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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and welcome to AIG's Second Quarter 2023 Financial Results Conference Call. This conference is being recorded. Now at this time, I would like to turn the conference over to Quentin McMillan. Please go ahead.

Quentin John McMillan
VP, MD & Head of Investor Relations

Thanks very much, and good morning. Today's remarks may include forward-looking statements, which are subject to risks and uncertainties. These statements are not guarantees of future performance or events and are based on management's current expectations. AIG's filings with the SEC provide details on important factors that could cause these 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. 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.

Finally, note today's remarks as they related to net premiums written in General Insurance are presented on a constant dollar basis and where applicable, are also adjusted for the lag elimination in International that is described in our earnings release and related documents. Additionally, today's remarks will include results of AIG's Life and Retirement segment and Other Operations on the same basis as prior quarters, which is how we expect to continue to report until the deconsolidation of Corebridge Financial.

AIG segments and U.S. GAAP financial results as well as AIG's key financial metrics with respect thereto differ from those reported by Corebridge Financial. Corebridge Financial will host its earnings call on Friday, August 4.

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 to review our second quarter financial results. Following my remarks, Sabra will provide more detail on the quarter, and then we will take questions. Kevin Hogan and David McElroy will join us for the Q&A portion of the call.

I am very pleased to report that AIG delivered another exceptional quarter with strong financial performance. In addition, we made significant progress on our strategic priorities that are strengthening AIG for the future. We again demonstrated our ability to deliver high-quality outcomes while executing on multiple complex initiatives during very difficult market conditions.

I would like to start with financial highlights from the second quarter. Adjusted after-tax income was $1.3 billion or $1.75 per diluted common share, representing a 26% increase year-over-year and the best quarterly adjusted EPS result for AIG since 2007.

Net premiums written in General Insurance grew 11%, led by our Commercial business, which grew 13%. Underwriting income in the quarter was approximately $600 million. The adjusted accident year combined ratio ex cats was 88%, a 50 basis point improvement year-over-year and the best result for AIG since 2007. Our cat loss ratio was 3.9% or $250 million of catastrophe losses, a terrific result against the backdrop of a very challenging cat quarter for the industry.

The Life and Retirement business reported very good results in the second quarter. Adjusted pretax income was $991 million, up 33% year-over-year. And premiums and deposits were over $10 billion, a 42% increase year-over-year, supported by record sales of Fixed Index Annuity products.

Consolidated net investment income on an APTI basis was $3.3 billion in the second quarter, a 31% increase year-over-year. In General Insurance, net investment income was $725 million, a 58% increase.

AIG returned $822 million to shareholders in the second quarter through $554 million of common stock repurchases and a $268 million of dividends, which reflects a 12.5% increase in our quarterly common stock dividend that we announced on our last call. As you saw in our press release, the AIG Board of Directors approved an increase to our share buyback authorization to $7.5 billion, which reflects our commitment to returning capital to shareholders, consistent with the capital management strategy we have previously outlined.

Lastly, our balance sheet remains very strong. And we ended the quarter with $4.3 billion in parent liquidity. During the remainder of my remarks this morning, I will provide more information on the following 5 topics. First, the significant strategic actions we took in the second quarter to reposition AIG. During that review, I will provide additional details on the divestitures of Validus Re and Crop Risk Services, the launch of Private Client Select as an MGA serving the high and ultra-high net worth markets and the actions we took with respect to Corebridge.

Second, I will discuss financial results for General Insurance. Third, I will give an overview of the results for Life and Retirement. Fourth, I will provide an update on capital management. And lastly, I will reconfirm our guidance with respect to our path to a 10%-plus ROCE post deconsolidation of Corebridge.

Turning to the strategic actions we executed on. I will start with Validus Re. In May, we announced the divestiture of Validus Re and AlphaCat to RenaissanceRe for approximately $2.75 billion in cash and $250 million in RenRe common stock. We expect to close this transaction in the fourth quarter, subject to regulatory approval.

We're very pleased to have RenRe as the acquirer. RenRe is a very important partner to us, a company with a terrific reputation. And we value the strong relationship we have with Kevin and his management team. We believe RenRe will be an excellent owner of Validus Re.

Now let me provide some highlights on our rationale for the divestiture. We acquired Validus in 2018, which at the time provided AIG with business diversification not limited just to reinsurance but also attractive specialty businesses, including Talbot and Western World, which were not part of the sale to RenRe and will remain with AIG.

Since 2018, we transformed Validus Re by reunderwriting the portfolio, leading to significant premium growth and improved profitability. In addition, we dramatically changed the business mix of the portfolio to achieve a more attractive balance among property, casualty and specialty businesses, improved geographic diversity and decreased peak zone exposures.

For AIG, this divestiture represents a key milestone on our journey as it further streamlines our business model, simplifies the structure of our global portfolio, substantially reduces volatility, which I will explain in a moment, generate additional liquidity and capital efficiencies and accelerates our capital management strategy. Due to the nature of assumed reinsurance and the portfolio mix of Validus Re, this business is capital-intensive and disproportionately contributes to AIG's overall volatility and PMLs.

As we have discussed over the past few years, the core objectives of the property and casualty turnaround were: to substantially improve the overall quality of AIG's global portfolio and underwriting results; reduce volatility through a massive reduction in growth limits written; better manage peak zone exposures and geographic balance; and strategically use reinsurance across our overall business. A turnaround of this magnitude is made harder when you have a treaty reinsurance business, which, by its very nature, has volatility.

