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Earnings Call

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Presentation

Operator

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

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

Quentin John McMillan
VP, MD & Head of Investor Relations

Thanks very much, Michelle, 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. A reconciliation of such measures to the most comparable GAAP figures is included in our earnings release, financial supplement and earnings presentation, all of which are available on our website at 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, margin and net investment income are presented on a comparable basis, which reflects year-over-year comparisons 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 results and the go-forward business in light of the substantial changes to the portfolio since 2023. Please refer to Pages 26 through 28 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 Salvatore Zaffino
Chairman, CEO & President

Good morning, and thank you for joining us today to review our third quarter 2024 financial results. Following my remarks, Sabra will provide more detail on the quarter. Then our North America and International leaders, Don Bailey and Jon Hancock, will join us for the Q&A portion of the call.

Before we begin, I want to acknowledge the devastating impact the recent weather events had on our communities, which underscores the difficult reality of changing weather patterns and the frequency and severity of these events. At AIG, our claims teams have been working hard to ensure that we respond quickly. I'm grateful to our colleagues for their commitment to our clients and distribution partners. This is our purpose, and it's when our company is needed most.

Now let me move to the highlights of our outstanding third quarter performance. We continue to deliver exceptional underwriting results, maintain rigorous expense discipline, execute on our capital management plan and make excellent progress on our strategic priorities.

Adjusted after-tax income was $798 million or $1.23 per diluted share, representing a 31% increase in earnings per share year-over-year, driven by strong core earnings growth and disciplined execution of our capital management strategy. Underwriting income for the quarter was $437 million, which included total catastrophe-related charges of $417 million. The calendar year combined ratio was 92.6%.

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Consolidated net investment income on an adjusted pretax income basis was $897 million, a 19% increase year-over-year. Other Operations adjusted pretax loss was $143 million, an improvement of $135 million or nearly 50% year-over-year. Core operating ROE was 9.2%, with core operating equity of $34.5 billion as of September 30, 2024.

In the third quarter, we returned approximately $1.8 billion to shareholders through $1.5 billion of stock repurchases and $254 million of dividends. In addition, we repurchased $520 million of common stock in October. We ended the third quarter with a debt-to-total capital ratio of 17.9%, including AOCI, and parent liquidity of $4.2 billion.

During my remarks this morning, I will provide information on the following 5 topics. First, I will review the financial results for our General Insurance business. Second, I will provide observations on the catastrophe market and specifically AIG year-to-date. Third, I will update you on our progress with AIG Next and its impact on Other Operations. Fourth, I will provide an update on our significant progress in AI and related objectives moving forward. And finally, I'll give more detail on our capital management plan and the path to achieving 10% core ROE.

Turning to General Insurance. We had another excellent quarter with strong profitability and growth across our businesses. Gross premiums written for the quarter were $8.6 billion, an increase of 3% from the prior year. Net premiums written for the quarter were $6.4 billion, a 6% increase. Net premiums earned for the quarter were $5.9 billion, a 7% increase, with $4.2 billion coming from Global Commercial.

The accident year combined ratio as adjusted was 88.3%. We had favorable prior year reserve development of $153 million, a benefit of 2.6 points of loss ratio. Sabra will provide more detail in her prepared remarks.

In Global Commercial, we had 7% net premiums written growth over the prior year quarter, driven by over $1.1 billion of new business, which grew 9% year-over-year. Retention remained at 88%, which is an outstanding outcome. The accident year combined ratio as adjusted was 84.2%, and the calendar year combined ratio was 89.9%. The GOE ratio was flat year-over-year while absorbing over $50 million of expenses that shifted from Other Operations.

In Global Personal, we had 3% net premiums written growth over the prior year quarter, led by 9% new business growth across our global portfolio. The accident year combined ratio as adjusted was 97.8%, and the calendar year combined ratio was 98.8%. Both were improvements year-over-year, and we expect this segment to continue to improve its financial performance in 2025.

North America Commercial grew net premiums written by 11% year-over-year. We had a closeout transaction in the quarter in our casualty portfolio that benefited overall growth but negatively impacted the accident year loss ratio. Absent this transaction, our net premiums written growth would have been in the high single digits. The businesses that drove growth were casualty at 9%, excluding the closeout transaction; 8% in Glatfelter; and 7% in Lexington. Retention in North America was 90% in the admitted lines and 78% in Lexington, which is an exceptional outcome for an excess and surplus lines business.

New business growth in the quarter was simply outstanding. On a year-over-year basis, we had 22% growth in new business, led by Lexington with 24% growth. And the story for Lexington just keeps on going. We had over 95,000 new business submissions in the quarter, up 35% year-over-year. Casualty submissions were up over 70%, Western World was up over 30%, and property was up over 20%.

Also, our Financial Lines new business was up double digits. This was due almost exclusively to a rebound in M&A following a slow new business quarter for Financial Lines in the same period last year.

North America Commercial accident year combined ratio as adjusted was 85.1%, and the calendar year combined ratio was 95.5%, an exceptional outcome given the significant cat activity in the quarter. The accident year loss ratio was 61.8% for the quarter, which was an increase of 250 basis points year-over-year and reflected 2 main variables. First, the closeout transaction in AIGRM that I mentioned earlier. While profitable and incrementally beneficial to the overall combined ratio, it carried a higher loss ratio, which resulted in a 70-basis-point headwind. And second, the actual versus expected in the prior year quarter comparison was very favorable as a result of our admitted and wholesale property portfolios

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experiencing close to 30% rate increases last year that earned in over 2023 and the early part of 2024, creating a 180-basis-point headwind. The combined ratio also benefited from a lower expense ratio, reflecting improvement in the GOE ratio.

