S&P Global
Market Intelligence

American International Group, Inc. NYSE:AIG

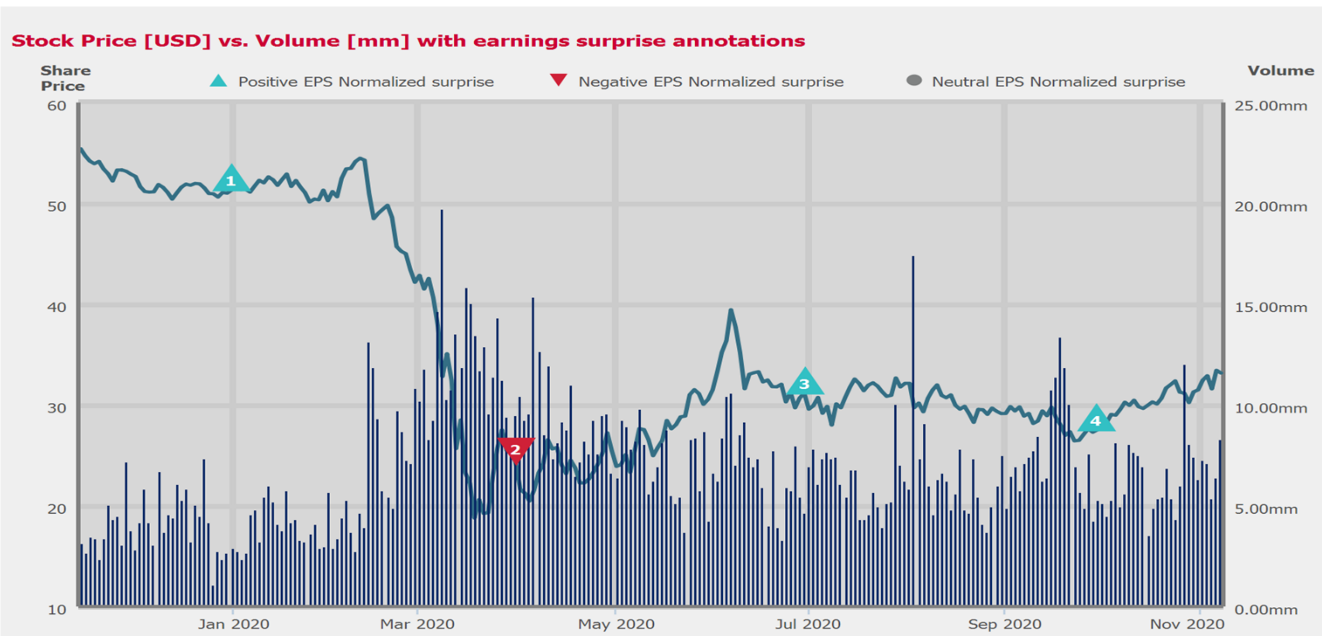
FQ3 2020 Earnings Call Transcripts

Friday, November 06, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.81	▲47.27	0.94	2.53	NA
Revenue (mm)	10788.27	10221.00	▼(5.26 %)	10618.74	44508.33	NA

Currency: USD
Consensus as of Nov-06-2020 10:49 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.01	1.03	▲1 1.98 %
FQ1 2020	0.77	0.11	▼2 (85.71 %)
FQ2 2020	0.56	0.66	▲3 17.86 %
FQ3 2020	0.55	0.81	▲4 47.27 %

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Call Participants

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Brian Charles Duperreault
CEO & Director

Mark Donald Lyons
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Peter Salvatore Zaffino
President, Global COO & Director

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

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Presentation

Operator

Good day and welcome to AIG's Third Quarter 2020 Financial Results Conference Call. Today's conference is being recorded.

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

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

Thank you. Good morning and thank you all for joining us. Today's call will cover AIG's third quarter 2020 financial results announced yesterday afternoon. The news release, financial results presentation and financial supplement are posted on our website at www.aig.com. And the 10-Q will be filed later today after the call.

Today's remarks may contain forward-looking statements, including comments relating to company performance, strategic priorities, including the announced planned separation of our Life and Retirement business, business mix and market conditions, including the effects of COVID-19 on AIG. These statements are not guarantees of future performance or events and are based on management's current expectations. Actual performance and events may materially differ. Factors that could cause results to differ include the factors described in our second quarter 2020 report on Form 10-Q and our 2019 annual report on Form 10-K and our other recent filings made with the SEC, inclusive of the effects of COVID-19 on AIG, which cannot be fully determined at this time. AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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

I'll now turn the call over to Brian.

Brian Charles Duperreault
CEO & Director

Good morning and thank you for joining us today. Given the announcements we made last week, we will handle today's call differently with the objective to leave as much time as possible for your questions. I will focus most of my remarks on our leadership changes and the separation of Life and Retirement. Peter will expand on what the separation process will entail. He will provide an overview of our third quarter results for General Insurance and Life and Retirement and give an update on AIG 200. Lastly, Mark will provide additional color on our financial results for the quarter. Kevin Hogan, Dave McElroy and Doug Dachille will be available for the Q&A portion of the call.

As you saw in our earnings release, AIG continues to manage through the ongoing global economic uncertainty. We are financially strong and well positioned to capitalize on the opportunities for growth. In the third quarter, we reported adjusted after-tax income of $0.81 per common share, and we saw improvement in both the accident year combined ratio in General Insurance and Life and Retirement's adjusted return on attributed common equity.

As we announced last week, the AIG Board unanimously elected Peter to become the next Chief Executive Officer of AIG effective March 1. At that time, I will assume -- I will become Executive Chairman of the AIG Board. This leadership transition demonstrates our continuing momentum and focus on AIG's future. It's an honor to serve as a CEO of AIG, and I want to thank our directors for their ongoing support.

