S&P Global
Market Intelligence

American International Group, Inc. NYSE:AIG

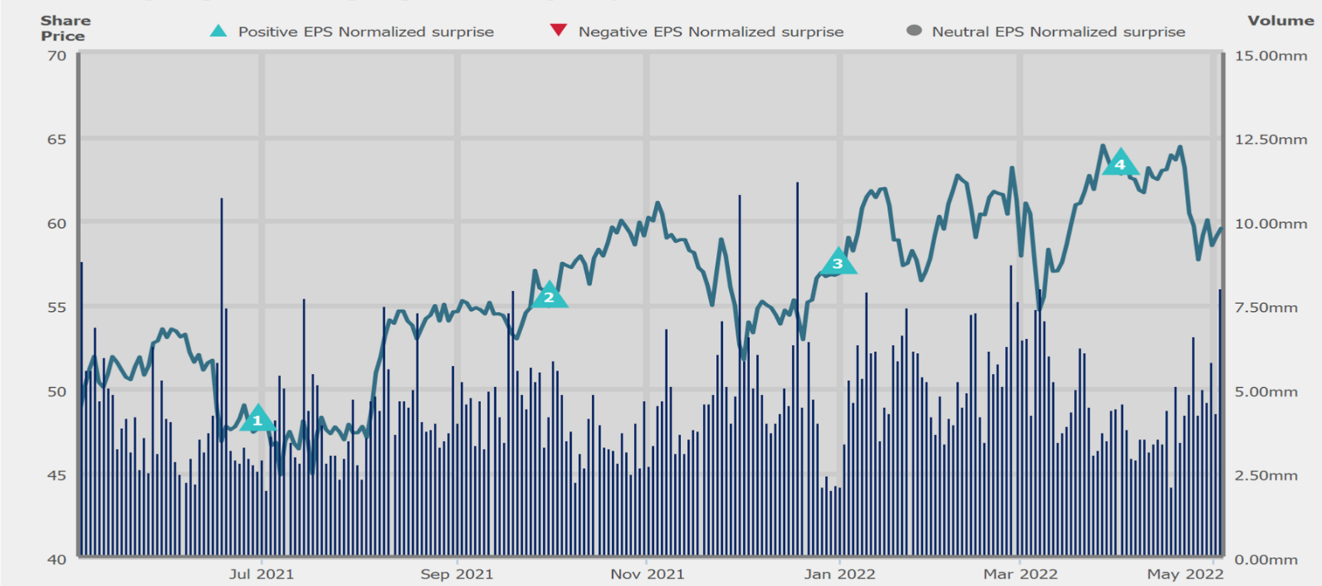
FQ1 2022 Earnings Call Transcripts

Wednesday, May 04, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.17	1.30	▲11.11	1.25	5.15	NA
Revenue (mm)	11430.67	NA	NA	12220.28	47906.64	NA

Currency: USD
Consensus as of May-04-2022 1:19 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	1.20	1.52	▲1 26.67 %
FQ3 2021	0.89	0.97	▲2 8.99 %
FQ4 2021	1.18	1.58	▲3 33.90 %
FQ1 2022	1.17	1.30	▲4 11.11 %

Table of Contents

Call Participants

EXECUTIVES

Kevin Timothy Hogan
Executive VP and CEO of Life & Retirement

Mark Lyons;Executive VP & CFO

Peter Zaffino;President, CEO, Global COO & Director

Quentin John McMillan
VP, MD & Head of Investor Relations

Shane Fitzsimons
Executive VP & CFO

ANALYSTS

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Ryan James Tunis
Autonomous Research LLP

Presentation

Operator

Good day, and welcome to AIG's First Quarter 2022 Financial Results Conference Call. This conference is being recorded. Now at this time, I would like to turn the conference over to Quentin McMillan. Please go ahead.

Quentin John McMillan
VP, MD & Head of Investor Relations

Thanks very much, Jake. 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, including our annual report on Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results or events to differ materially. Except as required by the applicable securities laws, AIG is under no obligation to update any forward-looking statement if circumstances or management's estimates or opinion should change.

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

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

Peter Zaffino;President, CEO, Global COO & Director

Good morning, and thank you for joining us to review our first quarter financial results. I'm very pleased to report that AIG had an excellent start to 2022. We are successfully executing on several strategic, operational and financial priorities, and our team has significant momentum on many fronts, which we believe will continue throughout the year.

Following my remarks, Shane will provide more detail on our financial results, and then we will take questions. Mark Lyons, David McElroy and Kevin Hogan will join us for the Q&A portion of today's call.

Today, I will cover 4 topics. First, I will outline the tremendous progress we've made towards the separation of our Life and Retirement business, which will be renamed Corebridge Financial. Second, I will review the excellent first quarter performance of General Insurance, where we continue to drive top line growth, particularly in Global Commercial, and saw meaningful improvement in underwriting profitability. Third, I will cover Life and Retirement's financial performance. This business remains a meaningful contributor to our overall results. And fourth, I'll provide an update on our capital management strategy, particularly as to stock buybacks, which we plan to accelerate over the course of 2022, given our positive view of AIG's future over the near, medium and long term.

Before I turn to these topics, I'd like to discuss the situation in Russia and Ukraine. It goes without saying that what is happening is heartbreaking. Ukrainian people are experiencing unimaginable pain and suffering. And it's our hope that a peaceful resolution will be achieved.

With respect to the insurance industry, we've not seen a situation like this in modern times. It presents a unique set of circumstances that make any exposure or coverage analysis complex. Let me start by commenting on what we saw at AIG in the first quarter and what we did with a few claims that were submitted.