We have completed a rigorous enterprise-wide modeling exercise using RMS version 21 to approximate the PMLs for AIG post closing, and all categories will significantly reduce. This analysis took into account AIG's exposure, Validus Re's exposure as of February 1, 2023, and combined output for both companies on an occurrence and aggregate basis.

Let me provide a few examples of the model output for AIG post closing of the Validus Re sale on an occurrence basis. For worldwide, all perils, net PMLs were reduced by 45% at the 1-in-250 return period. Worldwide hurricane PMLs will reduce by 60% at the 1-in-250 return period and by 70% at the 1-in-100 return period.

North America hurricane PMLs will reduce by 70% at the 1-100 return period. North America earthquake PMLs will reduce by 55% at the 1-250 return period. Japan typhoon PMLs will reduce by 50% at the 1-100 return period. Japan earthquake PMLs will reduce by 50% at the 1-250 return period. And for EMEA, all PMLs will decrease by 85% at the 1-250 return period and 75% at the 1-100 return period.

In addition to the strategic repositioning of our portfolio, there were several additional components that made the sale of Validus Re appealing for AIG. The required tangible equity that AIG will deliver to RenRe upon closing, which is $2.1 billion, is substantially below what Validus Re would have required if the business remained at AIG.

We will receive $900 million above the book value of Validus Re, which reflects the improved quality of the portfolio since AIG's purchase of the business in 2018. We also expect to receive, through a pre-closing dividend, excess capital in the legal entities being transferred to RenRe, which we estimate will be approximately $200 million.

In addition, a $1 billion intercompany loan from Validus Re to AIG will be settled through internal dividends, and we expect AIG to benefit from a $400 million reduction in risk-based capital requirements following the closing. As part of the transaction, AIG will retain 95% of future reserve changes in the portfolio delivered at closing. We will receive the benefit of future reserve releases as the portfolio matures, and we will likely purchase an adverse development cover prior to the closing to minimize potential future reserve exposure.

In the second quarter, we also announced and closed the sale of Crop Risk Services to American Financial Group for $240 million in cash. Crop Risk Services was part of the Validus acquisition in 2018. Over the remainder of the 2023 crop season, AIG will continue to benefit from earned premium for crop business booked since the start of the year. But as we enter 2024, this business will no longer have an impact on AIG's financial results.

Next, I want to provide more detail on the formation of Private Client Select as an MGA, which is now referred to as PCS. The MGA has officially launched, and we expect to add new capital providers in the coming quarters. We believe the MGA structure is ideal for PCS as it creates flexibility and alternatives for clients, agents and brokers in an environment that's becoming more complex.

The high and ultra-high net worth markets PCS is focused on have significant foundational challenges include loss cost pressure, inflation, increased cat exposure through increased total insured values and more concentration in peak zones, and primary and secondary peril modeling has been [indiscernible]. AIG will continue to support the MGA. And because we will be assuming risk on our balance sheet, we've established the MGA's risk framework, which is designed to improve its financial performance in 2023 and as we enter 2024.

Overall, we are pleased with the progress we've made with Stone Point Capital on this MGA structure. And we're well positioned to accelerate the business plan through the remainder of the year.

Moving to Corebridge. In June, we completed a secondary offering of Corebridge common stock with gross proceeds to AIG of $1.2 billion. The offering was well received by the market. And the new owners included a strong mix of long-term holders, which we believe results in a more stable and well-diversified shareholder base for Corebridge.

Also in June, Corebridge announced and paid a $400 million special dividend in addition to its $150 million ordinary quarterly dividend and completed the repurchase of $200 million of common stock from AIG and Blackstone. AIG's net proceeds from these actions were approximately $540 million.

At the end of the second quarter, our ownership stake in Corebridge was approximately 65%. These actions demonstrate our commitment to deconsolidation and eventually full separation. As we noted on our last call, we continue to explore all options with respect to our remaining ownership of Corebridge that are aligned with the best interest of shareholders.

Turning to other strategic actions we are taking in Corebridge. The previously announced sale process for Laya Healthcare, the private medical insurance business in Ireland that is part of Corebridge, is proceeding very well. We expect to announce a positive outcome from this process in the near term and expect that the proceeds from this divestiture will largely be used for a special dividend to Corebridge shareholders.

Additionally, we recently retained advisers to analyze strategic alternatives for the disposition of the U.K. Life business that is part of Corebridge. The dispositions of Laya and U.K. Life will streamline the Corebridge portfolio and allow its management team to focus on core Life and Retirement products and solutions in the United States.

Turning to General Insurance. We had another quarter of strong growth in both gross and net premiums written. Gross premiums written were $10.4 billion, an increase of 11%. Global Commercial, which represents 80% of gross premiums written, grew 15%. And Global Personal decreased 1%.

Net premiums written were $7.5 billion, an increase of 11%. This growth was driven by Global Commercial, which grew 13% while Global Personal grew 5%. In North America Commercial, we saw a very strong growth of 18% in net premiums written. Excluding Validus Re, net premiums written growth in North America Commercial was 13%. The major drivers were as follows: Retail Property, which grew over 50%; Validus Re, which grew 32%; and Lexington, which grew 18%, led by wholesale property and casualty.