I also want to congratulate Peter. I've worked with Peter in several capacities for many years, and I'm extremely proud of him and the legacy he is building in our industry. Since joining me at AIG in 2017, he designed and executed on the turnaround in our General Insurance business, which, by any measure, has been historic. I greatly admire Peter's strength of character, leadership abilities and willingness to take decisive action. He has a proven track record of building great teams and successfully leading them in times of significant change and growth. Peter exemplifies the rare executive who is both a hard-working operational leader and a strategic visionary. I know that he will be an excellent CEO for AIG, and the company will be in great hands.

Turning to our second big announcement last week. As I stated before, we have continually examined the composite structure of AIG. And over the last several months with the assistance from independent financial and legal advisers, we conducted a very comprehensive review to determine if the change would be in the best interest of our shareholders and other stakeholders. This review included examining strategic, operational, capital and tax implications. And the output of this review was very clear, that is a simpler structure will benefit both GI and L&R. This is largely due to the significant foundational work our team has done across AIG to strengthen our businesses and position them as market leaders.

In addition, impediments to a separation that existed back in 2017 have greatly diminished. For example, the tax benefits of AIG's current composite structure have decreased over time. And with the stronger capitalization of our core business, the capital diversification benefit has become less significant. We believe our businesses will be more resilient as separate companies with more appropriate and sustainable valuations, and each will continue to be market leaders in their respective sectors with strong balance sheets, appropriate capital structures, attractive earnings and cash flows. We also believe both will have sufficient financial flexibility to compete effectively. We do not anticipate that either will require additional capital -- equity capital in connection with the separation, and neither will be overleveraged, especially when compared to their respective peers.

We have evaluated various structural alternatives for the separation, and Peter will provide details on our initial conclusions. While the separation process will be complex and will, of course, require regulatory approvals, we are confident that we will execute in a way that provides the best long-term value for shareholders and other stakeholders. We are committed to transparency and providing you with updates as the process moves forward.

Now I'll turn it over to Peter.

Peter Salvatore Zaffino
President, Global COO & Director

Good morning, everyone. Thank you, Brian. I appreciate your kind words and want to thank the AIG Board for the opportunity to lead this company. As Brian noted, we are living through a sustained period of global economic challenges. At AIG, we are well prepared as our purpose is to partner with our clients, especially during challenging times, to help them solve complex risk issues, capture opportunities in all market cycles and provide a consistent approach to providing insurance solutions in this period of uncertainty. We continually ask ourselves whether the things that worked well yesterday will continue to work tomorrow and into the future.

This morning, I will expand on Brian's comments regarding key areas we're focused on. I'll start with additional insight into our plan to separate Life and Retirement from AIG. Then I'll provide an overview of the third quarter results for General Insurance and Life and Retirement. And lastly, I'll briefly outline our progress on AIG 200.

With respect to Life and Retirement, as Brian said, we undertook a comprehensive review of our composite structure over the last several months. We concluded that over time, the value of full separation can create for our shareholders will be significantly greater than maintaining our current structure. Our analysis took into account many factors, including potential impediments and benefits.

Among the more significant factors are: One, the progress we've made since late 2017 to strengthen the foundation of General Insurance materially reduce risk and volatility in our portfolio and position General Insurance as a market leader poised for sustainable, profitable growth. A separation of Life and Retirement from AIG would not be possible without a strong General Insurance business that can support itself and thrive on a stand-alone basis.

Two, we believe that we can effectively manage any loss of diversification benefits in our capital model as a result of separation. Our current expectation is that no additional equity capital will be required given the improvements in our subsidiary capital positions over the last 3 years. This is especially true in General Insurance, where the capital base is stronger than it's been in many years.

Three, the separation process will require us to implement a stand-alone capital structure for Life and Retirement. This will involve raising new debt at Life and Retirement and restructuring debt at AIG parent. In the end, both companies will have independent capital structures in line with peers and appropriate financial leverage for their respective ratings. Both companies will also have strong financial flexibility to execute on their strategic priorities.

Four, AIG's deferred tax asset is no longer an obstacle as it was in the past. The DTA is made up of net operating loss carryforwards and foreign tax credits. With respect to the net operating losses, we expect AIG to have taxable income post-separation that is sufficient to utilize the remaining $6.6 billion before they expire. The foreign tax credit carryforwards have been significantly utilized in recent years, and we expect to utilize the vast majority of the remaining $1.5 billion before we deconsolidate Life and Retirement, leaving only a small portion potentially at risk.

And five, there is a limited number of legal entity restructurings required to achieve a separation as well as limited expense dis-synergies. In fact, we will leverage the important work we're doing as part of AIG 200 to facilitate operational separation.

While the precise form of separation will be subject to AIG Board and regulatory approvals, rating agency considerations and market conditions, we currently contemplate either an IPO or private sale of up to 19.9% of Life and Retirement, followed by one or more dispositions of our remaining ownership interest over time. We're proceeding with a sense of urgency to determine the initial step of the separation and will continue to engage with regulators and rating agencies throughout the process.

Finally, we do not intend to break up Life and Retirement and sell it in pieces, as the significant strength of the business is the breadth of its platform and diversified product portfolio and distribution network. Throughout the separation process, we will remain laser-focused on continuing to position our businesses to deliver superior value to our clients, distribution partners, shareholders and other stakeholders.

Turning to our third quarter. In General Insurance, we achieved another quarter of positive results in our core business with continued improvement in our underwriting margins. The accident year combined ratio, excluding catastrophe, improved by 260 basis points to 93.3% compared to 95.9% a year ago and by 610 basis points compared to 99.4% in the third quarter of 2018. The improvement was driven by our Commercial business, which improved by approximately 560 basis points year-over-year as a result of lower accident year loss ratio, excluding CAT, and a lower expense ratio. The lower Commercial accident year loss ratio ex CAT reflects a higher-quality book of business, driven by a better mix and portfolio management actions.