The claims we received were largely reported under political violence or political risk policies. While the amount of information included in the claims was limited, we did reserve our best estimate of ultimate losses, including IBNR. While we know it will take time for the full impact of the Russia-Ukraine situation to emerge, based on the work we did in the first quarter to analyze our exposures and review known claims, we do not believe the impact will be material to AIG. And in the event of losses, we have multiple reinsurance programs available.

With respect to the industry more broadly, there's not been much discussion so far in this earnings season regarding what the Russia-Ukraine situation means. So I thought I'd spend a few minutes on the complexity that it presents.

As a starting point, it's important to bear in mind that standard property and energy policies issued to the types of insureds most likely to have suffered losses due to the conflict typically contain broad exclusions for losses arising at a war and other hostile acts. In instances where affirmative coverage has been provided for losses that would typically fall within the scope of these exclusions, the most relevant coverages relate to policies such as political violence, political risk and trade credit, aviation and marine.

Now I'd like to spend a few minutes on aviation because it's the topic that has received the most attention over the last 30 to 45 days. Aviation is similarly complex and it will take time before all the relevant facts and resulting coverage implications fully emerge.

Let me start with what we know. We know that aviation policies can be issued to both airline operators and airline leasing companies and typically provide separate coverage for, on the one hand, losses caused by war perils, such as nationalization and confiscation; and on the other hand, losses caused by nonwar perils.

We also know that the invasion of Ukraine first occurred on February 24, and there were sanctions issued by the U.K. and the EU on February 26, which have since been updated. These sanctions generally required airline lessors to cancel leases with Russian airline operators and gave them a brief period in which to do so. Additionally, we know that there was an aircraft reregistration law passed in Russia on March 14, which permitted Russian airline operators to reregister aircraft leased from Western lessors on the Russian aircraft registry.

What we don't know is much more expansive. As an initial matter, we don't know whether or to what extent actual losses have occurred or when they occurred, given the uncertainty surrounding the location and condition of aircraft and other equipment as well as the timing of their potential return to lessors, nor do we know if efforts have been undertaken by lessors to mitigate any damages.

As to the question of losses caused by war perils versus nonwar perils, this is a critical question that will need to be answered as the outcome will determine which policy might apply and the amount of coverage that may be available.

With respect to war perils such as government confiscation, this type of loss would typically be included in a whole war policy, but it must be first be determined if there's an actual confiscation. Even where it is determined that a government confiscation took place, consideration will also have to be given to the timing of notices and the geographic scope of coverage. The answers to these questions will impact whether there is a covered loss and, if so, whether a given whole war policy response.

With respect to reinsurance, structures likely implicated in a war peril scenario include war, marine and energy and political violence, but it's also possible that other types of reinsurance contracts could be available for recoveries. If a loss is alleged to be due to a nonwar peril, it could be covered in an all-risk policy. As an initial matter, however, a determination would need to be made that a loss in fact has occurred and then, if it has, that is due to a nonwar peril.

Additionally, as with war perils, you would have to consider if reinsurance is available. The reinsurance that would be typically available in an all-risk scenario may be in different structures than in government confiscation or other war peril scenario.

As to all potentially covered perils, there are many issues requiring analysis, including the potential applicability of any sanctions. Assuming claim payments are made, insurers will also have to consider their recovery rights through salvage and subrogation and contribution from other available insurance. This is just a high-level summary of some of the issues the industry will grapple with, but I thought they were important to highlight, and you get the idea that it's a complex situation.

Now turning to the separation of Life and Retirement. We made significant progress to prepare this business to be a stand-alone public company. We continue to target an IPO in the second quarter, subject to market conditions and required regulatory approvals. We also continue to expect that we will retain a greater than 50% interest in this business post IPO. As you can appreciate, given where we are in the process, there are limitations on how much I can say about Life and Retirement, but let me give you some highlights of what we've accomplished since our last call. In March, we announced several important milestones: the public filing of the S-1; the new name for Life and Retirement which, as I mentioned, is Corebridge Financial; and the Independent Directors who currently serve on the Corebridge Board of Directors and those who will join and strengthen the Board as of the IPO.

At the same time, we launched a $6 billion Corebridge senior notes offering which was upsized to $6.5 billion based on significant demand. Shane will provide more detail on the maturities and coupons. We also made substantial progress on the operational separation of the Life and Retirement business from AIG, including identifying $200 million to $300 million of cost savings for this business, inclusive of $125 million in savings already in flight as part of our AIG 200 transformation program. And we continue to execute on establishing a hybrid investment management model that will allow Corebridge to benefit from strategic partnerships with world-class firms that offer excellent origination and investment capabilities and that complement our own capabilities in asset classes such as commercial mortgage loans, global real estate and private equity.

The first step in moving to this hybrid model was our strategic partnership with Blackstone, which we announced in 2021. In March of this year, we announced an arrangement with BlackRock, whereby BlackRock will manage up to $90 billion of Corebridge's liquid assets.

In addition, we developed a plan to modernize the mid- and back-office functionalities of the business and the transition to BlackRock's Aladdin technology platform with respect to Life and Retirement's entire investment portfolio. Aladdin enables us to replace aging and end-of-life technology infrastructure, provides risk analytics, establishes a single accounting book of record and a single investments book of record as well as reporting, stress testing and other services currently performed across multiple systems at AIG.

We expect that the cost for Corebridge to operate this hybrid model, taking into account both Blackstone and BlackRock, will be approximately the same as the fully loaded costs of our prior investment management operating model, where asset management was largely handled in-house.

Shifting to our first quarter financial results. As you saw in our press release, adjusted after-tax income was $1.30 per diluted share, representing an increase of 24% year-over-year. This result was driven by significant improvement in profitability in General Insurance, good results in Life and Retirement considering the current environment, continued expense discipline, savings from AIG 200 and strong execution of our capital management strategy.