In International Commercial, net premiums written grew 3% year-over-year. Commercial property grew 6%, as did Global Specialty, where international specialty grew 10%, driven by energy. Our Talbot business at Lloyd's also grew 6%, driven by 18% growth in the specialty lines, specifically political risk, energy and marine.

International retention remained strong at 89%, which was very balanced across the portfolio, led by energy and property, both at 92%, and casualty at 91%. International also had very good new business of over $500 million, led by Global Specialty, with 25% new business growth in marine and 40% new business growth in Talbot year-over-year.

The International Commercial accident year combined ratio as adjusted was 83.4%, another excellent result. The calendar year combined ratio was 84.3%.

Given that the third quarter is usually the most active quarter for natural catastrophes, I want to provide some thoughts on the activity year-to-date and how the evolution of our underwriting and reinsurance strategy has significantly enhanced AIG's performance over time even in light of this historical increased activity.

For the first 9 months of the year, preliminary industry estimates of insured losses from natural catastrophes are in excess of $100 billion, which appears to be the new normal. When considering the impact of Hurricane Milton on the industry and the remainder of the fourth quarter, Aon recently published a report that estimated that the 2024 total insured losses for the industry from natural catastrophes will likely exceed $125 billion.

When analyzing large single catastrophes, the complexity of determining the initial and ultimate loss is complicated. Modeling firms produce industry loss estimates post event, and there are many factors that go into estimating the ultimate losses. It is important to note that no 2 catastrophes are the same.

Property Claims Services, or PCS, is a widely used source for independent property loss estimates in the United States. The loss figures that they provide are derived from claims activity and other factors at the time of loss rather than a judgment of the ultimate size of the loss. As a result, the actual scale of the total loss is often subject to misinterpretation.

Historically, if you look back at major events, including Katrina, Superstorm Sandy and Ian, the final report of PCS figures were substantially higher than their original estimates, illustrating the uncertainty around determining ultimates or best estimates for catastrophe losses.

At AIG, we've mitigated the impact that weather events have had on our business as reflected in our improved financial performance even as the world has seen more cat activity. Over the last 5 years, our losses have dropped dramatically, both in nominal terms and also in terms of the overall market share of the losses. This is a testament to the work we've undertaken to change and evolve our underwriting strategy, reduce volatility and increase the quality of our earnings.

If we use 2012 as a reference point, which was a year with meaningful activity, the total insured catastrophe losses on a nominal basis were $65 billion for the industry. That is roughly equivalent to the 20-year average and serves as a useful benchmark. Since 2012, expectations for annual industry catastrophe losses have grown substantially. The average annual industry loss from natural catastrophes from 2017 through 2023 has increased approximately 90% when compared to the average from 2000 to 2016. Since 2017, 7 of the last 8 years, including the 2024 forecast, have had over $100 billion of annual insured losses.

It's important to note, against this heightened level of natural catastrophe losses, based on published reports, we estimate approximately 50% of the insured natural catastrophe losses were absorbed in the reinsurance market from 2017 to 2022. However, following the major market reset in 2023, approximately 90% of the losses were retained by the primary insurance companies. And this is a significant change.

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As I have discussed several times, the work we've done to change AIG's approach to underwriting and reinsurance has resulted in dramatic improvements in our financial performance and balance sheet.

Let me give you some specific points to contextualize the magnitude of this impact. Based on AIG's legacy underwriting strategy and reinsurance choices in 2012, AIG posted an initial pretax loss of $2 billion from Superstorm Sandy, which represented almost 7% of the estimated $30 billion market loss for that single event. And for the full year 2012, AIG recognized approximately $2.7 billion of losses or approximately 4% of the market losses.

Today, AIG is forecasted to be within our catastrophe loss expectations for the full year or, more importantly, less than 1% market share of the forecasted total industry loss for 2024 of over $125 billion.

Additionally, it's worth noting that our property portfolio net premiums written are approximately the same amount in 2024 as they were in 2012. However, today, we have 80% lower cat losses and volatility. And importantly, our year-to-date 2024 Commercial Property combined ratio was in the low 80s, compared to a combined ratio of nearly 120% in 2012.

We've completely transformed our business over the past 5 years, and this is the new AIG. AIG's strategy to manage volatility through our gross underwriting actions and our approach to reinsurance, including our decision to maintain the lowest net retention amongst our global competitors, has delivered significant benefits for the company and positions us well for the future in an environment with significantly elevated insured loss activity and modeling uncertainty.

Let me take a minute to comment on high-level expectations for the upcoming January 1 renewal season for property. The significant reset in the property cat reinsurance market in 2023 means that reinsurers generally have higher attachment points, provide named perils and have significant retro protection and, therefore, are likely to make an underwriting profit on their global catastrophe portfolios in 2024 given the current loss levels and the benefit of reinstatement premiums. With this expectation of underwriting profit, the overall reinsurance market should remain healthy.