I would like to provide a few additional details about Lexington's growth, given it continues to be an important part of AIG's strategy. Property grew 38% year-over-year driven by very strong retention in new business as well as strong rate increases. Submission activity was up over 30% year-over-year. Casualty grew 41%, supported by strong retention in new business, and its submission count was up over 90%.

In International Commercial, net premiums written grew 6% primarily driven by property, which was up 34%; Talbot, which was up 17%; and Global Specialty, which was up mid-single digits, which reflected the impact of additional reinsurance purchasing in the second quarter.

Global Commercial had very strong renewal retention of 88% in its in-force portfolio. International was up 200 basis points to 88%, and North America was up 200 basis points to 87%. As a reminder, we calculate renewal retention prior to the impact of rate and exposure changes.

And across Global Commercial, we continue to see strong new business, which was approximately $1.1 billion in the second quarter. North America Commercial, excluding Validus Re, produced new business of approximately $600 million, an increase of 10% year-over-year.

This growth was driven by Lexington property, which saw excellent new business growth of over 40%. Retail Property had over 50% new business growth, offset by Financial Lines, where new business contracted by over 35%.

International Commercial new business was $485 million, which grew 5%. This growth was led by Talbot new business, which increased over 100% year-over-year and property, which grew new business by 40%, offset by Financial Lines where new business contracted by over 20%.

As I noted on our last call, we continue to see headwinds in certain aspects of Financial Lines due to increased competition putting pressure on pricing. Despite these continuing dynamics, we remain disciplined on risk selection, terms and conditions and price while taking a long-term view on this line of business by not following the market down.

Moving to rate. In North America Commercial, excluding Validus Re, rate increased 8% in the second quarter or 9% if you exclude workers' compensation, and the exposure increase was 2%. Rate increases were driven by Lexington wholesale, which was up 23% with wholesale property up over 35% and Retail Property, which was up 30%.

In International Commercial, rate increased 9%, and the exposure increase was 1%. The rate increase was driven by property, which was up 21%; Talbot, which was up 14%; and Global Specialty, which was up 11% driven by global energy, which was up 21%. Rate plus exposure was 10% in North America, 11% if you exclude workers' compensation and 10% in International, which in each case remains above loss cost trend.

Turning to Personal Insurance. Note that second quarter results in North America Personal reflected the fact that PCG was transitioning to become Private Client Select. North America Personal net premiums written increased 17% primarily driven by lower quota share sessions in PCG, offset by decreases in travel and warranty. Overall, we had strong growth in net premiums written of 17% with PCG net premiums written growing over 60%.

With PCS now officially launched as an MGA, there are several components of AIG's business in the high and ultra-high net worth markets that will result in improved financial performance for AIG over the balance of 2023. First, as we outlined in prior calls, over the last few years, we evolved the model for our high and ultra-high net worth business such that we expect net premiums written to grow significantly over the remainder of the year with our current expectations showing net premiums written increasing over 75% in the third and fourth quarters.

Second, the lag and earned premium growth that we saw in the first quarter of 2023 dissipated. And we saw a 36% growth in earned premium in the second quarter. And we expect that earned premium growth will continue to accelerate in the third and fourth quarter. The additional earned premium will provide operating leverage, which will reduce our GOE ratio in the third and fourth quarter.

Third, AIG has [indiscernible] costs from the transition of PCG to an MGA. And we expect to eliminate these costs over the next 18 months.

Fourth, we expect the accident year loss ratio for our high and ultra-high net worth business will improve with the combination of improved pricing in our admitted business and more business migrating to the non-admitted market, which already had a very positive impact on PCG's accident and policy year loss ratios in prior quarters. This should earn in for our high and ultra-high net worth business through the second half of 2023 and into 2024.

In International Personal, net premiums written increased 1% year-over-year. The modest growth was driven by travel and personal property in Japan. Overall, our key focus continues to be growing Accident & Health and our business in Japan.

Shifting to combined ratios. As I noted earlier, the second quarter accident year combined ratio ex-CATs was 88%, a 50 basis point improvement year-over-year. In Global Commercial, the second quarter accident year combined ratio ex-CATs was 84.4%, a 90 basis point improvement year-over-year.

The North America Commercial accident year combined ratio ex-CATs was 85.1%, a 310 basis point improvement year-over-year. And the International Commercial accident year combined ratio ex-CATs was 83.1%, which continues to be an outstanding level of profitability. Global Personal reported a second quarter accident year combined ratio ex-CATs of 98.1%, a 170 basis point increase from the prior year quarter, largely due to a decrease in earned premium.

Now I'd like to provide some context around midyear reinsurance renewals and recent conditions in the reinsurance market before moving to Life and Retirement. We purchased our major reinsurance treaties at January 1. However, approximately 20% of our overall core reinsurance purchasing occurs in the second quarter as we have a number of core midyear renewals, predominantly in specialty classes, and they were all successfully placed.

In addition, we decided to purchase additional retrocessional protection for Validus Re and a low excess of loss reinsurance placement for Private Client Group ahead of the wind season. Overall, the market exhibited more orderly behavior during midyear renewals amidst more stable trading conditions compared to January 1. Reinsure appetite for more discrete purchases increased somewhat, enabling a number of buyers to make up for shortfalls in coverage experienced at January 1.

