I'm curious if you can kind of -- if we focus on the loss ratio, what the guidance implies on a like-for-like basis on the loss ratio. Some of the questions we get continuously around most companies are seeing some slippage in their loss ratios given lower levels of reserve releases. I'm curious if that's something that's considered within your loss ratio guidance.

**Peter Zaffino;Chairman and CEO**

Thanks, Mike, for the question. The guidance that we've given in terms of what we expect for the full year 2025 does not contemplate any improvement in loss ratio. It's all in the expense ratio. And so we're trying to guide everybody is that all the expenses that exist in other operations will transition into parent. They'll go into the business, or they'll be eliminated and that we're not going to be increasing our combined ratios based on the guidance that we gave at the end of '23. So we're not anticipating any caveats on loss ratios to be able to meet that guidance.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

And I guess just I'll stick on this for my follow-up. So given pricing is below loss trends in certain lines like Property and understanding that the absolute -- maybe this is the answer, the absolute pricing levels are still accretive to the -- to ROE or loss ratio. Just does it -- to the extent the current pricing environment held, why does it kind of make sense that the loss ratio should be able to kind of stay flattish? And not trying to be negative, just trying to nitpick on the margin.

**Peter Zaffino;Chairman and CEO**

No, it's a great question. Let's take North America, for example, because you pointed out Property. This quarter in terms of the overall index and rate increases, Property was the headwind in that index. In Casualty, we achieved mid-single-digit to high single-digit rate, with like 12% in Excess Casualty, plus 2% in exposure. In Lexington, it was 11% increase in Casualty, 12% in health care. So again, above loss cost trends.

Property was flat this quarter. But you have to look at what's happened with the property market over the past several years. And if you look at the -- even last year in like Excess & Surplus lines, it was a 34% increase, and the retail, it was 30%. That's after 4 years of double-digit rate increase.

So I think -- look, with the low activity in cat maybe in the first quarter, the cumulative rate increases over time, I mean the Property combined ratio, fully loaded with cat, even with giving a little bit back in the second quarter, has an outstanding combined ratio. And if I can get that combined ratio for the rest of my career, I'll take it.

I mean like I don't think there's any deterioration in terms of what our overall index will be. And again, I can't really predict. That's why I kind of went into a little bit more detail about like sort of the cat market is that we don't know. I mean like -- so Property is highly driven by what happens in cat and underlying inflation. And so I'm not going to predict what happens sort of 6 quarters from now, but I think we feel really comfortable with the portfolio and its profitability.

**Operator**

Our next question comes from Meyer Shields with KBW.

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

First question, just I was hoping we can get a general sense of the impact of the sale of the travel insurance on underwriting results in North America Personal.

**Peter Zaffino;Chairman and CEO**

In terms of -- I outlined in my prepared remarks the premium impact, which is the $750 million on net premiums written. But on the overall combined ratio, it's going to be de minimis in terms of what we would lose within General Insurance once we pro forma it out.

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

Okay. Perfect. Second question, I guess, on the Excess Casualty, if I understood Sabra's comments correctly, you had favorable development even on that line outside of 2021, which was a weird year. And I was hoping you could sort of break that down for us. I assume that that's older years rather than recent years, but I want to confirm that.

**Peter Zaffino;Chairman and CEO**

Yes, I'll hand it over to Sabra. But as you know, and she gave a lot of detail in her prepared remarks, and we reviewed 45% of our total book in the second quarter. And in Casualty, just based on what's going on in the global market, we really drilled down on every line of business and every year and went through it in tremendous detail.

So Sabra, maybe you can just give a few highlights in terms of that analysis.

**Sabra Rose Purtill**
*Executive VP & CFO*

Yes, sure. And just for everyone's benefit, I'll just start by framing a little bit what we did in the quarter for the DVRs. So this quarter, we evaluated $20.2 billion of reserves for U.S. Casualty. That's comprised of 23 separate DVRs and more than 200 different lines of business, and then that aggregates to the 5 lines that you see on the 10-Q. So the net changes in the quarter were only about $20 million after return premiums, and that was $80 million favorable in workers' comp after the ADC, which has about $8 billion of reserves. It was $22 million unfavorable in Excess Casualty, which also has about $5 billion of reserves. And then in Casualty, it's also about $5 billion reserves or $17 million favorable.

In terms of the 2021 accident year, the -- as we've noted on previous calls, we've increased our loss cost trends for 2020 and subsequent years. The adjustments we made in 2021 are from just a combination of known early reported claims that due to their facts and circumstances, we expect to penetrate the excess attachment level, including a rebound in the auto frequency and severity. In 2022 and 2023 accident years, we just have not had that same level of early claims experience, and therefore, we still have a high level of IBNR in the reserves.