Despite the strong capital position of the market, generally speaking, I would expect the market to remain disciplined at January 1, not reducing attachment points and focusing on deploying capital to the insurance companies with higher-quality portfolios like AIG. Given that this has become the industry norm, as I mentioned earlier, industry losses from increased frequency and severity will continue to be realized by primary insurers and will not be solved by the reinsurance market in 2025.

Let me move on to provide an update on AIG Next, which we launched in early 2024 to further position AIG for the future. Over the past several years, we've been on a journey to simplify the company by weaving the organization together to operate seamlessly across underwriting, actuarial, claims and all of our functional areas with the necessary skills and capabilities to effectively differentiate AIG for the future.

In 2025, we expect to fully realize the $500 million in savings from AIG Next. These savings will impact multiple areas across Other Operations and General Insurance. As part of the AIG Next program, we've established a new definition of parent expense to exclusively reflect costs related to being a global regulated public company and expect those costs to be around $350 million going forward. In the future, costs currently attributed to Other Operations will either be eliminated or included within the General Insurance results.

You can see the impact of this effort already flowing through our income statement as Other Operations expenses are down nearly $30 million year-over-year or $40 million sequentially. This reduction reflects the expense benefits from AIG Next and the transfer of a portion of these costs to General Insurance GOE. The ability of the businesses to absorb these additional costs with minimal impact to the expense ratio is due, in large part, to our significant focus on managing expenses.

AIG Next has also enabled us to invest in core capabilities and the implementation of strategic innovation initiatives, notably in underwriting, claims and our data, digital and AI strategy. Let me provide you with more detail.

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Many companies are discussing their data, digital and AI strategies, but what is actually being done varies greatly from company to company. At AIG, we're utilizing GenAI and large language models as digital accelerators and applications that support the innovation journey, but they are not the innovation alone.

This is what makes our recently announced collaborative space in Atlanta so unique. It will be the first location in our global footprint where an end-to-end underwriting process will exist from distribution and sales to data insights, underwriting, claims payments and client servicing. This location will allow us to innovate and evolve the end-to-end process, further develop our agentic GenAI ecosystem, drive role clarity and digitize and modernize our processes.

GenAI can produce meaningful gains from reducing manual inputs and driving process efficiencies. However, our GenAI ecosystem is doing much more than that. It integrates proprietary data from multiple sources with data ingestion capabilities to give us better data quality in a fraction of the time. In our early pilots, we've seen data collection and accuracy rates within our underwriting processes improve from levels near 75% to upwards of 90% while reducing processing time significantly.

We're also using our GenAI ecosystem to increase our submission response rate while enabling our underwriters to prioritize the highest-value business within our risk appetite. These improvements will help drive growth and operating leverage as we deliver GenAI to our businesses at scale. It will allow our underwriters to spend more time quoting and winning business and less time manually collecting data.

Our culture at AIG is one that is deeply rooted in underwriting expertise and excellence. We help clients solve complex risk issues that require judgment and a nuanced understanding of clients' needs. Maintaining the underwriter at the center of decision-making will continue to be paramount and a key differentiator for us. Our AI initiatives are designed to do just that: deliver better outcomes and drive operating leverage while keeping highly experienced underwriters at the core of the process.

I'm now going to turn to capital management, where we continue to execute our balanced disciplined strategy. Our objectives are to preserve strong insurance company capital levels to support organic and potentially inorganic growth, maintain conservative debt leverage ratios, return excess capital to shareholders in the form of share repurchases, and dividends and maintain parent liquidity. We made substantial progress over the last several years to improve the financial strength of AIG.

General Insurance is well positioned for sustained profitable growth. This has been a multiyear process that's centered on executing on our underwriting strategy while increasing profitability and reducing volatility in our portfolio through a better mix of business, along with the strategic use of reinsurance.

An important result of our improved profitability is our ability to receive ordinary dividends from our operating subsidiaries, which provides consistent and increasing liquidity to the parent company. Year-to-date, we received ordinary dividends or their equivalents of approximately $3 billion from our businesses.

Our financial strength is also evidenced by the lower levels of debt on our balance sheet. Historically, AIG had one of the highest debt-to-total capital leverage ratios in the industry at over 30%. In 2024, we have reduced debt levels by $1 billion, bringing our debt-to-total capital leverage ratio to 17.9%, including AOCI, amongst the lowest in our peer group, an achievement that requires significant discipline.

Through the first 9 months of 2024, we returned over $5.5 billion to shareholders through $4.8 billion of common stock repurchases and $765 million of dividends. As we've stated previously, we will continue to execute on our $10 billion share repurchase authorization over the course of 2024 and 2025, subject to market conditions and timing of the closing of pending transactions. The current authorization will bring us within our target share count range of 550 million to 600 million shares. Importantly, our anticipated parent liquidity provides the flexibility to support additional share repurchases, which we will review in 2025.

Earlier this year, we increased the cash dividend to shareholders on AIG common stock by 11%. We will continue to review our dividend annually, considering additional increases as appropriate, supported by our increased earnings power. This will be an important focus for us in 2025 and beyond. We ended the third quarter with parent liquidity of $4.2 billion.

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With the combination of our disciplined capital management, sustained continued underwriting performance and focus on expense management, we expect to deliver a 10% core operating ROE for the full year 2025. We recognize that with core operating equity of $34.5 billion at the end of the third quarter, parent liquidity, our capital in the insurance company subsidiaries and future proceeds from corporate sell-downs, we have excess capital for the size of the business we are today. We will proactively manage our capital over time to support growth in our business, and we will maintain a capital management strategy centered on balance and patience while remaining nimble to execute should attractive opportunities arise.