In General Insurance, we reported an accident year combined ratio, excluding CAT, of 89.5%, a 290 basis point improvement year-over-year and the 15th consecutive quarter of improvement. We were especially pleased with the accident year combined ratio, excluding CAT and commercial, which was 86%, an improvement of 440 basis points year-over-year.

In Life and Retirement, first quarter results benefited from product diversity despite headwinds in the capital markets. Return on adjusted segment common equity was 10%. AIG ended the first quarter with $9.1 billion in parent liquidity after returning $1.7 billion to shareholders through $1.4 billion of common stock repurchases and $265 million of dividends.

Now let me provide more detail on our first quarter results in General Insurance, where we continue to drive improved financial performance, with core fundamentals being key contributors. Gross premiums written increased 10% on an FX-adjusted basis to $11.5 billion, with commercial growing 11% and personal growing 8%. Net premiums written increased 5% on an FX-adjusted basis to $6.5 billion. This growth was led by our commercial business, which grew 8% with personal contracting 1%. Growth in North America Commercial net premiums written was 6% and then International net premiums written growth was 10%, both on an FX-adjusted basis.

I'd like to unpack certain components of North America Commercial net premiums written as we had a very strong growth in our core business that may not be immediately obvious. While there are always movements each quarter in various aspects of our portfolio, both positive and negative, there were 3 items that impacted the first quarter that I'd like to provide more insight on. These items relate to assumed and ceded reinsurance and the timing of purchases, which is not something we have focused on previously but which I think is worth spending a few minutes on given the impact they had on North America Commercial net premiums written.

The first item relates to AIG Re, our assumed reinsurance business. Financial results for AIG Re are included in the financial results for North America Commercial and, in the first quarter, represented 40% of the segment's total net premiums written. For AIG Re, the first quarter is the largest quarter of the year with over 50% of its annual business written at 1/1. In the first quarter of 2022, AIG Re's net premiums written were flat year-over-year. This result was deliberate as we applied a disciplined approach to underwriting, and the market environment that persisted leading up to 1/1 led us to conclude that AIG Re could not achieve appropriate levels of risk-adjusted returns in property CAT, in particular, even with a comprehensive retrocessional program in place.

As a result, we reduced gross limits deployed in property CAT primarily in the U.S. by $500 million, which was the main reason for AIG Re's net premiums written being flat.

With respect to the second item, you may recall that in 2021, AIG Re made discrete retrocessional purchases throughout the year to further reduce frequency and volatility, whereas this year, retrocessional purchases were consolidated into the 1/1/2022 renewals as the retro market rebalanced. As a result of this decision, AIG Re ceded premiums were higher in the first quarter of 2022, which also reduced North America Commercial's net premiums written when compared to the first quarter 2021.

Third, a similar dynamic occurred with respect to our core property CAT reinsurance program for AIG. In 2021, we purchased reinsurance throughout the year to lower net retentions and reduce volatility, particularly with respect to North America property CAT. In 2022, however, those purchases were also consolidated into our core property CAT placement at 1/1.

We were able to consolidate these reinsurance purchases because our portfolio is much improved from last year with significantly reduced exposures. Like the actions we took in AIG Re, however, this reduced North America Commercial net premiums written in the first quarter. To summarize, some of these headwinds in the first quarter of 2022 will largely reverse in the second quarter.

Now turning back to growth. In North America Commercial, we saw a very strong growth in net premiums written, particularly in Retail Property, which grew more than 20%; Crop Risk Services, which also grew more than 20%; Lexington wholesale, which grew more than 15% led by property, which grew more than 50%; and our Canadian commercial business, which grew more than 15%.

In International Commercial, we also saw very strong growth, including in property, which grew 50%; specialty, which grew 34% driven by energy and marine; and Financial Lines, which grew 14%. In Global Commercial, we also had very strong renewal retention of 86% in our in-force portfolio in both North America and International, with North America improving retention by 300 basis points and International retention holding constant year-over-year. We calculate renewal retention prior to the impact of rate and exposure changes.

And across commercial on a global basis, our new business was very strong, coming in north of $1 billion for the fourth consecutive quarter. New business growth in North America and in International were both up 13%. North America new business growth was led by Lexington and Retail Property. International Commercial new business growth was led by Financial Lines and global specialty.

Turning to rate. Strong momentum continued in Global Commercial, with overall rate increases of 9% or 10% if you exclude workers' compensation. And in the aggregate, rate continued to exceed loss cost trends. This continues to be a market in which we are achieving rate on rate in many cases for the fourth consecutive year and where we're successfully driving margin expansion above loss cost trends.

North America Commercial achieved 8% rate increases overall, 10% excluding workers' compensation, with some areas achieving double-digit increases led by Retail Property, which increased 14%; Lexington, which increased 13%; Financial Lines, which increased 12%, including more than 85% rate increases in cyber; and Canada, where rate increased 13%, representing the 11th consecutive quarter of double-digit rate increases in this region.

International Commercial rate increases were 10% overall driven by Financial Lines, which increased 21%, including more than 60% rate increases in cyber; property, which increased 14%; EMEA, which also increased 14%; and Asia Pac, which increased 10%.

Last quarter, we indicated that our severity trend view in the aggregate in North America Commercial range from 4% to 5% and that we were migrating towards the upper end of that range. We now believe the upper end is moving towards 5.5% mostly driven by shorter-tail lines. Our property rate changes, where we continue to achieve mid-teen increases, equal or exceed loss cost trends in our own data and in government-published inflationary indices. Our liability trend assumptions continue to be in the 7% to 9% range, with International indications continuing to be less than those in North America.