In Personal Insurance, not surprisingly, our portfolio mix continues to be impacted by COVID-19, which has reduced premium volumes by more than 80% in our Travel business alone. The mix of business was further impacted in North America Personal Insurance due to the reinsurance cessions related to Syndicate 2019.

With respect to CAT, the third quarter was very active with low to moderate severity per event in both North America and Japan with an upper industry range of $45 billion globally. As we disclosed last week, our third quarter CAT loss estimates, net of reinsurance, totaled $790 million for the quarter. Included in this CAT number is $185 million of COVID-19 loss estimates. With respect to COVID-19, the loss estimates primarily related to Travel, Contingency and Validus Re. Our year-to-date COVID-related net loss estimates are slightly over $900 million.

Our reinsurance program continues to perform as expected with recoveries in our International per occurrence, Private Client Group per occurrence and other discrete reinsurance programs limiting volatility. Regardless of frequency and severity of natural CATs and additional COVID-19-related losses, we expect overall CAT losses for the remainder of the year to be limited due to various protections we have in place under our aggregate CAT covers.

Turning to rate. In the third quarter, our underwriting discipline continued as our team has pivoted to pursue premium growth while not losing our focus on account-level decisions, risk-adjusted rates and margin expansion. In Commercial, there is continued momentum in our portfolio optimization strategy, and we're seeing sustained rate-on-rate improvement across most lines of business. For the third quarter, our Commercial business had rate increases of approximately 17%. North America Commercial rate increases were 20% in the third quarter compared to 12% in the prior year. Rate increases in Admitted Property were over 30%. In Financial Lines, they were over 25% led by D&O. In Excess & Surplus Lines, they were over 20%. And in Excess Casualty, they were over 30%.

International Commercial rate increases were 14% in the third quarter compared to 8% in the prior year, driven by Financial Lines and Specialty. Rate increases in Commercial Property were 12%. In Financial Lines, they were over 20% led by D&O. And in U.K. Specialty, they were over 25% led by energy, aviation and trade credit. It's important to note that the rates we're achieving are on a policy year basis and will take time to earn into our accident year results. Additionally, we're confident that the rate increases we are achieving are outpacing loss cost increases in our portfolio.

Turning to Validus Re and upcoming 1/1 renewals, our team continues to be disciplined in deploying capacity and focus on acceptable terms and conditions as well as appropriate risk-adjusted rate changes. Double-digit rate increases are being quoted in most lines with tighter terms and conditions. Retro business is very active with meaningful double-digit rate increases being quoted with terms altering to modelled perils only with the occurrence covers being preferred over aggregate covers.

Before turning to Life and Retirement, I want to provide context for how we view the rate environment in the P&C market. Insurance carriers have faced challenging business conditions for more than a decade. Soft market conditions have gripped the industry since 2007 and have been coupled with historically low interest rates and an increase in frequency and severity of natural catastrophes. As an example, when looking at Property, the expected aggregate industry natural CAT losses for 2017 through the third quarter of 2020 are estimated to exceed $400 billion. Median annual losses over the last 15 years have been approximately $65 billion. These amounts are nearly double the amount of expected loss. For natural catastrophes, pricing has adjusted in light of these new norms. And keep in mind, none of these numbers include catastrophe losses from COVID-19.

With these challenges and the increasingly complex environment our clients are looking to us to help them manage, the work we do is becoming more complex. We believe our retention rates demonstrate the strength of our relationships with clients and distribution partners and confirm that a flight of quality has been backed from the fruition, particularly due to COVID. The momentum we have generated in General Insurance is significant and we believe that we will achieve top line growth in 2021. And by the end of 2022, we'll achieve an accident year combined ratio, excluding CATs, below 90%. This will represent a 1,000 basis point improvement since 2018.

Turning to Life and Retirement. I've spent the last couple of months working with Kevin and his team to analyze this business. It is a franchise that is extremely well positioned in the market and has a track record of delivering consistent performance.

Third quarter adjusted pretax income was $975 million, and adjusted return on attributed common equity was 14.5%. Third quarter results reflected strong performance in all lines of business, driven by recovering sales and strong equity market levels, resulting in favorable impacts to deferred acquisition costs and variable annuity reserves as well as higher private equity returns. Additionally, lower interest rates and tighter credit spreads drove higher call and tender income, which is a short-term benefit that will be offset in the long term in the form of additional base spread compression.

The sensitivities Kevin previously discussed generally held up, recognizing the limits of sensitivities, especially in times of macroeconomic stress and high levels of volatility. As we noted in the second quarter, reported base investment spread compression has been impacted by substantially lower returns on our tactical cash and short-term investment position. Excluding this impact, base investment spreads would continue to be in the 8 to 16 basis points range of annual spread compression.

Excluding estimated COVID-19-related deaths, mortality experience was favorable and consistent with pre-pandemic trends. Risk management efforts and discipline in Life and Retirement have continued to serve this business well. The hedge program has performed as expected, and our balance sheet remains strong. Additionally, we view our lack of large legacy blocks, such as long-term care, as a risk differentiator. As expected, retail annuity sales rebounded significantly from the historically low second quarter levels as our distribution partners became more accustomed to a new working environment. We also grew sales in Group Retirement and Institutional Markets where we successfully issued 3 large guaranteed investment contracts during the third quarter. Our total premiums and deposits decreased from second quarter levels, and we remain well positioned and confident to deploy capital as attractive opportunities arise across our business.