In summary, I'm very pleased with our outstanding third quarter performance. As we approach year-end and plan for 2025, our path forward is clear. We will continue to solidify AIG's position as a global market leader and remain focused on value creation for our customers and shareholders.

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

Sabra Purtill;Executive VP & CFO

Thank you, Peter. This morning, I will provide details on third quarter results for General Insurance, net investment income, Other Operations and capital.

Turning to General Insurance. Adjusted pretax income, or APTI, was $1.2 billion. Underwriting income was $437 million, including $411 million of catastrophe losses. Hurricanes Beryl and Helene were the 2 largest losses in the quarter. Hurricane Milton made landfall on October 9, and therefore, its financial impact will be recognized in the fourth quarter.

Peter commented on the complexity of determining ultimates for natural catastrophes, and at this point, we have a very wide range of estimates for modeling firms. Claims activity to date for Milton has been relatively light compared to storms of similar strength and intensity. Our current preliminary loss estimate for Milton is between $175 million and $275 million.

The third quarter 2024 accident year combined ratio as adjusted was 88.3%, about 140 basis points higher than last year, principally due to changes in premium mix and reinsurance structure and favorable actual versus expected experience in the third quarter of 2023. We also had one large closeout transaction, which Peter mentioned, that increased the consolidated loss ratio by about 40 basis points. Year-to-date, the accident year combined ratio is 88.1%, down 60 basis points from 2023.

The accident year loss ratio was 56.4% for the quarter, including the impact of the closeout transaction, and 56.4% year-to-date, flat with the first 9 months of 2023. We expect the fourth quarter accident year loss ratio as adjusted will be in line with the first 9 months of this year.

Turning to prior year development. This quarter, we had $153 million of favorable prior year development, including $34 million from the ADC amortization. During the quarter, we completed detailed valuation reviews, or DVRs, on almost $22 billion or 47% of our total loss reserves. We reviewed most of the reserves for international in addition to North America property and Financial Lines.

Overall, we had favorable prior year development on short-tail lines in Global Specialty and Global Commercial property and a modest amount in North America Financial Lines. This was partially offset by $181 million of adverse development in U.K. and Europe Casualty and Financial Lines on about $8 billion of reserves. This reflects refinements in loss estimates due to recent claims emergence and settlement activity on specific exposures in accident years 2019 and prior, consistent with our reserving philosophy of addressing bad news quickly.

In addition, we increased U.S. Excess Casualty reserves by $72 million due to a large settlement of a legacy mass tort claim also related to accident years 2019 and prior, with most of the gross loss in the accident years that were ceded to the ADC.

We remain very comfortable with the adequacy of our loss reserves having completed DVRs covering more than 90% of reserves year-to-date and considering the results of our monthly actual versus expected process and other claims diagnostics. While North America Financial Lines had a slight amount of favorable development from accident years 2021 and prior, we did not adjust loss reserves for more recent accident

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years, which have continued to show favorable indications relative to our booked loss assumptions, consistent with our reserving philosophy of giving favorable experience time to mature.

Turning to pricing and loss trends. Third quarter experience in Global Commercial Lines was consistent with second quarter 2024 trends. Excluding Financial Lines and Workers' Compensation, AIG's Global Commercial pricing, which includes rate and exposure, increased 6%, largely in line with loss cost trends.

In North America Commercial, which is about half of our Global Commercial book, pricing, excluding Financial Lines and Workers' Compensation, was up 7%, with rate up more than 5%. North America casualty rate increases were strong, with Lexington averaging 16% and Retail Casualty averaging 13%. These are well above our casualty loss cost trends, which, as we've previously disclosed, are at 10% or higher depending on the line, risk and attachment point.

Property rates in North America retail and Lexington were consistent with second quarter, and the underwriting margin remained strong, supported by cumulative rate increases over the past several years and our disciplined underwriting approach, particularly to cat-exposed property.

Pricing in International Commercial, excluding Financial Lines, was up 4%, in line with loss trend, and underwriting profitability remains very strong. International property continued to achieve overall pricing in excess of loss trends.

Our global footprint and diverse portfolio enable us to remain agile, focusing on lines of business with attractive risk-adjusted returns while maintaining underwriting discipline. We are confident that the overall strength of our portfolio positions us to deliver sustainable underwriting profitability.

Turning to investments. Our investment portfolio is of high credit quality, well diversified by asset class and matched to our liability duration. The increase in interest rates since 2021 has driven higher portfolio yields even as credit spreads have tightened.

Third quarter 2024 net investment income on an APTI basis was $897 million, up 19% from the third quarter of 2023, driven by increased reinvestment rates on fixed maturities, higher short-term investment income, Corebridge dividends and Other Operations, slightly better private equity returns and lower investment expense.

Reinvestment yields on fixed maturities and loans remains above runoff yields, providing positive yield pickup in the quarter. The average new money yield on General Insurance fixed maturities and loans was 60 basis points higher than sales and maturities, adjusted for one large sale in the quarter.

General Insurance investment income was $773 million, including income on fixed maturities, loans and short-term investments of $718 million and alternative investment income of $43 million. Considering the current interest rate curve, we project fourth quarter General Insurance investment income on fixed maturities, loans and short-term investments to be approximately $710 million due to the impact of floating rate security resets, partially offset by higher reinvestment yields.