Overall, midyear property cat pricing increased 25% to 35% year-over-year in the U.S. driven by Florida. This was the second year in a row of substantial rate increases. International renewals, driven by Australia and New Zealand, saw price increase 20% to 50% with higher increases resulting from loss activity in the region.

In previous calls, I touched on the increase in catastrophe losses from secondary perils. Through the first half of 2023, the industry has already experienced over $50 billion of insured losses, the majority of which were due to secondary perils, making 2023 already the fourth highest year on an inflation-adjusted basis.

A majority of insured losses continue to occur in the United States, highlighting the difficulty of managing volatility in the largest insurance market in the world. Against this challenging backdrop and a strengthened reinsurance rating environment, we maintained our conservative risk appetite and continue to have one of the lowest peak peril net positions in the market while managing our overall reinsurance spend.

Additionally, through each of our renewals, we maintain all of our principal relationships with our key reinsurance partners. While we are exiting the assumed reinsurance business through the sale of Validus Re, our ownership of RenRe common stock that we will receive as part of the purchase price consideration, coupled with our ability to invest up to $500 million in RenRe's capital partner vehicles, will allow us to continue to participate and benefit from partnering with a world-class reinsurer with less risk and capital requirements.

Turning to Life Retirement. As I noted earlier, the business produced very good results in the second quarter. Adjusted pretax income was $991 million. And adjusted return on segment equity was 12.2%, representing a 250 basis point improvement year-over-year.

Premiums and deposits grew 42% year-over-year to $10 billion driven by record Fixed Index Annuity sales. Corebridge ended the quarter with a strong balance sheet with parent liquidity of $1.6 billion and a financial leverage ratio of 28%. Over the second quarter, we continue to make good progress against the Corebridge operational separation so that it can eventually be a fully standalone company.

A key focus has been executing against IT separation, which we believe will be substantially complete by the end of this year. To date, approximately 55% of the transition service agreements put in place at the time of the IPO have already been exited.

Now turning to capital management. As I noted earlier, in the second quarter, we returned approximately $822 million to shareholders through common stock repurchases and dividends. And the additional $400 million of common stock we repurchased in July brings a total amount of capital we've returned to shareholders since the beginning of the second quarter to over $1.2 billion.

In addition, we continue to focus on maintaining well-capitalized subsidiaries to enable profitable growth across our global portfolio. And we remain committed to having a leverage ratio in the low 20s and a share count between 600 million to 650 million post deconsolidation of Corebridge.

The additional liquidity we will have following the closing of the sale of Validus Re will largely be used for share repurchases, which we expect to accelerate beginning in the fourth quarter and as we enter 2024. We also plan to use some of the proceeds from the sale of Validus Re to reduce outstanding debt.

Lastly with respect to ROCE. We remain highly committed to delivering a 10%-plus ROCE post deconsolidation of Corebridge. During the second quarter, we continued to make meaningful progress on all 4 components of our path to deliver on this commitment. As a reminder, these are sustain and improve underwriting profitability; executing on a simpler, leaner business model across AIG with lower expenses across the organization; operational separation and deconsolidation of Corebridge; and continued balanced capital management. The sequencing of each component has been very important.

We are now able to accelerate this work with the GI underwriting turnaround, AIG 200 and the investment group restructuring largely behind us and the operational separation of Corebridge further along, in addition to divestitures, which I've already outlined. As I stated on our last call, we're moving away from

AIG's historical conglomerate structure to being a leading global insurance company with a leaner and better defined parent company.

We continue to expect approximately $500 million in cost reductions across AIG with a cost to achieve of approximately $400 million with substantially faster earn-in of savings than we saw with AIG 200. Sabra will provide more details on our path to a 10%-plus ROCE in her remarks.

Overall, I could not be more pleased with our progress and what we've accomplished in the first half of the year. Our strong momentum continues, and we have a very solid foundation to build on for the future.

Now I'll turn the call over to Sabra.

Sabra Rose Purtill
Executive VP & CFO

Thank you, Peter. This morning, I will provide more detail on second quarter results, including net investment income and underwriting performance, provide a balance sheet update and review the drivers of our path to a 10%-plus adjusted ROCE.

Starting with second quarter results. As Peter noted, adjusted after-tax income was $1.3 billion, up 15% from last year or an annualized adjusted ROCE of 9.4%. Adjusted after-tax income per diluted share was $1.75, up 26% from last year, reflecting the impact of share repurchases on EPS.

Second quarter results were consistent with recent trends: strong underwriting margins and higher net investment income in General Insurance; increased base investment yields; and spreads and strong sales in Life and Retirement and continued expense reduction in balanced capital management and Corporate and Other.

Turning to net investment income. On an APTI basis, investment income improved significantly, up 31% from last year and up 7% sequentially on a consolidated basis and also rose in each segment. Reinvestment rates are driving higher yields. The average new money yield was 5.46%, about 210 basis points above the yield on sales and maturities.

In General Insurance, this increased the yield on the fixed maturities and loan portfolios 93 basis points over last year and 23 basis points sequentially. In Life and Retirement, the yield improved 75 basis points and 15 basis points, respectively.

Alternative investment returns also improved this quarter, although they remain below our long-term outlook totaling $147 million for an annualized return of 6.0%. Credit performance has been strong with more upgrades than downgrades in the fixed maturity portfolios and continued derisking of lower-rated assets.