Turning to Personal Lines. In North America, personal net premiums written grew nearly 40%, albeit off a smaller base, driven by a rebound in Travel and A&H, which was offset by a reduction in Warranty and increased reinsurance cessions supporting Private Client Group. International Personal saw a 5% reduction in net premiums written on an FX-adjusted basis, due to a reduction in Warranty and personal auto in Japan offset by a rebound in A&H and Travel. Overall, Personal Lines is an area where we continue to invest where there are attractive opportunities for profitable growth.

Now let me review Life and Retirement's results. This business had a good quarter considering the headwinds created by the capital markets. These market dynamics were offset by continued strong alternative investment income and strong growth in premiums and deposits, which increased 13% year-over-year to $7.3 billion. Adjusted pretax income in the first quarter was $724 million, with return on attributed segment equity of 10%. Adjusted pretax income decreased in the period due to lower call and tender income and continued elevated COVID-19 mortality, which is still within our previously established guidance.

Blackstone's capabilities in the early days of our partnership resulted in Life and Retirement seeing one of its strongest fixed annuity sales quarters in over a decade, with premiums and deposits up nearly 150% year-over-year to $1.6 billion, while surrenders and death benefits both improved slightly. Post separation, we continue to expect that Life and Retirement, meaning Corebridge, will achieve a return on equity of 12% to 14%, and that it will pay an annual dividend of $600 million.

Overall, I'm pleased with the momentum in Life and Retirement and, in particular, the early success of our partnership with Blackstone that was evident in the first quarter results.

With respect to capital management, we had a very active first quarter, which ended with $9.1 billion in parent liquidity. As a result of the actions I outlined earlier in my remarks, AIG received $6.5 billion of the $8.3 billion promissory note issued to AIG from Corebridge, and those funds were used to repay outstanding AIG debt, resulting in AIG's interest expense being reduced by 23% year-over-year. In addition, AIG will receive the remaining $1.9 billion under the Corebridge promissory note during the second quarter.

Our capital management strategy will continue to be both balanced and disciplined as we maintain appropriate levels of debt while returning capital to shareholders through stock buybacks and dividends while also allowing for investment in growth opportunities across our global portfolio. This will also be true over time as we continue to sell down our stake in Life and Retirement.

With respect to share buybacks, as I mentioned earlier, we repurchased $1.4 billion of common stock in the first quarter and are on track to buy back at least $1 billion more in the second quarter. This will leave us with approximately $1.5 billion remaining under our prior Board authorization. And as you saw in our press release, the AIG Board of Directors recently authorized an additional $5 billion in share repurchases.

With respect to growth opportunities, our priorities continue to be focused on allocating capital in General Insurance, where we see opportunities for profitable organic growth and further improvement in our risk-adjusted returns. As we move through 2022 and are further along with the separation of Life and Retirement, we will provide updates regarding our capital management strategy.

Before I turn the call over to Shane, I want to emphasize how pleased I am with how we started the year across AIG and how we are continuing to execute on multiple complex strategic priorities with high-quality results that are positioning AIG as a top-performing company. Our teams have overperformed across the board, and our deep bench continues to provide us with opportunities to leverage skill sets and further develop talent across the organization.

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

Shane Fitzsimons
Executive VP & CFO

Thank you, Peter, and good morning to all. I am very pleased to be AIG's CFO, and I look forward to working with everyone moving forward. I will provide more detail on our first quarter financial results and unpack a number of our key performance metrics, specifically EPS, liquidity, leverage, net investment income and ROCE.

I will begin by going through the financial results of the businesses in the quarter. I will then touch upon the balance sheet, leverage and liquidity, which benefited from excellent execution on a number of capital transactions. I will then supplement Peter's remarks on the separation of Corebridge, including the arrangement we announced with BlackRock and liability management actions we recently completed. I will then spend some time on investment income and will provide insight on the impact of rising interest rates. And finally, I will talk about the execution path towards our long-term 10% ROCE goal for AIG, including income drivers, AIG 200 and other areas of corporate GOE reduction.

As Peter mentioned, adjusted EPS attributable to AIG common shareholders grew 24% year-over-year to $1.30 per diluted common share compared to $1.05 per diluted common share in 1 quarter '21. Compared to the first quarter '21, improvements in General Insurance contributed $0.33 year-over-year, reduction in share count contributed $0.07 and lower interest expense contributed $0.04, offset by Life and Retirement being $0.19 unfavorable primarily due to $0.20 unfavorable due to lower net investment income.

General Insurance's adjusted pretax income contribution in the quarter was $1.2 billion, which reflects strong underwriting profit, growth in Global Commercial and continued improvement in both the GAAP combined ratio up 590 basis points to 92.9% and the accident year combined ratio ex CAT improving 290 basis points to 89.5%. The combined ratio improvement was due to improved underwriting, premium growth, expense discipline and lower CATs, which all contributed to pretax underwriting income being 6x higher than the first quarter of 2021, increasing to $446 million from $73 million. With net investment income down $7 million year-over-year, the $366 million improvement in adjusted pretax income was driven by underwriting income, of which $223 million was from improved accident year underwriting income, $146 million due to lower CAT and $4 million from improved net PYD.

North America Commercial has shown a 580 basis points improvement in the accident year combined ratio ex CAT over the prior year quarter, coming in at 88.1%. International Commercial also continued to improve profitability with 330 basis points improvement in the accident year combined ratio ex CAT this quarter, coming in at 83.5% for the first quarter.

Personal Insurance GAAP combined ratio of 97.2% improved by 160 basis points year-over-year. In the first quarter, CAT losses were $274 million or 4.5 loss ratio points compared to $422 million or 7.3 loss ratio points in the prior year quarter. The most significant loss events in the quarter came from flooding in Australia and a Japanese earthquake. The ongoing events with Russia and Ukraine, which Peter discussed, contributed approximately $85 million of the estimated loss.