Now let me provide a brief update on AIG 200. Since we announced AIG 200 in 2019, we have been focused on investing in our core processes and infrastructure in order to be more competitive in the marketplace and make real transformational change at AIG. A few key points I'd like to highlight. We are on track to deliver and will likely exceed our original guidance of $300 million exit run rate savings this year. We also expect to come in below the $350 million cost to achieve that we initially communicated for 2020. An important milestone we recently achieved was entering into a partnership with Accenture, whereby Accenture will acquire our existing shared services footprint.

Working with the AIG global operations team, Accenture will help us to create a modern digital shared services platform with true end-to-end processes that will improve the user experience. This agreement is subject to regulatory approvals and marks the first phase of our overall relationship with Accenture, which we expect will expand over time. Our overall targets for AIG 200 remain unchanged. We still expect to deliver $1 billion of run rate savings by the end of 2022 against a $1.3 billion total investment. Lastly, we do not anticipate any delays or significant changes due to the planned separation of Life and Retirement.

Before I turn it over to Mark, I'd like to end my remarks where I started, and thank Brian for his leadership over the last 3 years. Since I joined Brian in mid-2017, we have navigated truly unprecedented conditions. Throughout, Brian has remained steadfast in his commitment to build a world-leading insurance franchise with no shortcuts or quick fixes. I'm incredibly proud of what we achieved so far in our journey. Our colleagues have demonstrated unmatched resilience and a commitment to excellence in all that they do despite the significant disruption we've all experienced both personally and professionally due to COVID-19. I know I speak on behalf of all AIG colleagues when I say that we look forward to continuing to work with Brian as we close out 2020 and look ahead to a very bright future for our company.

Now I'll turn it over to Mark.

Mark Donald Lyons
Executive VP & CFO

Thank you, Peter, and good morning, everyone. As Brian and Peter have already commented on the announced separation of the Life and Retirement business from AIG, I will briefly discuss the third quarter results in order to allow sufficient time for Q&A.

AIG reported adjusted pretax income, or APTI, of $918 million and adjusted after-tax income of $709 million or $0.81 per diluted share compared to $505 million or $0.56 per share in the third quarter of 2019. The key drivers of this increased earnings were: one, a General Insurance underwriting gain, exclusive of the impact of catastrophes and prior year development, which improved $135 million compared to the third quarter of '19; second, a very strong Life and Retirement results, inclusive of the impact of the annual actuarial assumption update; third, solid net investment income results, up $271 million after adjusting the third quarter of 2019 for Fortitude, reflecting higher private equity and hedge fund income in addition to fixed maturity securities; fourth, reduced total AIG general operating expenses by approximately $200 million.

Turning to General Insurance. Third quarter adjusted pretax income was $416 million, down $91 million from the third quarter of 2019, due primarily to the previously announced catastrophe losses of $790 million pretax, partially offset by higher net investment income stemming from alternatives. As with respect to prior year development, $16.1 billion of reserves were carried -- excuse me, were reviewed this quarter, bringing the year-to-date total reviews to more than 60% of carried reserves. The net result was unfavorable development of $13 million, which reflects $53 million of favorable development from amortization of the ADC deferred gain. So the unfavorable development was $66 million gross of this amortization impact.

The areas reviewed were primary workers' compensation, environmental, program businesses, Western World, cyber, Personal Lines Property Casualty, Canada, U.K., Europe and Asia Pacific Casualty and Financial Lines as well as European short-tail lines. Next quarter's focus will be on U.S. Financial Lines and some Casualty areas. This quarter's PYD showed favorable development in North America, driven mostly by primary workers' compensation, California 2017 wildfire, subro (sic) [subrogation] and short-tail lines and unfavorable developments internationally driven mostly by Financial Lines, large losses and U.K. and Europe Casualty, mostly in prior accident years.

As Peter mentioned, the General Insurance business has continued to improve with an accident year combined ratio as adjusted of 93.3% in the quarter, a 260 basis point improvement from last year. North America was 96%, 250 basis points better than last year, while North American Commercial Lines was 630 basis points better than the prior year, 560 basis points of which emanated from an improved loss ratio.

International improved, the accident year combined ratio as adjusted by 240 basis points, to 91% with International Commercial Lines better by 410 basis points, with 170 basis points of this emanating from an improved loss ratio. The global expense ratio was 180 basis points lower quarter-over-quarter, driven by an improved acquisition ratio. General Insurance also reduced their GOE by $76 million. The margin momentum in Commercial Lines reflects the hard work of the past several years with the added tailwinds of achieved rate in 2020 above our initial expectations. Both will drive margin improvement through 2021.

I would also note that on a global basis, Personal Insurance results are not really comparable to last year due to the significant drop in Travel business, the formation of Syndicate 2019 for North American PCG business discussed last quarter and higher North American catastrophes, including the COVID impact on the Travel book. International Personal Insurance accident year combined ratio as adjusted improved by 80 basis points with favorable frequency in Japanese auto and a lower expense ratio. North American Personal Lines accident year combined ratio as adjusted was significantly higher to 118.6% due to the approximate 60% drop in net earned premium for the segment, led by Travel's nearly 80% reduction as well as the noise associated with the changes to PCG that was discussed on our prior call. Warranty, Personal A&H and Canadian Personal Lines all continued to perform well.

With the Commercial Lines reunderwriting largely behind us, we are now pivoting to growth, which will become evident in early 2021, as near-term top line results are still impacted by Personal Insurance. Global gross premiums written were $8.3 billion in the quarter, down approximately 4% before the impact of currency. And net premiums written and earned were both down approximately 11%, principally due to Personal Insurance as well as the impact of reinsurance and portfolio management on the North American Commercial Lines book.

In North America Commercial, net premiums written decreased by approximately 5%, reflecting the impact of reinsurance as stated, portfolio management actions and COVID, but retention and new business levels have improved the specific areas. For instance, our Lexington Property business grew by 20% year-over-year as a result of increased flow, continued rate increases and new business momentum. International Commercial's net premiums written increased by approximately 5%, reflecting significant rate momentum and growth in Financial Lines, Specialty and Talbot.