Commercial property valuations continue to face downward pressure from higher cap rates, which impacts loan to values on commercial mortgage loans and investment returns on real estate equity funds. However, debt service coverage ratios are holding up well and are generally strong across the portfolio, including office.

Turning to General Insurance. APTI was $1.3 billion, up $62 million from the prior year. Net investment income rose by $267 million. And underwriting income for the current accident year, excluding catastrophe losses, were $73 million.

Total catastrophe losses were $250 million, up $129 million and included $56 million of first quarter CAT mostly from U.S. events, including a tornado that occurred at quarter end. This was a very solid result, as Peter noted, given the high level of industry catastrophe losses, particularly in North America.

North America cat losses were $159 million, while International totaled $91 million, largely from Typhoon Mawar. During the second quarter, we conducted North America casualty DVRs, or detailed valuation reviews, which reviewed about 20% of reserves compared to 15% last year.

In our DVRs, we focus on changes in frequency and severity trends, including social and other types of inflation as well as changes in claims trends and settlements such as occurred during COVID. As we noted previously, casualty bodily injury and medical workers' comp trends in our book have been and continue to be more favorable than our reserving assumptions.

Our approach in these situations is to react quickly to adverse development, but to be conservative and wait to recognize favorable trends until accident years are more mature. We maintain the same approach for the COVID accident years where claims development patterns in many casualty lines slowed.

For those years, we have lagged our development factors to allow more time for claims patterns to mature as we are taking the conservative position that industry claims experience will revert to pre-COVID patterns. In addition to the results of the DVRs, prior year development also includes amortization of the ADC gain, changes in prior year catastrophe losses and impacts from loss-sensitive lines that are not related to DVRs.

In this quarter, prior year development net of reinsurance and prior year premiums was $25 million favorable. This was made up of $115 million of favorable loss reserve development, partially offset by $90 million of prior year return premium. The lower favorable development compared to last year is mainly attributable to the excess workers' compensation DVR, which was favorable by about $75 million in second quarter last year but is being completed in the third quarter of this year.

Our favorable loss reserve development included $167 million from North American Commercial Lines, including $41 million of ADC amortization, $50 million of favorable development from our Agrium loss-sensitive portfolio and $74 million of favorable development resulting from North America DVRs. This was partially offset by $62 million of unfavorable development in International Commercial Lines, principally from a multiyear legacy casualty policy that was written with much higher limits than we do today.

In the third quarter, DVRs will cover nearly 70% of reserves, including Financial Lines. Financial Lines claims have not returned to the levels we experienced pre-COVID, which we believe reflects improved underwriting, better loss selection, continued ventilation of risk, our reinsurance strategy and achieving appropriate levels of rate.

With respect to underwriting. AIG's share of U.S. public company D&O securities class actions where we are the primary insurer is down from 42% in 2017 to about 20% at the end of the second quarter of this year.

With respect to rate. Since 2018, the compounded increases in the Financial Lines portfolio for corporate and national accounts are greater than 60% and 50%, respectively. However, consistent with our conservative approach, in addition to the lag development factors, we are placing more weight on longer-term experience and balancing out more favorable recent trends.

Turning to Life and Retirement. As Peter noted, second quarter results were strong with APTI up 30% over 2Q '22, driven by higher spread in underwriting margins and strong sales in Fixed Index Annuities. Both spreads and underwriting margins remain attractive, and fee margins improved with more favorable capital market levels compared to last year.

Base net investment spreads in Individual and Group Retirement continued to widen with 64 basis points improvement year-over-year and 9 basis points sequentially driven by reinvestment rates. Individual Retirement APTI increased $215 million or 58% from 2Q '22 driven by base spread expansion and growth in general account products. Positive net flows to the general account were about $400 million.

Group Retirement APTI grew by $21 million or 12% driven by continued base spread expansion despite negative flows in the general account. Life Insurance APTI decreased $42 million, or 35%, primarily due to lower other yield enhancement income, partially offset by improved base portfolio returns and marginally favorable mortality experience. Institutional markets delivered very strong results with APTI up $50 million or 65% driven by investment income and reserve growth. Second quarter premiums and deposits reached $2.9 billion with $1.9 billion of pension risk transfer activity and $970 million of GIC transactions.

Turning to AIG's Other Operations. Second quarter adjusted pretax loss improved by $41 million over last year driven by an $80 million improvement in corporate and other due to the 4Q '22 sale of legacy investment portfolios that had losses of $119 million in 2Q '22. Corporate general operating expenses of $242 million included $67 million of Corebridge expenses, including separation expenses. Excluding Corebridge and separation-related expenses, corporate GOE decreased $19 million from the prior year.

Moving to the balance sheet. We continue to execute on our balanced capital management strategy with share repurchases, an increase in our common stock dividend and repayment of maturing debt. We ended the quarter with AIG parent liquidity of $4.3 billion.

We remain committed to maintaining strong capitalization in our insurance subsidiaries to support risk and growth. The General Insurance U.S. pool risk-based capital ratio is estimated in the 470% to the 480% range, and Life and Retirement is projected to be above its 400% target.