About 11% of our fixed maturities have monthly or quarterly floating rate resets to SOFR or other short-term market indices, which began to decline in the third quarter. Alternative income is principally from traditional private equity and now includes real estate investment funds that were previously consolidated. These assets are reported on a 1-quarter lagged basis. And based on third quarter market performance, we expect fourth quarter private equity results may be similar to the year-to-date annualized return of 3.5%.

Turning to Other Operations. Adjusted pretax loss in the quarter was $143 million, a nearly 50% year-over-year improvement driven by lower GOE and interest expense and higher net investment income, which totaled $125 million in the quarter. Considering both lower short-term rates and projected parent liquidity balances before proceeds from any strategic transactions, short-term investment income could decline in the fourth quarter by about $25 million sequentially.

To wrap up the quarter, the balance sheet remains very strong. Book value per share was $71.46 at quarter-end, up 4% from June 30, 2024, due to the favorable impact of lower interest rates on AOCI.

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Book value per share increased 10% from year-end 2023. Adjusted book value per share was $73.90, up 2% from June 30 due to reduced shares outstanding and was down 6% from year-end 2023 due to different accounting treatment of Corebridge between the 2 periods.

As Peter noted, our debt leverage ratios are very strong. We recently called a $400 million par zero-coupon bond, which will close November 22.

Core operating ROE, which measures the annualized return on AIG shareholders' equity, excluding the value of corporate shares and deferred tax assets, was 9.2% in the quarter and 9.3% year-to-date, reflecting strong General Insurance profitability and capital levels.

To conclude, AIG delivered another excellent quarter with significant financial and operational accomplishments. We are confident in our ability to deliver sustained underwriting results and a 10% core operating ROE in 2025. And we look forward to updating you on our progress.

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

Peter Salvatore Zaffino
Chairman, CEO & President
Thank you, Sabra. And Michelle, we're ready for our first question.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Meyer Shields with KBW.

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

I want to start with a question about reserves, if I can. You talked about how recent accident year's Financial Lines are emerging better than expected, but you're not booking that yet. Can you talk a little bit about what's happening in the older accident years for, I guess, Financial Lines or casualty? We saw the one-off issues, but I'm wondering, more broadly, is there the same sort of theme in the older accident years that could be getting closer to acknowledgment?

Peter Salvatore Zaffino
Chairman, CEO & President

Thanks, Meyer. I think Sabra provided quite a bit of detail in her prepared remarks. But Sabra, do you have anything to perhaps give a little bit of context on Financial Lines?

Sabra Purtill;Executive VP & CFO

Yes. And let me just make a few comments. I mean, obviously, we had very strong favorable development in the DVRs this quarter. Consistent with our approach, we have allowed favorable development to -- or favorable experience to mature. And this quarter, particularly on shorter-tail lines, we had about $300 million of favorable development. I would just note that this quarter did not include Workers' Compensation. That was done in the third quarter of last year. And this year, it was done in the second quarter, and we'll do it in the second quarter for next year as well.

What I would just comment on in terms of the -- I'll talk to the Excess Casualty first because I know that's been some focus. The trigger for the action in North America casualty -- Excess Casualty was for a particularly large settlement, gross of reinsurance, which was from very old accident years that were covered by the ADC. Absent this settlement, we would not have made any adjustments in that line because the DVRs for that line are done in the second quarter normally.

Turning to Financial Lines. Let me just note that for the quarter in total, we had -- post ADC, the adverse development on Financial Lines was about $28 million (sic) [$6 million] in total. That was driven by the adverse development on U.K. Financial Lines, which again was an older book with -- related to some specific exposures.

We did actually recognize favorable development on the U.S. and international portfolios. And I would note that was for older accident years. The favorable development that we recognized is generally on older years where the experience has matured as the policy form is claims made, but we continue to hold reserves, obviously, for those older accident years based on the existing claims or other activity within that book. And we will evaluate again in the third quarter of next year, is when we'll do our deep dive on the global Financial Lines portfolio.

Peter Salvatore Zaffino
Chairman, CEO & President

Great. Thanks, Sabra. Meyer, is there a follow-up?

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

Yes. Just a quick one. Peter, you talked a lot about your expectations for property reinsurance in 2025. And I was hoping for an update on your thoughts of the appropriate reinsurance program -- property reinsurance program for AIG, whether you're thinking of other -- of changing your net exposure.

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Peter Salvatore Zaffino
Chairman, CEO & President

I covered a lot in my prepared remarks. Again, I think the industry has become experts on reinsurance pricing, and I expect that the market will be orderly, but I don't expect attachment points are going to come down for the industry. What I was trying to outline in my comments was that most of it is retained by insurance companies today. And so therefore, how we're going to price business going forward, how we're going to understand the frequency of cat is going to be really important to do as an insurance company and not rely on reinsurance.

I don't think we're going to have a material change in our structures. Of course, we have low attachment points. It's very complex, and I won't spend a lot of time on it. But we certainly have the balance sheet. We certainly have the risk appetite to take a little bit more net in the event that we want to. But we like having low attachment points on severity, and we like having our aggregate that protects us from frequency. And so we manage our net according to our risk appetite. It's within expectations, and I would expect us to continue the same strategic philosophy.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Peter, I think we're hearing a little bit from other companies about some improvement in your casualty, particularly E&S, casualty lines and maybe properties monitoring. I wonder if you could give us some color on your view of market conditions and kind of organic growth opportunities here in the fourth quarter and heading into 2025.