Prior year development, excluding related premium adjustments, was $93 million favorable this quarter compared to favorable development of $56 million in the prior year quarter. This quarter, the ADC amortization provided $42 million of favorable development, and the balance of $51 million favorable arose from old accident years in U.S. workers' compensation along with short-tail lines in North America and in Japan Personal Lines.

Life and Retirement adjusted pretax income of $724 million compared to $941 million in 1Q '21, a reduction of $217 million mostly attributable to lower net investment income, which was $2.1 billion in the quarter compared to $2.4 billion in the prior year quarter, a decrease of $224 million, reflecting lower call and tender activity from rising interest rates; the absence of the affordable housing portfolio, which was sold in fourth quarter '21 as well as reduced fee income; and an increase in deferred acquisition cost and statement of position reserves due to lower separate account asset values.

Within Individual Retirement, excluding the Retail Mutual Fund business, which was sold, net flows were positive $874 million this quarter compared to positive net flows of $50 million in the prior year quarter, benefiting from higher fixed annuity sales aided by origination activity through the Blackstone partnership.

Group Retirement grew deposits by 3.9% in the quarter, driven by higher group acquisition and individual deposits driving a slight uptick in fee and advisory income due to higher assets under administration. Life Insurance adjusted pretax income was a loss of $44 million due to continued elevated COVID mortality, while premium and deposits grew 3.4% to $1.2 billion, benefiting from growth of international life sales. Institutional Markets grew premiums and deposits as well as reserves due to increased pension risk transfer activity in the period.

Turning to Other Operations, which includes interest expense, corporate general operating expenses, institutional asset management expense, runoff portfolios and eliminations and was a positive contributor to adjusted pretax income year-over-year by $109 million. These results benefited from lower interest expense of $51 million as we reduced our general borrowings through the course of 2021 by $4 billion and lower eliminations of $43 million. Corporate general operating expenses, excluding increased functional costs to set up Corebridge as a stand-alone public company of $6 million, were largely flat year-over-year.

Moving on to the balance sheet, leverage and liquidity. Our financial flexibility remains strong. We closed the quarter with $9.1 billion of parent liquidity. We saw a large AOCI movement as a result of increase in interest rates. Adjusted AOCI, which excludes the cumulative unrealized gains and losses related to Fortitude, moved from $3.9 billion positive to a $5.9 billion negative, or a reduction of $9.8 billion. Although this mark-to-market impact is a drag on capital, as long as we hold the assets to maturity, we will not realize this unrealized loss.

Operating interest rate movements impact our metrics primarily in 2 places: one, we end up with a gain on the Fortitude Re embedded derivative, which impacted GAAP EPS by $3.21 in the quarter; and second, it impacts our GAAP leverage by a little over 300 basis points. And with interest rates up another 55 basis points in April, we expect to see further movement in Q2.

We exited the quarter at a GAAP leverage of 27.8%, up from 24.6%, the increase of which is attributable to the AOCI movement. The impact is larger in Life and Retirement than General Insurance given the duration of their respective asset portfolios.

Total adjusted return on common equity was 7.6%, up from 7.4% in the first quarter '21, and total company adjusted tangible return on common equity was 8.3%. General Insurance's adjusted attributable return on common equity was 12.3% in the first quarter, while Life and Retirement was 10%. Adjusted book value per share of $70.72 increased 2.7% sequentially and 20.5% year-over-year. Adjusted tangible book value per share of $64.65 increased 2.9% sequentially and 22.3% year-over-year.

Our primary operating subsidiaries remain profitable and well capitalized, with General Insurance's U.S. pool fleet risk-based capital ratio for the first quarter estimated to be between 470% and 480%, and the Life and Retirement U.S. fleet is estimated to be between 430% and 440%, both well above our target ranges.

Finally, on EPS during the quarter. We repurchased 23 million shares at an average cost of $60.02 for $1.4 billion, bringing our ending share count to 800 million with a quarterly average of 826 million compared to 876 million in the prior year quarter, representing a 6% reduction in average share count, which contributed $0.07 of EPS growth in the quarter.

Turning to Corebridge. Since the start of the year, we continue to make progress on numerous fronts with respect to the separation. As Peter mentioned, at the end of the first quarter, Corebridge entered into a strategic partnership with BlackRock to manage up to $90 billion of liquid assets. At the same time, AIG also entered into a separate arrangement with BlackRock, whereby BlackRock will manage liquid assets for AIG representing up to $60 billion. Having now signed IMAs, we expect to begin transferring assets to BlackRock over the course of the second quarter.

In early April, Corebridge successfully raised $6.5 billion of senior notes which, along with the remaining $2.5 billion of delayed draw term loan facility and commitments for the $2.5 billion of revolving credit facility, this establishes the capital structure for Corebridge Financial. AIG proactively hedged treasury rates earlier in the year, and upon unwinding the hedge at quarter end, AIG realized a $223 million gain, which equates to approximately 50 basis points in yield on the notes issued. While the debt issuance closed early in Q2, the $223 million gain was realized as a gain in the first quarter.

The senior notes offering, excluding the hedge, was well structured and laddered with a 3.91% weighted average coupon rate. Corebridge used the proceeds from that offering to repay $6.4 billion of the $8.3 billion promissory note payable to AIG. Following the success of Corebridge's senior notes issuance, AIG initiated a debt tender offer. Taking advantage of strong demand, the tender offer was upsized, and AIG parent debt was ultimately reduced by $6.8 billion. An additional EUR 750 million will be redeemed on May 10, bringing the total expected AIG parent debt reduction to $7.6 billion. The average coupon on the debt that we retired was 3.82%, and the annualized interest expense savings is approximately $290 million.