We repaid a $388 million debt maturity in the second quarter and continue to target debt leverage in the low 20s post deconsolidation of Corebridge. At June 30, consolidated debt and preferred stock to total capital, excluding AOCI, was 26.0%, including about $9.4 billion of Corebridge debt. Book value per common share was $58.49 on June 30, 2023, up 6% from year-end. Adjusted book value per common share was $75.76 per share, flat from year-end.

Turning to ROCE. We remain intently focused and are making progress on achieving a 10%-plus adjusted ROCE post deconsolidation. Year-to-date, annualized adjusted ROCE for AIG was 9.1% on a consolidated basis and 11.8% in General Insurance and 11.4% in Life and Retirement.

Capital management and rightsizing our equity base for AIG post deconsolidation are material levers for achieving our adjusted ROCE goal. In the near term, we will accelerate share repurchases in the fourth quarter and into 2024 with the additional liquidity from Validus proceeds, in addition to ordinary course liquidity generated by our business operations through subsidiary dividends and ongoing profitability.

We will balance these share repurchases with additional debt reduction consistent with our leverage target. We are committed to achieving a share count between 600 million and 650 million shares post deconsolidation, which we will be able to achieve with the increase in our share repurchase program to $7.5 billion.

Based on the size, risk profile and profitability of our General Insurance business and holding company needs today, we estimate a pro forma GAAP equity base, excluding AOCI, of approximately $40 billion for AIG ex-Corebridge. This is inclusive of about $4 billion in deferred tax asset NOLs that we exclude for adjusted common shareholders' equity calculation.

Considering this equity level and our plans to simplify AIG's business and operational structure, reduce volatility and drive more predictable and sustainable profitability, we are confident that we will achieve our adjusted ROCE goal. We look forward to continuing to update 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 operator, we're ready for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter. I was hoping we could focus in on the general -- the North American Commercial business a little bit. I'm getting some questions about the growth. If you sort of assume a certain amount of growth is related to the price increases sort of ex-Validus and whether or not we saw a fair amount of growth -- just sort of if you normalize [indiscernible] Validus. Sorry, I know you gave a lot of detail there, but maybe if you could kind of simplify it for -- that'd be fantastic.

Peter Salvatore Zaffino
Chairman, CEO & President

Sure. Thanks, Paul. As we talked about in our prepared remarks, we are very pleased with our overall growth across the world. And retention is up, new business was terrific and balanced. And rate, well above loss cost, was evident in so many parts of our business.

If I unpack it as you asked, I mean, look at North America, we discussed Validus Re, was up 32%, but it's not cyclically its largest quarter. It was basically 25% of North America. But other businesses had tremendous quarters.

Lexington had 18% growth. But that was also part of us discontinuing a big program that we didn't like the risk-adjusted returns that had an impact on top line premium growth. And so I would look at Lexington in terms of casualty, which was 40% growth. Lexington property, which was 35% growth. Retail property was up over 50% in the quarter, and I outlined the rate increases were north of 30% for 2 quarters in a row.

Our actual retail casualty business was up in the high single digits. So it was a very good outcome for net premium written in North America. The headwind was Financial Lines, which was down a little bit over 10%, but that is something that is specific to North America. But we have a really good balance in growth.

If I look at -- I'll just expand a little bit in terms of International. We had really strong growth in property. Our syndicate Talbot was up 17%. International Specialty, I drew it out as a mid-single-digit growth net premium written in the quarter. We had some discretionary spends on treaty reinsurance. On a gross basis, it grew over 40%. And I want to call out, Financial Lines is not experiencing the same headwinds as North America, and International was flat. And that's our largest business in the second quarter in International. So had a little bit more of the weight in terms of the overall growth. But I thought it was really balanced, really well done and all the fundamentals we're executing on.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And my second question, I wanted to ask about the cat load in particular in North America as we think of it going forward. I mean, clearly, from the data you showed us, you talked about on the call the volatility piece or the tail is going to be reduced a lot on Validus Re. On an ongoing basis, do you also see kind of a reduction in the cat load from the efforts that you're making with Validus Re and other pieces and changes that you [indiscernible]?

Peter Salvatore Zaffino
Chairman, CEO & President

Yes, thanks, Paul. I gave probably a little bit more PML information than people may have liked, but it's really the story is 3 components. One is what we did in the reunderwriting to reduce gross exposure across AIG. By the way, including Validus Re over the last several years. And we shed over $1 trillion of limit most of it property. And so that had an effect on exposure and PMLs at all return periods.

I think the reinsurance programs that we bought are world-class. We keep calling that out, but in a very challenging and difficult environment at 1/1, we did not compromise by taking a lot more net because of reinsurance pricing. It reflected our book. We got great partners. And as a result, we didn't really have more net in terms of overall low-return peered PMLs.

And so what I drew out in the Validus Re example, again, is on occurrence. It was the RMS model. We'll work through it. We got plenty of aggregate as to drive businesses that exists within AIG. But yes, I mean, like it's a different company. I mean, we're not going to have the tail exposure. But also at all return periods, we're going to have less cat. We've managed aggregates across the world and look at Validus Re as a very good business. But as I said, when we want to continue to reduce volatility, we do that through reinsurance. But when you have a treaty reinsurance business that is -- got a portfolio that has a lot of cat, that's harder to do. So I think the volatility, the cat loads will go down. By the very nature, we're going to lose a big part of our cat exposure. But we've been conservative on that and increased them this year and are very comfortable with our estimates and our actual results.