North America Personal Insurance net premiums written was impacted by business mix shifts due to the lower Travel premium and the changes to PCG. As we enter 2021, we will retain approximately 25% of the PCG business, and the Syndicate structure will reduce the volatility of the overall Personal Lines book as was the case this quarter.

International Personal Insurance net premiums written were down 10% on a constant dollar basis, principally because of the reduction in Travel premiums. Aside from Travel, most of the International Personal Insurance is in Japan, which had a slight decrease in premiums due to lower new business, also was the result of COVID.

Now turning to Life and Retirement. Adjusted pretax income was $975 million for the quarter, up over 50% compared to the prior year with strong performance in most businesses. Third quarter adjusted return on attributed common equity was 14.5%, as Peter noted, and 12% on a year-to-date basis. Also, as Peter mentioned, Life and Retirement's retail annuity sales rebounded significantly from historically low second quarter levels. Sequentially, fixed annuities were up 144% to $942 million from the second quarter low of $387 million. Variable annuities were up 24% to $670 million, and index annuities were up 38% to $942 million. Life and Retirement also grew sales modestly in Group Retirement. And in Institutional Markets, several large guaranteed investment contracts were issued during the quarter, totaling approximately $1.2 billion.

Total premiums and deposits increased from second quarter levels and net flows, although still negative, had a material rebound sequentially of over $612 million for fixed annuities and fixed index annuities alone.

The balance sheet remains strong with a solid investment portfolio with limited exposure to large legacy blocks on the liability side, such as long-term care, prefinancial crisis variable annuities or long-duration payout annuities. While low interest rates in the last year will drive additional spread compression, the diversity of our product portfolio is a strength in this environment. Our annual actuarial assumption update, which lowered our 10-year -- forward 10-year treasury assumption to approximately 2.8% from 3.5% previously, was generally benign as we also updated our lapse, mortality and policyholder behavior assumptions, resulting in an unfavorable impact of $120 million to adjusted pretax income and a net unfavorable impact of $22 million to pretax net income, mostly from revised lapse and policyholder assumptions.

Shifting to investments. Net investment income on an APTI basis was $3.2 billion or $277 million lower than the third quarter of 2019. As a reminder, due to the sale of Fortitude, the prior year included the full quarter income on the Fortitude portfolio, whereas it is excluded on an APTI basis this quarter. Adjusting the third quarter of last year's net investment income accordingly, this quarter's net investment income on an APTI basis actually grew $271 million compared to the prior year, reflecting stronger income on both hedge funds and private equity.

Turning to other operations. The adjusted pretax loss after consolidation and eliminations was $562 million, $62 million higher than the third quarter of 2019, principally due to additional interest expense from our May 2020 issuance of $4.1 billion of senior notes to prefund upcoming maturities.

Parent and service company GOE declined $50 million pretax, reflecting AIG's continued focus on expense reduction. Our Legacy segment or adjusted pretax income no longer reflects Fortitude at $89 million of APTI in the quarter, slightly down compared to the third quarter of 2019 due to lower income as a result of Fortitude sale, offset by higher gains on fair value option portfolios within the Legacy investments. Legacy's results also reflected a favorable impact of $13 million related to the annual actuarial assumption update.

Now turning to the balance sheet. At September 30, 2020, book value per common share was $73.86, down 1% from the prior year-end but up 3% from June 2020. Adjusted book value per share, which excludes AOCI and DTA and net cumulative unrealized gains on the Fortitude funds withheld assets, was $56.78 per share, up 2% sequentially from June 30.

At September 30, AIG parent had cash and short-term liquidity assets of $10.7 billion after third quarter dividends of holding company expenses as well as the August debt maturity of $638 million. Looking into next quarter, we expect to pay the balance of the IRS tax settlement on cross-border transactions that date back to the 1990s. During the second quarter, we had prepaid approximately $548 million related to principal and penalties. We recently settled the litigation associated with that case and are awaiting potentially by year-end, the final interest calculation from the IRS. We have requested interest netting, which may lower the total amount below our remaining settlement estimate, which we have accrued at $1.2 billion.

As for debt leverage, we reduced that ratio by approximately 100 basis points in the third quarter, driven by maturing debt, which had been prefunded and growth in retained earnings.

Finally, our primary operating subsidiaries remain profitable and well capitalized despite the continuing impact of low rates, credit experience and COVID. For General Insurance, we estimate the U.S. pool fleet risk-based capital ratio for the third quarter to be between 430% and 440%; in Life and Retirement, it's estimated to be between 410% and 420%, both above our target ranges and both providing a good buffer for the uncertainty of the current environment.

With that, I will now turn it back over to Brian.

Brian Charles Duperreault
CEO & Director
Thank you, Mark. I guess it's time for the Q&A portion of this. So operator, why don't we start?

Question and Answer

Operator

[Operator Instructions] We can now take our first question from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Peter, is going back to your comments on Life and Retirement. You mentioned the option for the separation was either an IPO or a private sale. But then in reference to both, it sounds like you mentioned 19.9%. So I guess I'm confused on what a private sale -- could you go down the route of a private sale of 19.9% of L&R with subsequent sales after that? If I can just get some clarity on that comment, please.

Brian Charles Duperreault
CEO & Director

Peter, go ahead and take that, please?

Peter Salvatore Zaffino
President, Global COO & Director

Yes. Thanks, Elyse. Yes, the 19.9% was referencing to the IPO. And we said that there could be -- we can't predict the future but that there could be an approach for a private sale, but it would be for the same percentage, the 19.9% or less, that we would not consider anything that would be above that. So I would think about whether it's the IPO or in the event of something came from a private party that it would be the 19.9% or less as an initial first step.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then so if it was a 19.9% to a private party, I guess, then you'd just be looking for subsequent sales down the road. Is there a time frame if it was a private sale or, I guess, the IPO for the -- as you think of these 2, 19.9% option for the full disposition of L&R?