With respect to the accident years within Excess Casualty, I would note that while we did have the $66 million of adverse development in accident year 2021, we had $33 million of favorable development Excess Casualty from accident years prior to 2016, and that's where the delta comes. It nets down to closer to the $22 million amount.

**Operator**

Our next question comes from Elyse Greenspan with Wells Fargo.

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

I appreciate all the color you guys are providing on the call. My first question, Peter, you said that the full year 2025 calendar year combined ratio would be the same or lower than the full year '23. Since you said comparable basis, I'm assuming you mean ex crop and Validus. Can you guys just disclose what that figure is, just so we know what you're setting the '25 baseline out? What was the 2023 adjusted figure?

**Peter Zaffino;Chairman and CEO**

91.6%.

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

Okay. And then my second question is you also mentioned in your prepared remarks, you said something about exploring inorganic opportunities. Can you just expand what that means? You guys have obviously taken action of divesting of certain businesses. So what would you look at on the expansion side? And what criteria would any potential inorganic deals need to meet?

**Peter Zaffino;Chairman and CEO**

Thanks, Elyse. I included that in my prepared remarks, just based on the amount of financial flexibility, strategic flexibility that we've created for ourselves. The divestitures have been really about not having -- like really, the businesses that we divest are terrific, and they fit very well with their new owners. But some of them needed scale like Travel and crop. And we wanted to be a little bit less in the volatility business, and therefore, Validus Re was divested.

I would think as we look to the future, again, we're going to be very selective, very disciplined. But there are opportunities perhaps where we have existing businesses where we feel as though we have competitive advantages that having more scale would be helpful. There could be complementary geographies as we look to different parts of internationally but terrific International business. But there could be places where we want to expand further that give us not only better capabilities within that geography but also could be very good for our multinational network.

There are opportunities to invest further in businesses that we have. Think about AIG Tata in India is a fast-growing, large-scale business that is an industry leader. And so there's opportunities there as well. So we will use the same criteria, which is to make sure it's disciplined, it's additive, it's strategic and it actually furthers and accelerates the progress we can make on an organic basis. And so we will -- again, we'll keep giving updates as there's more relevant information to share.

**Operator**

Our next question comes from Rob Cox with Goldman Sachs.

**Robert Cox**
*Goldman Sachs Group, Inc., Research Division*

Just a question on the accident year loss ratio ex cat guidance for approximately the same level in the back half. Can you help us think a little bit more about what goes into that and where that shakes out on a comparable basis versus the, I think, over 100 basis points of improvement AIG has reported here in the first half?

**Peter Zaffino;Chairman and CEO**

Sure. Thank you, Rob. It's really driven by mix of business. And if you take a look at this year compared to last year on a net premium earned basis, like the Commercial and Personal Insurance businesses are literally identical in terms of its overall contribution to total premium. And then the Commercial loss ratio largely stayed flat like a 10-basis-point improvement, but largely flat.

What happened was the Personal Insurance loss ratio dramatically improved, driven by North America, which was well over 400 basis points. And so I think that that's really driving the first 6 months. And if we look at the back half, I mean, should we see the same thing? I think so. But you've seen all the tremendous new business, the momentum we have. The mix of business could be changed a little bit year-over-year when we look at the back half of the year. But that's really what's driving the improved loss ratio in the first 6 months. So it's really a true mix of business and also the significant improvement that North America Personal is making and we expect them to continue to make.

**Robert Cox**
*Goldman Sachs Group, Inc., Research Division*

Okay. Got it. And maybe just a follow-up. The move to kind of put some more capital to work in high net worth, is that driven by a change in sort of the view in underwriting opportunities there? Or have they always been good for AIG? And what kind of drove that decision to double down now?

**Peter Zaffino;Chairman and CEO**

The high-net-worth business had the same issues that the Commercial business did, which it had too much TIV, and it gets more pronounced in the high-net-worth business because it's more dense. And so we needed to shed aggregate for a lot of reasons. One is that we had too much exposure in certain geographies like the world changed with COVID, the pandemic and all the macro factors that affected it. And then also the evolution of more capabilities in the nonadmitted market.

And so what we decided, and we've been thinking about this for a couple of years, is that build out an admitted platform that is going to be very strong, the right infrastructure and have the ability to grow but also complement that with the nonadmitted market and be able to do that where you have flexibility, informed rate and limits and how you can actually respond to client needs. And there's a need. And so what we've been working on is what's the best way to do that, partnering with Ryan Specialty.

It's a highly fragmented wholesale market. So nobody has a real strong expertise in high net worth unless you start to build it. And I think Ryan has been doing that. And so getting access to the 40,000 independent agents with a product that's going to be saleable, and we have done such a terrific job in terms of creating opportunity for more aggregate that we want to be able to have both options. And we believe that we'll be able to grow the nonadmitted property market just based on the partnership that we just announced recently.