Peter Salvatore Zaffino
Chairman, CEO & President

Thanks, Brian, and I'm going to make a comment. I'm going to have Don talk specifically about Lexington. But you're absolutely right. We see opportunities. Our clients, we have such strong retention, and they're looking for us to solve risk issues. New business opportunities are very good. The rating environment is very good. So we're cautious, but we think there's opportunities to grow.

In the Retail Casualty space, in multiple segments that we have as well as in E&S, I mentioned in my prepared remarks that our casualty submissions in E&S have been dramatic, and we see great growth opportunities there.

But Don, maybe you could expand a little bit on the Lexington.

Donald John Bailey
Executive VP & CEO of North America Insurance

Great. And if I could, Peter, just maybe a couple of high-level comments on North America overall and then dig deeper into the Lex growth because they are kind of balanced. So the double-digit growth in North America is balanced growth. We're growing the lines where we see attractive opportunities. And to the point of your question, we're growing in all 3 channels where we operate: retail, wholesale, alternative.

Peter covered some of the North American growth drivers. Positive rate of 3% across the portfolio, strong retention of 87%, 90% in the admitted lines. And then overall, strong new business growth of 22%.

On Lexington, we do continue to invest in Lex across all lines. So you'll see Lex continue to show up with more resources, more products, enhanced capabilities going forward.

On the third quarter performance, as Peter mentioned, 78% for retention, which is really strong, a 24% increase in new business. And to the point of your question, casualty showed up very well in the E&S space in terms of new business for the quarter.

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We also saw a 35% increase in submission. So the submission activity continues to be very robust in the E&S space for us. It's generated probably by 2 things. One is just increasing demand for E&S solutions in general and a flight to quality within E&S.

For me, personally, when I think about the nature of a wholesale broker today versus when I started in this industry, it's a completely different game. The brokers in the wholesale space operate at a different level today, incredibly well resourced, data driven, effectively deploy technology to drive efficiency, which is critical in wholesale. They're also increasingly being embraced by thousands of independent agents for market access and placement capabilities. So Lex will continue to benefit from that trend in terms of the growth of our book and new business.

And Peter, just a couple of data points to close out on E&S, which might be helpful. Today, E&S represents 12% of a $115 billion U.S. P&C industry. In 2018, E&S was 7% of a $50 billion industry. So the pie has gotten considerably larger. And the last data point I'd give you, just on distribution. The top 5 wholesale brokers control over 65% of the growing $115 billion U.S. E&S market. Lex is very well positioned in E&S and very well positioned with these top brokers.

Peter Salvatore Zaffino
Chairman, CEO & President

Thanks, Don. Brian, do you have a follow-up?

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, absolutely. A bigger-picture question here, Peter. So I think you said that you're expecting a 10% core ROE for 2025. If I look at peer companies, they're kind of trending in the mid- to even higher teens. What's your kind of longer-term view of kind of ROE aspirations? Do you think you can get to peer ROEs? And what do you think it's going to take to get there? Is it more margin improvement? You need to kind of grow acquisitions? Just curious, bigger picture, your thoughts there.

Peter Salvatore Zaffino
Chairman, CEO & President

Yes. Thanks, Brian. I mean, obviously, we've been talking a lot about the 10% and gave guidance in my prepared remarks about getting to that in 2025. There's a variety of ways in which we can get there. We talked about our combined ratio and the opportunities to improve that. We have such a great underwriting culture and believe that there's lots of opportunities. Of course, it's market dependent, but our leadership position in the market allows us to remain disciplined and focused on clients.

There's the other variables. I mean, certainly, it's our equity base. We talked about that a little bit and that we believe we can grow into it. And that's, of course, going to generate more earnings opportunity. Our net investment income, net premiums written both from pure growth in terms of strong retention, more new business but also reinsurance structures, how we look at proportional versus excess of loss, and there's ways in which we could have some tailwinds there.

Quality of our reserves, which we continue to emphasize. Sabra gave a lot of detail in the prepared remarks and on the answer just now. So we have a lot of confidence there. Capital management actions, we have lots of flexibility, subject to when we close Nippon and do other capital market transactions. But there's lots of ways in which, from a capital management standpoint, allow us to improve.

Our ability and track record to successfully manage volatility is very important. And then the last one is our expense management is very disciplined. We are executing on AIG Next. That showed itself in the third quarter. We're not looking to hit the ball out of the park every quarter leading in 2025. We pulled guidance forward, that we will be able to get Other Operations, which was substantially higher, to a $350 million lean parent, but also get the expenses either eliminated or into the business without increasing the combined ratio.

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We're well underway. You can see evidence of that in the third quarter. You'll see more evidence of that in the fourth quarter. So there's a bunch of ways in which I think that we can deliver it. And once we get north of the 10%, we'll provide guidance after that. But thank you.

Operator

Our next question comes from Rob Cox with Goldman Sachs.

Robert Cox
Goldman Sachs Group, Inc., Research Division

So I think you guys had previously noted M&A potentially becoming a more meaningful consideration for capital deployment. But you also mentioned revisiting share repurchase guidance as you expect some further liquidity coming in next year. Can you give us an update on your appetite for M&A and how that might help you reach premium leverage objectives quicker than organically?