Peter Salvatore Zaffino
President, Global COO & Director

Got you. Okay. Yes. So really, the time line, Elyse, I would think like whether we pursue a minority IPO or sale, we're going to make that decision in the near term, and we'd like to communicate that promptly. I mean the ultimate closing of an IPO or sale will depend on regulatory or other required approvals. And we'd like to think we can close on the first step of separation in 2021. But of course, we'll have to see how the process unfolds.

Operator

We can now take our next question from Josh Shanker of Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

So the first question was the general guidance around growing premium volumes next year. Is that exclusive of what happens with travel and accident premiums?

Brian Charles Duperreault
CEO & Director

Well, I think that's a Peter question. Peter?

Peter Salvatore Zaffino
President, Global COO & Director

Thanks, Josh. It was not exclusive. I mean we believe that we can grow the top line for General Insurance, even in those conditions where we would have a prolonged headwind in Travel, but we think that we can grow the top line without caveats.

Joshua David Shanker
BofA Merrill Lynch, Research Division

And for those who look at the third quarter liability, premium numbers down in the low double-digit range, given where pricing is. So it sounds like there's some concerns about your appetite for liability business at this price. You've obviously run a lot of liability business in the last couple of years. How does that reflect on your confidence on the last couple of years of books and the attractiveness of writing liability business on -- in November 2020?

Brian Charles Duperreault
CEO & Director

Go ahead, Peter.

Peter Salvatore Zaffino
President, Global COO & Director

Well, we've been doing the reunderwriting of the liability lines for a couple of years now. And so we've seen the shift in the portfolio in a very positive way. I think what you'll see on the net premium written is just a lot of reinsurance cessions just because we put in excess of loss and quota share. In this particular year, we had even more cessions on the quota share. But we feel very good about the way in which we are positioning that portfolio. We do think that we can grow that portfolio on the top line. And the rate-on-rate increases that we're getting in the Casualty and liability lines are meaningful and, we believe, are above loss cost. So I wouldn't read into it. I would say that it's part of the remediation, it's part of reinsurance, and we think that we are in a position to grow it.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Would you care to share the gross premium written growth?

Peter Salvatore Zaffino
President, Global COO & Director

I'm sorry?

Brian Charles Duperreault
CEO & Director

Say that again, Josh.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Would you care to share an idea about the gross written premium growth in liability, whether it was much less than down low double digits?

Peter Salvatore Zaffino
President, Global COO & Director

No, I would -- it's the same comment. I think we can grow the top line on a gross basis as well.

Operator

Our next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Peter, when you -- the guidance with respect to the below 90% underlying combined ratio, and I assume that's kind of run rate as you go out end of '22. How do we kind of think about that expense ratio, kind of loss ratio? As you kind of think about it, how much is going to be AIG 200 related?

Brian Charles Duperreault
CEO & Director

Go ahead, Brian -- or go ahead, Peter.

Peter Salvatore Zaffino
President, Global COO & Director

Yes, it's end of 2022 run rate, and we just thought about as we start to exit 2022. But I think all of the variables will contribute to the improved combined ratio. So I gave you some guidance on -- in my prepared remarks on AIG 200. So we remain committed to the billion dollars, and so we'll recognize $300 million of that as an exit run rate this year.

So you could think about a couple of hundred basis points contributing to expense improvement during that period of time. We feel very good about the opportunity to grow the top line. And so we will start to see top line growth, which will help the ratios. We think we will have a revised reinsurance program that will reflect the portfolio that we have today. And so the vast reunderwriting to pivot to where we are today, we will have a different reinsurance structure going forward, and we will likely not need quite as much.

And then the last piece is just the rate increases above loss cost will start to earn into the portfolio. And so I think all of those 4 variables will contribute to an improved combined ratio below the 90%.

Operator

Our next question comes from Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Perhaps you could just talk about the prioritization for use of proceeds, if you do, could be IPO or sale of Life business and if that would be different from what you expected in the past.

Brian Charles Duperreault
CEO & Director

So I think, Paul, the question was use of proceeds from the IPO. I think I got that right. And if that's the case, Mark, would you take that question?

Mark Donald Lyons
Executive VP & CFO

Sure. Thanks, Paul, thanks for the question. Well, our primary focus for the proceeds from any initial disposition will be to reduce AIG's debt leverage. But we'll continuously to review the best use of our capital, which certainly includes share repurchases, and act accordingly based upon those priorities.

Brian Charles Duperreault
CEO & Director

Paul, was there another part to the question because you were a little unclear in my audio?

Jon Paul Newsome
Piper Sandler & Co., Research Division

No. I mean that was the focus of it, but maybe if you could just further that in terms of the debt leverage procedures. I mean my sense was you've sort of already prefunded all of those debt leverage. So I guess I'm a little bit surprised that there's more to do.

Brian Charles Duperreault
CEO & Director

Okay. Mark, can you take that?

Mark Donald Lyons
Executive VP & CFO

Sure, sure. So since you talked about that, Paul, so AIG clearly has strong liquidity. That was bolstered by the $4.1 billion debt raise we did in May of this year. That attractively prefunded those forthcoming maturities, right, and provided liquidity from a risk management perspective. But the near-term capital management strategy remains focused, though, on reducing our debt level to leverage ratios and executing on this separation with Life and Retirement from AIG.

So -- but as previously noted, though, we have upcoming obligations associated with that liquidity of roughly $3.5 billion. So we've got the tax settlement that I'd mentioned in my prepared remarks, that could be up to $1.2 billion. And we have maturing debt that we did prefund, which pushed up the leverage ratio knowingly. But we know that's coming due at a $700 million range in fourth quarter and $1.5 billion by March of 2021. So we really have -- those priorities are right in front of us.