So it's always been in the plan, but we didn't want to go out and just say we're going to do nonadmitted and have a fragmented not strategic approach. And so we believe this is going to give us great opportunities to access the market in a different way.

**Operator**

Our next question comes from Mike Ward with Citi.

**Michael Augustus Ward**
*Citigroup Inc., Research Division*

I just had one question and is somewhat related. But overall for the business and including Commercial Lines, curious how you guys are shifting the culture back to sort of a growth mindset, thinking about all the change that you've executed? And I guess where are we in that part of the story? And should we think about AIG as potentially being able to grow faster than the market, all else equal, just by turning some of the spigots back on?

**Peter Zaffino;Chairman and CEO**

Yes. It's a terrific question, and I happen to have Don Bailey and Jon Hancock here with me. So I'm going to ask them both to comment on North America and International. It's a great question.

Don, why don't you start with how we have actually been very focused on not only retention but new business in North America?

**Donald John Bailey**
*Executive VP, CEO of North America Insurance, Global Head of Distribution & Field Operations*

Yes. Thanks, Peter. And we have definitely pivoted to that growth mindset. It's, first, important to mention that we were doing this off of transforming the business over the last few years. So we come into the growth with a position of strength regarding underwriting discipline, profitability. You've heard about all that.

Regarding the growth, we've been very deliberate and creating more value for our distribution partners and clients than ever before, and we're applying much more rigor in pursuing, like, targeted risks. All of that is what you start to see showing up in the numbers now. And I can give you a little bit more color.

The retention. We're delivering high levels of retention across all of our business. I would also add that we're executing on specific market opportunities, notably retail casualty and Lexington. On the retail casualty side, we are on offense. The discipline in the excess market is a positive for us right now, and we're moving on that. Regarding Lex, the growth there comes from 3 places. We have strong -- continued strong retention there, new products and new customers. So it's not from bigger limits. I would describe it as healthy, horizontal growth.

Regarding the sustainability of it, which I think is important, I can look at some of our Lex submission data and share that with you. Year-to-date submissions at Lex are up 42%, and that's on top of 39% growth through last year, through 6 months. We view this as a clear flight to quality in that space. I should also add that we resourced all of that in advance. So we're well positioned to take advantage of what's coming.

And Peter, I'll just say this in closing on my end, we're getting all that growth while achieving outstanding loss ratios in the core business.

**Peter Zaffino;Chairman and CEO**

Don, thank you. That was great. Jon, maybe a little bit of context on International?

**Jon Hancock**
*Executive VP & CEO of International Insurance*

Yes. I mean I won't repeat what you've already said, Peter or Don, but I would say this is still a very good market for us to underwrite in. We've got a really large diverse portfolio across International, gives us access to a huge amount of opportunity, different segments, different geographies at different points in time. So we can reshape and shift the book depending on what we see in each market.

Similar themes to Don, this has been very planful. This is not opportunistic growth here. We've been building to this for a long time off a very, very high quality book of business. We start with retaining 89% of what we've worked really hard to build a really strong book. New business submissions are up as well. We're retaining that -- our own flight to quality as well as the market. I agree with Don, the market's flight to quality.

A couple of highlights for me. We've got a world-class Global Specialty business. It's grown 8% in the quarter. And that's driven by some very, very good new business in all of the Global Specialty segments, especially in marine and energy, where we are recognized world leaders in both. We've grown new business in marine, 15% over Q1 last year, especially strong in cargo and -- in the U.K. and across Europe. Peter, you already referenced the energy, 13% increase in new business year-over-year. And that's in all of our global hubs and all of our products actually. So really, really strong targeted growth with one of our best-performing profitability businesses.

And I'll just finish -- I'll add in Talbot as well. Talbot at Lloyd's, another very, very good quarter of growth of 12%. And again, that's driven by targeted growth in Specialty lines of marine liability that we grew at 13%, cargo and specie at 16% and upstream energy at 19%. And both of those for the market, we've got the pipeline -- that we've got, we expect to see continued good growth.

**Peter Zaffino;Chairman and CEO**

That's great, Jon. Thanks to you and Don for that detail, really helpful.

I want to thank everybody for joining us today. I do want to thank our colleagues around the world for their continued dedication, commitment, teamwork and all of their execution. I also want to extend my deep gratitude to Tom Bolt, who is retiring at the end of the year, for his many significant contributions to AIG during a very important time and congratulate him on his storied career. Tom was instrumental in establishing a global framework for AIG's underwriting standards, governance and structures and alignment with our refined risk appetite and has just been a terrific executive at AIG. So again, thank you for joining us today. Everybody, have a great day.

**Operator**

Thank you. This does conclude the program. You may now disconnect. Good day.