Peter Salvatore Zaffino
Chairman, CEO & President

Sure, Rob. Thanks. I'll start with the second part. The guidance we gave was that we would do $10 billion of share repurchases in '24 and '25. And so like you could see through the third quarter, we are well underway, executing every quarter. We'll have more liquidity coming in. And so that's the priority with the proceeds coming in from Nippon and, as I said, other marketed deals and liquidity that we currently have at the parent company.

In terms of M&A, we have given ourselves lots of options. We have the financial strength, the financial flexibility to explore inorganic opportunities. We're always looking at ways in which we can add strategic relevance and something that's compelling to AIG. We already have sizable, very high-quality businesses in major markets. I mean you know about the U.S., U.K., Japan, Singapore, Europe. We believe we can grow those businesses organically, but there may be more opportunities to expand inorganically as well.

We're going to remain very disciplined, but we are going to look at businesses and opportunities in inorganic that may complement our geographical footprint or product capabilities. There's opportunities maybe to go into spaces that we're not in today, maybe some of the SME, or looking at ones that enhance scale of businesses that we already have market leadership that just will accelerate our ability to execute our risk-adjusted returns.

So I want to remain very disciplined, very patient, but we have the financial flexibility and the strategic intent of growing.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Great. And as a follow-up on GOE and General Insurance, it didn't necessarily appear like it decreased as much as the run rate in the first half of the year. So I was just hoping you could discuss kind of the puts and takes in the General Insurance GOE ratio and if this level of improvement is sort of in line with expectations.

Peter Salvatore Zaffino
Chairman, CEO & President

Yes, I was actually quite pleased with the third quarter in GOE because we looked at other operations and the significant improvement that we made there on the GOE line year-over-year and then sequentially. But also we are absorbing a lot of the expenses as they get pushed into the business. And so while the Personal Insurance year-over-year, the nominal was down, and then on Commercial, it was slightly up. When you look at putting $50 million more of cost in, the run rate is actually quite attractive.

And so we have 2 major initiatives that have begun to earn in the third quarter, but you'll start to see a lot more of that in the fourth quarter and as we get to 2025. One was our voluntary early retirement plan that we had announced in the United States. And then we did a restructuring international that just really

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happened in September. And so you'll start to see more run rate as we get into the fourth quarter and next year.

But I'm really pleased with what we did in the third quarter and believe we are showing a lot of sequential improvement and executing to this future state operating model that's going to be much leaner, much simpler, much easier to follow.

Operator

Our next question comes from Alex Scott with Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

I had a follow-up on just sort of the leverage. And I guess thinking through both leverage down at the operating companies as well as financial leverage. When I look at the ROE, that seems to be the place where you're underindexed versus some of the peers, not so much, like the actual combined ratio and so forth. So I was interested in, I guess, on the debt leverage side.

Are we at a place where leverage can actually begin to come up as you see opportunities, particularly if you do engage in M&A? And then on the core operations, I mean, can you frame at all, like how much dry powder you see in terms of being able to lean into some of these opportunities if they get better in casualty?

Peter Salvatore Zaffino
Chairman, CEO & President

So thanks, Alex, for the question on -- on leverage, yes, we have a lot of -- I think it goes into what I said about potential M&A where we've given ourselves a lot of financial flexibility if we find something compelling and attractive. I think the high teens of a leverage to total capital, including AOCI, we're very comfortable with.

But absolutely what you were asking is a truth, which is if we find opportunities, can we increase our leverage to be able to execute on that? The answer is yes, we can. And we're going to be very mindful. Obviously, the primary use for proceeds from the Corebridge sell-down will go to share repurchase, but we could continue to work on leverage a little bit to give us even more financial flexibility over time.

In terms of -- I just want to make sure I understand the second part, which is having -- we have a lot of capital. I don't -- look, it's a moment in time, and to quantify what we think is excess today, I don't think is something that is overly constructive just because we intend to grow into that. We have shown real opportunities in our business to acquire new business. We had a terrific new business quarter. That momentum continues.

And I think, look, property was probably the one that was sort of slowing down in terms of pricing, but Milton and Helene have changed a lot. And I think that there'll be more flight to quality and there will be more flexibility for AIG in terms of our ability to drive property growth than on a risk-adjusted basis throughout the world.

And so like I think the balanced portfolio, opportunities to grow, being able to take more net and being able to hit that 10% ROE is our near-term objective.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Got it. That's helpful. And then maybe a quick follow-up on Personal Lines in North America. Can you just give us an update on sort of where we stand with that MGA structure that was put in place and over what period of time you'd expect that combined ratio to come down below 100%?

Peter Salvatore Zaffino
Chairman, CEO & President

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Yes. Thank you for the question. I mean North America Personal is in transition as we spoke about. It's hard in the primary high-net-worth business to effect change fast, but we're making great progress. In the quarter alone, the attritional loss ratios improved on a meaningful basis. GOE is down. What you're seeing is the acquisition ratio increased quite a bit as we transitioned to the MGU.

Now there's a few things happening that will reverse that in 2025. One is we're at scale, everything is fully put into the MGU, and we expect the ceding commission that we pay to go down, I think, in a meaningful way. And so the acquisition expense ratio will improve accordingly.