Operator

Our next question comes from Tom Gallagher of Evercore.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Peter, you mentioned that you don't intend to break up the Life Insurance business and sell it off in pieces. I guess my question is, we've seen some recent indications in the market that private values are potentially double that of current public market values of life insurers. Have you taken that into consideration and still concluded your path is the best one for shareholders?

Brian Charles Duperreault
CEO & Director

Tom, let me take that one, and Peter can add to it. I think you just have to understand that when we look at our Life business, we believe the ongoing strength of it is the breadth of the platforms. They've unequal product and distribution. We've got leading market positions. And there's a lot of cross-unit synergies. So the integrated platform, we believe, provides the kind of knowledge and expertise and stability and that's more valuable together than in pieces. And so we've cleaned it up. We've done a lot of derisking, but L&R really is a beautiful machine where these things all interact. So we believe that some of the products is definitely greater. I mean the whole is greater than each of the parts, I'll say, the right way. I hope that helps, Tom.

Peter, do you want to add anything to that?

Peter Salvatore Zaffino
President, Global COO & Director

So I think between my prepared remarks and your comments, Brian, we did look at many alternatives and just believe that the consistent performance that Life and Retirement has produced as it's structured is going to create the most shareholder value, keeping it together.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

I appreciate that, guys. Just my follow-up is the -- back in 2016, there was an estimate of capital diversification breakage of over $5 billion. It sounds like that's a lot less now. Is there still some dissynergy in capital diversification? And if so, could you quantify it?

Brian Charles Duperreault
CEO & Director

Well, I guess, I'm going to throw that one, Tom, to Mark. Mark, can you just take us through that?

Mark Donald Lyons
Executive VP & CFO

Sure, sure. So Tom, 2015 is quite a while ago. And as you know, there's been massive changes to the portfolio pretty much across the board. So I mean when you think about it, not only from 2015, but when Brian arrived in 2017, you've got a targeted risk reduction program that really went across the board with a revamped risk appetite, no matter how you looked at it. So that's been successfully implemented on both sides of the balance sheet, and it's involved the parent and GI and Life and Retirement and investments. And the operating subsidiary RBC, and risk-based capital, is strong for both GI and for L&R and the volatility in total and within each of those operations has clearly been markedly reduced.

So -- and just as a little bit of a remembrance, so you see exactly the kind of risk reduction, which involves all the things you asked about. So the investment derisking, the Fortitude transaction, which we went into great detail, moving not only $35 billion of reserves, $31 billion of it was on Life and Retirement and $4-plus billion on GI, but it's also what constitutes those reserves. So when you look under the covers and you see a lot of structured settlement reserves and a lot of single premium immediate annuity reserves, those are clearly loaded with interest rate risk.

So now that type of volatility and that kind of issue has now been pushed off as well. We have the ADC that we put into place with General Insurance that still has $6.4 billion unused, representing an 80% cession. The underwriting change to the book that has been massive, both on the front end and a proper reinsurance structure to protect it, as Peter always talked about.

Consequence, the P&Ls have gone down enormously. The marketplace taking advantage of that with improved earnings by driving compound rate and improved terms and conditions but trimming the portfolio the right way, not just renewing books of business but getting into classes and things doing it properly.

And not only on that, we've got the -- what we kind of referenced earlier, which was the debt rates that we had that allowed us to having risk management -- liquidity risk management capability in front of the prefunding of those maturing debt securities. So I think all in, we've got a lot of strength in earnings, a lot of strength in -- of lesser volatility around those earnings, and there is certainly a reduction in all those things combined.

Operator

Our next question comes from Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

My first question goes to the financial leverage commentary around separation. It sounds like you're comfortable and confident in the leverage that will be achieved by both entities after separation. Today, I think the leverage is still a bit higher than where the Life and P&C Groups are at. So I guess, if I try to connect the dots there, is that why you're talking about a 19.9% sale at first to potentially fund some of that decreased leverage and then you'd consider selling the rest?

Brian Charles Duperreault
CEO & Director

Well, look, since you brought up the 19, and I would have given this to Mark, but Peter, you might want to comment on 19.9% first, and then maybe Mark can go into the leverage question.

Peter Salvatore Zaffino
President, Global COO & Director

Yes, I think, Yaron, it is largely in my script, which is the 19.9% does preserve the foreign tax credits and that's a meaningful number today, but we will earn out of that. But I think -- Mark, I don't know if you want to go in a little bit deeper as to the deconsolidation issues.

Mark Donald Lyons
Executive VP & CFO

Yes. Well, as Peter said, the 19.9% certainly -- because you still consolidate. So you still continue to reap the benefits as he's noted, which is why it's important, number one. And number two is the shrinkage of that, the consumption of that has really been pretty evident over the older years to where we are now. And with L&R and GI -- because think about it, Yaron, L&R has really been the big consumer of -- for the DTA, especially on the FTC, that's the foreign tax credit side. But now you have 2 strong platforms with a lot of great prospects on a go-forward basis where both can use and both can consume that. So I think that's important.

Now getting back to the structure, both -- all the AIG subsidiaries really are strongly capitalized today. And we do anticipate, though, that each of the General Insurance and Life and Retirement businesses will maintain strong RBC levels and will have a leverage ratio that's consistent with the respective peers and ratings. And we'll be working closely with our regulators and rating agencies, as Peter referenced, throughout this process to validate our analysis. And our intention is to remain at or above our target ratings of these operating subsidiaries. So we believe as separate organizations, both will have sufficient financial flexibility to compete effectively and to generate returns above their individual cost of capital. So again, to reiterate, at this time, with all in, we do not anticipate the need for additional equity capital in either business as part of the separation.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. That's helpful. And then my second question, with regards to the guidance for 2022, combined ratio has been below 90%. And I think, Peter, you may have touched on this with your answer to Josh earlier. Did you need for the rate momentum to achieve that?