We continue to target debt leverage in the high 20s, excluding AOCI for Corebridge; and in the low 20s, including AOCI for AIG going forward. Given the significant progress we have made and with $1.9 billion of proceeds from the $8.3 billion note yet to be received, we have the necessary cash to finalize our planned debt actions without utilizing any of the proceeds from the IPO. With these actions completed, we remain on track for an IPO in the second quarter subject to market conditions and regulatory approval.

Net investment income on an adjusted pretax income basis for the quarter was $3 billion. Total cash and investments were $305 billion, excluding Fortitude. Net investment income in the first quarter decreased $193 million compared to prior year, primarily reflecting lower call and tender income.

The first quarter saw significant increases in benchmark treasury yields, with an 80 basis point increase on the 10-year. With General Insurance and Life and Retirement's portfolio durations of 4 and 8.4 years, respectively, the overall rising interest rate environment will provide a tailwind to our investment portfolio returns.

In April, our portfolio crossed the equilibrium point, where new money yield is now 50 basis points higher on average than the yield on the assets rolling off the portfolio. The new money yield is higher by 20 basis points in General Insurance versus assets rolling off and 70 basis points in Life and Retirement versus the yield on sales and maturities currently.

Moving forward, the new money yield is roughly 60 basis points higher than the current portfolio in General Insurance and roughly 90 basis points higher in Life and Retirement. To illustrate the point, holding all other variables constant and assuming 100 basis point parallel shift in the yield curve, we would anticipate approximately $500 million of benefit to adjusted net investment income over a 1-year period with nearly $200 million in General Insurance and $300 million in Life and Retirement.

Within General Insurance, we have $11 billion of floating rate securities, which will begin to see some benefits in the near term, most of which are not tied to longer-dated liabilities. Life and Retirement is $25 billion of floating rate assets, but most of this portfolio is tied to floating rate liabilities that will offset the benefits.

Turning to investments that have Russian exposure. At December 31, AIG held $359 million of sovereign and other foreign debt of the Russian Federation, of which $79 million were within Fortitude. Through proactive sell-downs of $129 million, which generated a loss of $41 million as well as the establishment of a credit allowance of $127 million, the market value of these securities at the end of the first quarter was $86 million, of which $18 million is held by Fortitude.

Looking ahead, we have 3 priorities beyond continued progress on underwriting optimization and completing AIG 200. They are the successful separation of the Life and Retirement business, continued execution on our capital management priorities and ROCE improvement towards 10%. Post deconsolidation of Corebridge, we expect that AIG will earn a 10% ROCE, although there are many moving pieces that will get to this result, including the size and timing of the Corebridge IPO, additional capital management actions and continued progress on reducing expenses.

As we've improved expense ratios in General Insurance, one of the key drags on ROCE is corporate expenses, which we have been reducing through AIG 200 and work on the separation, but there remains more work to be done. As Peter noted, with respect to AIG 200, we continue to achieve significant milestones and, in the first quarter, reached $890 million of exit run rate savings with $590 million of that realized to date. We currently expect to have full line of sight into the $1 billion of exit run rate savings either contracted or identified by the end of the second quarter, 6 months earlier than originally planned.

Of the $1 billion of parent expenses, we expect that approximately $300 million will move to Corebridge upon deconsolidation. We will continue to provide updates over time, but the components to get to a 10% ROCE, our continued growth in underwriting profit; improved net investment income as we benefit from higher interest rates; continued execution on expense management, particularly at parent; and optimizing capital allocation in terms of leverage and returns to shareholders in the form of stock buybacks and dividends whilst making sure that we continue to grow the company.

Peter, I will now hand it back to you.

Peter Zaffino;President, CEO, Global COO & Director
Thank you, Shane. Operator, we're ready for questions.

Question and Answer

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the capital return that you guys laid out. So you guys have just over $9 billion at the holdco. Peter, I think you said a minimum buyback of $1 billion for the second quarter. But just given that you have above $9 billion at the holdco with additional capital coming later this year, I would think that there's some flexibility to perhaps go above that $1 billion. So can you just kind of walk us through a little bit more how you're thinking about uses of capital for growth relative to buyback at least in the short term?

Peter Zaffino;President, CEO, Global COO & Director

Yes. Thanks, Elyse, for the question. Yes, we said we would do a minimum of $1 billion of share repurchases in the second quarter. I think Shane and I tried to do as much detail as we could in our prepared remarks in aligning what our priorities are for capital management. And certainly, the Board's authorization for an additional $5 billion says that we will continue to return capital to shareholders in the form of share repurchases.

We think the positioning of the business, I mean, I think you see in the results, we see great opportunities for top line growth. We see it across the world. We see it in the commercial businesses, but also what you would have seen in some of the international that's probably [amasses] that. Accident & Health has started to rebound over the last 3 quarters, and we're starting to see top line growth there. So we want to make sure that we are allocating the appropriate capital for growth in driving margin and making the company look at its opportunities on risk-adjusted returns and make sure that we're capitalizing on the market and our discipline.

I think really, when we get to the actual IPO and Corebridge as a public company, we'll be able to outline the capital management strategy in more detail. But we wanted to provide as much guidance as we could based on what we know today, and we would expect to continue to make the progress that we've demonstrated in the earnings call today.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my follow-up, you guys pointed out that you raised some of your severity assumptions within General Insurance on the short-tail side. When you guys set out that target for the accident year combined ratio of sub-90 for this year, was that contemplated? And then should -- how about the cadence, can you give us a sense? Should we think about sequential improvement from the Q1 level as we move through the year? Or is there some seasonality that we should be considering within General Insurance?