Operator

Our next question comes from Meyer Shields from KBW.

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

Peter, you gave us a lot of detail about rate and exposure changes. And we saw a little bit of sequential improvement. But I was wondering if you could talk about changes in the gap between rate increases and loss trends from the first quarter to the second quarter of this year.

Peter Salvatore Zaffino
Chairman, CEO & President

Sure, Meyer. We have given guidance. So let me start with the loss cost inflation, which is still at 6.5. And you can imagine in a company like ours, I mean, it's an index. And so we look at each line of business each quarter, make minor modifications or as we did in the back half of last year just based on inflation, more meaningful adjustments.

I'm really pleased with the discipline the company is showing on driving rate above loss cost, and we've done that across the world. So the rate environment in the second quarter was very strong. I gave you the guidance on the prepared remarks of North America excluding work comp, 9%; International at 9%. The drivers for this Retail Property, excess and surplus lines and our specialty businesses, the headwind for rate in North America was Financial Lines. And it's worth noting again that we have a very big footprint.

And I mentioned in the prior question that International is not experiencing the same rate issues. And again, when I look back over the last 14 quarters, each quarter has been a positive rate increase in Financial Lines. So it's different for our International portfolio versus our domestic. And we continue to look at businesses like properties getting a lot of attention, but you can't look at that as a single quarter.

I mentioned before, cost increases on the loss cost side, inflation, cost of capital, but also the cost of reinsurance for the industry, ours was a high single-digit risk-adjusted increase at 1/1. But those reinsurance costs in the industry are going to need to play in over the course of a year or maybe even like in Europe's case, into the first quarter, absent anything happening through cat season. So I think this is the market that we're in. It's a disciplined market. The cost of capital is more expensive, and we're going to be very prudent in where we deploy capital. But I'm very comfortable that we are driving margin on a written basis, and that will continue as we get to the back half of the year.

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

Okay. That's very helpful. One thing that you said in your prepared remarks also that surprised me was that you're seeing a huge uptick in casualty submissions in Lexington. I think we expected the property side. I was hoping if you can dig a little bit deeper into what's going on in specialty casualty.

Peter Salvatore Zaffino
Chairman, CEO & President

Yes. Well, Lexington is just a great story. When we look at -- we had record submission count across Lexington. We drove very strong growth at the top line, but it's one of our most profitable businesses. And Dave McElroy, Lou Levinson, who leads Lexington, this has all been about driving value for our distribution partners and wholesale brokers. And we've been asking for submission activity on all lines of business.

And so when we're going to deploy property, yes, we have aggregate. Yes, the performance has been very good. Yes, the growth opportunity is there on its own. But we have been very focused on driving opportunities across the portfolio, and we're asking for the business.

And so like the submission activity is substantial. And then I think being one of the largest wholesale underwriters and respected as one of the top in terms of underwriting excellence, we're getting looks at multiple lines of business. And we have staffed up in order to take on that additional volume on the property and casualty side. So I was very pleased that the team executed as well as it did, and I expect that to continue.

Operator

Our next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, I guess, going back to Paul's question on Validus. Could you offer us like a pro forma margin profile for North America Commercial ex the Validus sale, maybe even ex the crop business?

Peter Salvatore Zaffino
Chairman, CEO & President

It's a very good question, but I have to follow up with a question back to you. Do you want it over a longer period of time? Because I mean, looking at a cat business in the second quarter and again, I'm happy to provide some detail. It was accretive by a little over 100 basis points in the quarter to a combined ratio.

But don't forget, its acquisition ratio is higher than our normal business. The loss ratio was slightly below based on dynamics going on in the market today. When I look at our overall business and ones that I continue to highlight, Lexington specialty, our property, a little more accretive than Validus Re.

So I wouldn't have the impression that it's going to be highly dilutive. Obviously, it's done really well in the first half of the year. But if I go back the last 3 to 4 years, last year is the first year we were able to publish a combined ratio below 100. And so looking at the combined ratios of the business overall, it's been a positive contributor in the first half of this year. But in terms of the business, we have a lot of business to perform better. And we have -- in terms of the index, I don't think it will materially impact us.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And maybe just as a clarification. Your commentary, is that on a reported basis or underlying?

Peter Salvatore Zaffino
Chairman, CEO & President

Both. But we don't break it out. But I mean, in terms of looking at it from 2018 through 2022, 2022 was the first year on a fully low to combined ratio is below 100.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Got it. And then my second question, given the secondary and Corebridge and we're starting to see a line of sight to below 50%, can you maybe offer us a precise threshold for deconsolidation?

Peter Salvatore Zaffino
Chairman, CEO & President

No. I can't offer you precise, but I can give you some guidance in terms of what we're thinking if that's okay.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Sure.

Peter Salvatore Zaffino
Chairman, CEO & President

Yes. So the secondary is our base case. And we would expect to do something hopefully before year-end, subject to market conditions. I think what we have proven over time is that we want to be prepared. And so we prepared for the IPO, ended up delaying it just based on market conditions, prepared on the secondary. And so we will be prepared to go before year-end.

I think Corebridge is doing very well in its business performance, its operation as a public company. And then we have made enormous progress of getting it ready to be a standalone public company once we deconsolidate. They're executing very well on the management plan.