I want to talk a little bit about like the strategy that we talked about, which is going into more nonadmitted and how that's going to accelerate progress. And we announced it last quarter, but just a couple of statistics that will frame why it's early days, but it's working.

The rate environment that we're in on an admitted basis in the high net worth, we increased 10%. In E&S, it went up 20% on our held book. Our partnership with Ryan Specialty, they're building infrastructure, building sales capacity. We're pointing a lot of retail agents that had no access to AIG or capital for high net worth before are signing up. We expect that to accelerate and continue to grow.

In the third quarter, our new business, 50% of it was E&S. Again, we had good growth. I mean the nominal is not going to move the needle, but we have momentum there. And I would expect in 2025, E&S alone in our strategy will grow the top line 10%. The demand is going to be significant. Our ability to be able to respond to that demand is there with plenty of capacity and an appetite that is going to allow us to improve the risk-adjusted returns and the overall combined ratio.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was just on the North America Commercial. If I adjust out the one-off in the quarter, right, it came in at 61.1% on an ex cat accident year loss ratio basis. You guys are at 61.9% in the first half of the year. So I was just hoping to get more color on what drove the improvement in the quarter and if that's sustainable into the fourth quarter and 2025.

Peter Salvatore Zaffino
Chairman, CEO & President

This is not going to be like the 91.6% question, is it Elyse? Don, do you want to just give a little bit of insight in terms of what's happening with the loss ratio?

Donald John Bailey
Executive VP & CEO of North America Insurance

So in the North American portfolio this year, we've seen some different movements, Peter. And some of it, if you look at -- we have some one-off movements that certainly moved the loss ratio, this one, which you talked about in your prepared remarks. We talked a little bit about the onetime closeout deal that we did that moved it up, so adverse implications.

Peter Salvatore Zaffino
Chairman, CEO & President

I think, look, in the commentary, Elyse, we sort of backed out the 2. They weren't headwinds. They were just anomalies relative to what the prior year was. And then the mix of business will continue to change. We see real opportunities to grow in casualty, and so those may have a different loss ratio relative to the overall portfolio.

We think there's going to be growth opportunities in property based on the market dynamics that are shifting in 2025. And we see that the headwinds on pricing in Financial Lines are slowing down. We are not going to continue to ride that wave down, and on lead, first excess and leading in D&O. I think Don

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highlighted this, is that we've seen a slowdown in the rate reductions. And as we look into 2025, that's all going to stabilize.

So I think that mix, if you take out the 2 things we talked about, which was significant outperformance in property and short-tail last year in the third quarter, along with the closeout, that looks like a loss ratio that's sustainable.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes, that's -- my follow-up, I guess, would be, Peter, just building upon that comment, as you view the market conditions out over the next year, how do you expect the mix to shift between property and casualty relative to where it is today?

Peter Salvatore Zaffino
Chairman, CEO & President

It's hard to tell because, as I mentioned before, I think the property slowdown in terms of rate increases should start to reverse as you get to next year because there's so much net that's been retained by insurance companies that they're not getting the appropriate risk-adjusted returns for the cat loss at the low-return periods and the increased frequency and severity. So I think that's going to reverse.

Casualty is very strong. And Don went into length on excess and surplus lines. And then also, we're seeing slowdown in Financial Lines. And so I think that the overall index, I think, is going to sustain. But we'll see when we get into the market and see what happens within particular property. But I'm optimistic, was why I put some time into it in the prepared remarks that we see a rate environment that's going to improve.

I don't know, Jon, maybe like we -- just before the call ends, you can give a little bit of perspective in terms of where you see opportunities as we look to 2025 in international.

Jon Hancock
Executive VP & CEO of International Insurance

Yes. Thanks, Peter. I'll try not to repeat everything you've said, but you're right. The dynamic between the first-party lines and the third-party lines is there across international as well. And we've seen -- first-party lines, we're still seeing good rates and price on property classes.

But for me, a bit like Don with Lex, we've got these jewels in Global Specialty and Talbot. Global Specialty, we are the #1 writer of business around the world. We're #1 in energy. We're #1 in marine. We're top 3 in aviation. We're #4 in credit. And we're growing that business really well.

You referenced in your prepared remarks, Peter, 6% growth in the quarter, but actually huge growth in energy, 25% new business growth in marine in the quarter. We're seeing a different dynamic at the moment where we've grown our international specialty book by 10% in the quarter. Talbot, again, another 6% growth, but the specialty lines at Talbot, the products at Talbot is really renowned for political risk, marine, energy, grown by 18%. If you look at -- add that to the fact that submissions are 25% up in both Talbot and specialty, our quote rates are higher, our bind rates are higher. We've got a huge opportunity there. And we're the best in the market at it. So we'll still keep seeing the opportunity.

Peter Salvatore Zaffino
Chairman, CEO & President

That's great, Jon. Thank you very much, and I agree.

Before I finally close, I do want to take a moment to thank Sabra for her many contributions at AIG. Over the past 5 years, Sabra has always been willing to take on a variety of important complex roles, and in each instance, she's always done everything she can to add significant value. So thank you, Sabra, including the most recent role as CFO. We wish her nothing but the best in her future endeavors as we welcome Keith Walsh as our new CFO.

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I'd also like to thank all of our colleagues around the world for their continued dedication, commitment and teamwork and execution. And I want to thank everybody for joining us today. Have a great day.

Operator
Thank you for your participation. This does conclude the program. You may now disconnect. Good day.

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