Peter Zaffino;President, CEO, Global COO & Director

Let me take the first part, and then I'll ask Mark to comment on the loss cost observations. We've seen -- when you think about the quality in the results that we produced this quarter, when we look at our business, what do we look at? We look at client retention, which continues to improve. We look at new business, so we're acquiring a lot of new clients across the world. And so that continues to progress and think that there's a lot of momentum there. We look at rate above loss cost trends. And so that was favorable, and we continue to get rate in areas where we believe it is required in terms of its risk-adjusted returns and, again, with our leadership in terms of deploying capital.

Are all the inflation factors considered in the sub-90? Well, no. We obviously are adjusting them, but the outperformance that we have been driving wasn't contemplated either. I mean like we're making more progress on the business at a faster pace and think that we will continue to show that we can grow the business top line and generate the risk-adjusted returns and improvement in combined ratios. Mark, do you want to comment on the loss cost?

Mark Lyons;Executive VP & CFO

Yes. Thank you, Peter. So I think Peter answered it very well. But what I'll do is just reemphasize that, yes, I mean the context of your question, we gave that original guidance before there was any spike of inflation. But like I think any good company, you don't forecast just a point estimate. You're forecasting a range, and those ranges vary by line of business, and they all meld together. And even with the changing inflation assumptions, we'd still be inside that range. So we're comfortable with that.

Operator

We'll go to Meyer Shields with KBW.

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

I think this might also be a question for Mark [as to tax query]. We're clearly seeing a little bit less core loss ratio improvement than the simple mathematical application of earned rate increases and loss trend. And I was hoping you could talk about how that's manifesting itself in prior year reserve reviews.

Peter Zaffino;President, CEO, Global COO & Director

Yes. Mark, please take that. I mean I think it's also important to give some context of the portfolio shift as well, Mark, when we look at loss ratios?

Mark Lyons;Executive VP & CFO

Yes, happy to. And thank you, Meyer, for the question. So I think on that side, first, on the reserve side, when you look at our view of inflation and severity trends and so forth, you really got to separate short-tailed lines from longer-tailed lines, right? And like in our view, the evidence within our own information as well as looking at external indices, whether it's from the perspective of the purchaser or the seller, it's clearer with -- in property-oriented lines.

And it's probably worth noting, back to Peter's comment on mix, is that less than 10% of our pre-ADC reserves are property. So it can't move the needle too much anyway. So I don't really view that as an issue.

And in terms of nonproperty, we've gone through looking at various basis point scenarios of lift and for various durations associated with it. And we still feel that all of that is pretty contained. And don't forget, especially on longer-tailed lines, there's still a high proportion of total reserves subject to the ADC on recoverables as well.

So in terms of the -- your first part of your question with regard to the arithmetic versus what's there, I think we've addressed this before, Meyer, but I'm happy to give some comments again. which is the book has changed so dramatically from policy year '18, '19, '20 '21 and its accident year conversions that you need a margin of safety associated with it because nobody backs a thousand on these things. But there's been a radical change in the quality of the risk, the distribution strategy that Dave McElroy and his team have instituted getting much better risk portfolio churn purposely done to improve it, all the limit changes that Peter has talked about over time. And as a result, the arithmetic just doesn't pan out, let alone the change in mix that has been purposeful, let alone the change in net mix. So all of those changes simultaneously require, in our view, a reasonable range of margin of safety, and that's what you're seeing.

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

Okay. That's very helpful. A quick follow-up, if I can. I know there are a lot of moving parts, but is there any way of quantifying the impact of the reinsurance purchasing timing on the expense ratio in the quarter?

Peter Zaffino;President, CEO, Global COO & Director

Thanks, Meyer. I'll take that. As I said, it's going to be a headwind in the first quarter will be a tailwind in the second quarter. Once we -- there's a couple of moving pieces. We can't really provide the exact numbers, but you can look at like in the second quarter where we purchased down on the North America Commercial CAT to lower retentions as well as in AIG Re, where we reduced volatility by buying single shop per occurrence retrocessional at the second quarter, and both recovered by the way, last year. So we felt that reducing the net retentions was appropriate and carrying that forward into how we were going to structure the 1/1 treaty for AIG as well as the retrocessional covers for AIG Re.

So we have lower nets than we would have at this time last year. It's not uncommon to purchase sometimes midterm if there's available capacity and you're still trying to evolve a program, but we felt very good about the consolidation of those programs at 1/1 and really like the reinsurance that we have in both instances.

Operator

And now we'll hear from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

A couple of questions, just following up from the first 2 question askers. First one, we saw about 3.5 points of sequential loss ratio improvement this quarter in Commercial Lines in general. I noticed that, last year, we also saw like the biggest sequential move in the first quarter. So I'm curious if there's something about 1Q, if it's setting a loss pick assumption or something like that, that's leading to that level of sequential jump that's outsized.

Peter Zaffino;President, CEO, Global COO & Director

Yes. Let me start. Thanks very much for the question. We have -- there's -- Mark touched on a little bit, and I'll ask if he has any additional comments after I make a few observations on the mix of business. But what we have in the first quarter, obviously, is a big AIG Re, which when you look at if you're changing the composition of the portfolio from reducing CAT to doing more proportional, you're going to have lower loss ratios, higher acquisition costs. And so that will have a sometimes impact in terms of how it earns into the first quarter.

We also had, in terms of the overall General Insurance business, the mix changes because, on the one hand, we wanted to make sure that we were patient with A&H, which is a great business for us and Travel in terms of its rebound after COVID but not really reducing the overall overhead. But it does have an impact in terms of the mix and acquisition expense and loss ratio.

The other thing you have to consider where we started, I mean, the incredible improvement that we've had in the portfolio has been disciplined. We've always talked about underwriting from a risk selection standpoint, terms and conditions, attachment, reducing volatility with supplementing reinsurance and then, of course, price above loss cost. And I think when you do that sequentially and maintain the same level of discipline, we start to see the outcome produced like we had in the first quarter. Mark, anything you want to add to that?