Again, Kevin will outline it in detail on Friday, but they're able to execute on capital management now with share repurchases as well as ordinary dividend. And so we certainly want to continue to sell down at a reasonable pace, but it's just going to be subject to market conditions and where the business is.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Peter, I apologize. I was not really focused on the timing. I was more interested on what the precise percentage would be to see deconsolidation. Is it the second we drop below 50%?

Peter Salvatore Zaffino
Chairman, CEO & President

Depending on Board structure. But if we modify the Board structure, it would be below 50%. But on the current Board structure, we'd have to go below 45%.

Operator

Our next question comes from Alex Scott with Goldman Sachs.

Taylor Scott

First one I had is on the capital deployment. I mean, I think one of the most challenging things to sort of model and forecast from the outside right now is just how you'll go about deploying the proceeds from a lot of the actions you're taking, including the separation of Corebridge. So I was just interested if there's any updated thoughts. I know in the past, you guys have kind of given the share count range. Any thoughts you'd provide or guidance as it relates to where the share count could go from here?

Peter Salvatore Zaffino
Chairman, CEO & President

I think what we've outlined is still the base case. We ended up in the low 700s in terms of our share count. Sabra did a very good job of outlining the liquidity that we have and liquidity that will be coming in.

We have focused on the 4 components in a very rigorous way of making sure that we have capital and subsidiaries to drive the growth in a market that we think is very favorable. We increased our dividend this year, and so we want to continue to focus on that.

Our leverage in the low 20s, and Sabra and I both indicated, we'll do some cleanup on debt because the impact of share repurchases, you need to continue to still retire debt. And the main focus from liquidity is going to be on share repurchase, and that will be highly correlated to when we close on RenRe.

We'll be active in the market in the third quarter. And I really couldn't give you much more guidance on that other than we're really focused on the share repurchase and getting to that 600 million to 650 million shares.

Taylor Scott

Got it. That makes sense. I guess a follow-up sort of in the same vein. In terms of organic deployment, I listen to the PML comments you're making and think about the volatility and how much better it is and then the fact that you guys, I think, still have below-average underwriting leverage, at least when we sort of look at like premiums to surplus, those kind of metrics. Do you have the capacity to be able to fund this greater growth, whether it's in Lexington and some other businesses in General Insurance, without using so much of the proceeds from the strategic actions?

Peter Salvatore Zaffino
Chairman, CEO & President

We do, and it's been a big focus for us. Sabra, do you want to expand on that a little bit?

Sabra Rose Purtill
Executive VP & CFO

Yes. Thanks. I would just note, as I mentioned in my prepared comments, that the risk-based capital ratios in our U.S. pool are in the range of 470% to 480%, which is well above our target range of 400% to 420%. So we have ample capacity within the General Insurance businesses today to support growth.

Operator

Our next question comes from Michael Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

My question is about the exist -- remaining portfolio post the sale of Validus pending in the crop business. Are there other and what you did on the -- what you're doing on the personal line side. Are there other pieces of the portfolio that still need additional optimization? Or are we kind of mostly through the major actions?

Peter Salvatore Zaffino
Chairman, CEO & President

I think we're through most of the major actions. We have to focus more on Personal Insurance, and then we have been certainly, the -- we spent a lot of time on the ultra and high net worth business and the actions that we're taking there in terms of improving it. And we'll see that as we go to the back half of '23 and into '24.

Japan is a big focus for us, and it's a terrific business, one that has terrific scale, performs very well, needs more digital investment. And we have such a wide distribution of agents that we can scale more products. So we'll see some investment in Japan on digital workflow and digital interfacing with customers. And we've been working through that over the past 12 to 18 months. So I would expect to see improved performance there.

And then also our Global Accident & Health business, which performs very well mostly overseas in International, but that's going to have investment. And we would expect to see more growth and more profitability improvement there.

But I don't -- it's not major. It's more of just making strategic investments in order to position the portfolio to be more advantageous. So those will be the areas of focus. But after Validus Re, we had a very active quarter and certainly would not expect another one of those, but we are going to continue to try to drive improvement throughout the portfolio.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. And my follow-up is switching gears, thinking about AIG's long-term kind of combined ratio inclusive of other expenses. If we're thinking longer term, you've done a great job improving the loss ratio. We're clear that there's still -- you have guidance on expenses coming down.

But when you say longer term, most of the wood's been chopped in the loss ratio, and we should be thinking about overall expenses is kind of getting you to the double-digit ROE land sustainably? Or is there still loss ratio components such as maybe reserves and whatnot that could continue to improve over time?

Peter Salvatore Zaffino
Chairman, CEO & President

No, I think you're thinking of it the right way. I mean, we've done an incredible job in terms of getting the portfolio that was in existence in '17 and '18 to where it is today. We know that we're an outlier on the expense ratio. That's a big part of what we're doing in the future operating model. And we'll start to show more and more evidence of that in the coming quarters and as we go into 2024.

I did mention not to repeat the first part of the answer, but I do think that there's loss ratio and combined ratio opportunity for improvement in Personal Insurance. And we're heavily focused on that in terms of its balance across all of AIG. But when we look at the improvement in ROCE, expenses is going to be a big part of it. And as we focus on getting to our future operating model, that scale and discipline around having an expense ratio that's more favorable will be a huge focus of this management team.

Okay. Thanks. I want to thank everybody for joining us today. I hope you have a great day.

Operator
Thank you for participating at today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.