Mark Lyons;Executive VP & CFO

Yes. Thank you, Peter. Yes, I think your point about mix is right on point. And remember, there's 2 mixes. You've got the mix on the front end and then you got the mix changes that manifest by the reinsurance purchases and how they earn in over time. So you got both of those factors.

I think, secondly, there's also the realization that, over time, the property and shorter-tailed businesses over the last couple of years are a -- you got to watch the mix of that over time. And therefore, with the mix of medium- and longer-term lines that have volatility associated with them that you got to watch kidding yourself that the quarter-by-quarter is super predictable. If you get the accident year right, I'm happy. Accident quarter by accident quarter is a little bit more of an academic exercise. So I think that may be some of what you're seeing.

Ryan James Tunis
Autonomous Research LLP

Got it. My follow-up just on the acquisition cost ratio. When you think about the reinsurance purchasing, the ceding commissions, the change in the mix, can you guys make a directional assessment at this point about should the acquisition cost in General Insurance, should that ratio be higher or lower in 2022 over 2021?

Peter Zaffino;President, CEO, Global COO & Director

It's hard to predict. I think your first part of the question is do ceding commissions as they start an earn-in benefit, the overall expense ratio. The answer is yes. It wasn't always the case when we were starting the turnaround and -- but today, we have market terms or better on ceding commissions, and that starts to earn in.

But I hate to go back to Travel and Accident & Health. I mean those really dipped during the pandemic. And the U.S. rebounded first. International is starting to rebound. And those businesses just by its nature of how they're set up have lower loss ratios and higher acquisition expenses. So it's hard to predict. I mean what's the recovery look like, what's our growth look like, what's the mix of business look like? So it's really hard, Ryan, to give a forecast in terms of what the impact is.

What we will focus on all the time is improvement in accident combined ratio. So we're not going to be shifting from one category of loss ratio in [DAC] or back. I mean we're going to make sure we're focused on the portfolio optimization and mix of business to improve the overall results.

Operator

And now we'll hear from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First question I had is just on the Life and Retirement side. When I look at the 10% ROE, it held up well in a tough environment. But that said, I think the skeptic would kind of point to the alternative returns and how strong they were and whether that can continue. But at the same time, there were probably some other things in there. I think probably DAC true-ups and things like that related to the markets would have hurt you.

Without maybe the details, it's a little hard from the outside to tell sort of what the ROE is running at on a run rate basis at the moment relative to that 12% to 14% that you all have highlighted. So could you talk about that a little bit and how we should think about sort of the level of ROE that you think you can earn right now?

Peter Zaffino;President, CEO, Global COO & Director

Thanks, Alex. I mean as you can appreciate, preparing for the IPO of Life and Retirement, we do have constraints in terms of how much detail we can go into. I think if you look at the S-1 in terms of how we believe we can drive a 12% to 14% ROE over the long term is something we're very confident about. And if you look at the historical performance of Life and Retirement in terms of its ROE and attributed capital, they've done very well. I mean, Kevin, keeping in mind, we've got to be very careful. Do you want to provide maybe 1 or 2 items of your observations on the quarter?

Kevin Timothy Hogan
Executive VP and CEO of Life & Retirement

Yes. Thank you, Peter, and thanks, Alex. It really is about the combination of the lower equity markets, which do impact the DAC and SI due to the lower present value of the fee income. That's kind of a one-off item. It's not expected to be continuing. And then, of course, we have the increased SOP reserves, and these are things that will be much less of an impact under LDTI. So it's really the onetime impact of that.

And then in terms of interest rates, right, with the increased rates, that does very much affect call tender income on a real basis, CML prepays and, with the direction of the markets, the fair value options. And I think we've provided that detail both in the deck for today on Page 11 and also in the fin sup.

Peter Zaffino;President, CEO, Global COO & Director

Alex, is there another question?

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Yes. Maybe as a follow-up, just going back to the ROE improvement over time. some of those items certainly will take some time. And I don't know if you want to put a specific time frame around it. But I guess the piece of it that's related to corporate cost reductions, I mean for that piece specifically, over what time period do you think you'd be able to sort of take out, call it, stranded costs associated with the separation?

Peter Zaffino;President, CEO, Global COO & Director

We provided a lot of detail in Shane's prepared remarks. And so I don't think it's really worth going back and going through point by point. But the most important thing for us at this stage is to sequence really the strategic initiatives we have in front of us, the most important being right now, the Corebridge IPO. So like that's a big project in itself and making sure that Corebridge is set up to be a separate stand-alone public company and getting the IPO away.

Also making sure that all of the things that are done at AIG today that need to be transferred over or worked with Corebridge is the next highest priority. And we have a -- our parent expenses, you have to think of it as parent and what is General Insurance today coming together as one company. And coming together as one company, we want to be very thoughtful about the business we're in, in the future, what is a target operating model and how do we sequence that in a manner that we are not creating any risk with all the things that we have going on strategically and that we get to the right outcome in the end.

And I think our track record has demonstrated, whether it's the underwriting turnaround, AIG 200, what we're doing in terms of Corebridge. You should be highly confident we'll do it at a pace that is certainly front of mind but, at the same time, making sure that we have all the very important pieces of what we're doing in the separation done very well. And so like that's kind of the time frame. But it's really not going to be what month, what quarter, it's going to be how do we execute things and then sequence the next priority, which will be how we bring parent and General Insurance together.

If I may, let me just -- I just want to thank everybody for our clients, our distribution partners and our colleagues have been tremendous in terms of the work that they've done and the contribution that they've driven to get to these results. So everybody, have a great day. Thank you for your time.

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