Brian Charles Duperreault
CEO & Director

Well, Peter, what do you think?

Peter Salvatore Zaffino
President, Global COO & Director

In the current rate environment?

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Yes. Yes. Does that need to continue?

Peter Salvatore Zaffino
President, Global COO & Director

No, we don't. I mean, again, I would have to -- when I'm looking through the future, I would have to talk myself out of it, not into it in terms of the underlying fundamentals as to will this continue or not. But we did not predicate getting below 90% combined at the end of 2022 with the rate environment that we're in today.

Operator

Our next question comes from Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just a follow-up on Tom's question about, I guess, why the outright separation is the right path forward rather than more of a piecemeal approach. And it sounded like Brian gave sort of the strategic rationale for it. But you guys also mentioned that you looked at capital and tax considerations when you decide on what you're going to do. So what, if any, of the capital and tax considerations that made this a better path than more of a piecemeal process of selling the Life business in parts?

Brian Charles Duperreault
CEO & Director

Okay. Ryan, let me start with this. So when you -- when we looked at this question, the question is does Life and Retirement and GI belong together? Or are they better apart? And the kind of conclusion was they were better apart. So let me look at the Life and Retirement, and you say, okay, is the Life and Retirement better together or apart? And it's the same kind of process. As I outlined it, we believe that the Life and Retirement business itself, as I said earlier, really is well integrated. There's a synergy around them that produces greater value than separating them. So that was -- we didn't see that value between Life and Retirement and General Insurance, but we see the value in the Life and Retirement business, where there is a creation of value because they are together. And that was the strategic decision.

The question, is it practical to separate and all that? We went through all that. And we have the capital. We believe we can get the -- we have the ability to appropriately stand up L&R, I should say. So -- but it really fell on that very simple process. I hope that helps, Ryan.

Ryan James Tunis
Autonomous Research LLP

Yes, it does. And then, I guess, just for Peter, it's early, but thinking about the dissynergies associated with stranded cost, that type of thing. I mean when you think about the cost base of the company, I just -- I'd like to hear your early thoughts on any complexities there.

Brian Charles Duperreault
CEO & Director

Go ahead, Peter.

Peter Salvatore Zaffino
President, Global COO & Director

Yes. Thank you. So I would think about -- if I was -- if we're going to do an IPO with Life and Retirement, there will be additional investment in order to have that company stand up on its own. But how I would think about it is that the benefits of AIG 200 to Life and Retirement will be at or more than what the investment costs were. So there'll be no additional costs in terms of the run rate today.

And then I do think that there will be more expense synergies at AIG post separation, and we're working through that. And that would be in addition to AIG 200, and we'll just give you some more insight in one of our future quarter calls as we do a little bit more ground-up work on it.

Operator

And our final question comes from Meyer Shields of KBW.

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

Great. On the fourth quarter '19 call, I think we got the sense that the underlying accident year loss ratio improvement would be more pronounced in 2021 than in 2020. Is that still the expectation?

Brian Charles Duperreault
CEO & Director

Peter?

Peter Salvatore Zaffino
President, Global COO & Director

Well, I mean, Meyer, I just want to make sure I understand the question. Is it really in terms of rate above loss cost? Or like, I just want to make sure I understand what you're asking.

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

I guess, I mean you talked about how rate above loss cost is helping 2020, but I'm wondering whether that would -- any of that improvement was originally expected more in 2021 and has been pulled forward. Or is it just the absolute better pricing environment?

Peter Salvatore Zaffino
President, Global COO & Director

Mark, do you want to just take that on the -- like what we're getting on the policy year and rate cost increase?

Mark Donald Lyons
Executive VP & CFO

Sure. Sure, happy to. Thank you, Meyer. So I think one thing that's been clear from the informations Peter has provided not only this call but at prior calls is we don't see any reduction of the rate of increase. It's -- one, it's global not just centered in the U.S.; and secondly, we don't see it falling off in virtually all the major areas that we've discussed. I think some others may, but we have not. And I think that's tantamount to the continued professionalism of the underwriting group.

So think of it this way. So if you have that kind of strength by policy quarter, effective quarter, and if that continues to build, it's going to flow off increasing rate adequacy into future calendar quarters. So '20, it's going to have a very strong year, and I see nothing in the way stopping 2021 from being marginally better than that.

Brian Charles Duperreault
CEO & Director

Meyer, do you have a follow-up?

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

Okay. Just a quick one. Is it possible that the proceeds from the sale or IPO of Life and Retirement can be used -- who can use the DTA?

Brian Charles Duperreault
CEO & Director

It could be used to -- I didn't hear that last -- that last piece of the question.

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

Yes. Is it possible that you can use some of the tax credits you come up against the proceeds from the partial sale or IPO of Life and Retirement?

Brian Charles Duperreault
CEO & Director

Well, Mark, I think that's you.

Mark Donald Lyons
Executive VP & CFO

It's actually much more complicated, and there's legal structures involved. That's -- there's no short answer to that, but other than to say, not really.

Brian Charles Duperreault
CEO & Director

I think that's the best way to leave it, Meyer.

So look, I want to once again thank you all for joining us today. I'm very pleased with the progress we've made at AIG, and I think third quarter certainly is another indication of the fact that we are on the right track. And I got to tell, our colleagues really continue to impress me with their dedication and loyalty to our company and all our stakeholders. It's an exciting time at AIG. We continue to manage through unprecedented circumstances across the globe while elevating our market-leading businesses. And we look forward to 2021. I remain confident that our team will continue to execute on our strategies for growth, and we'll separate the Life and Retirement business from AIG. So we look forward to updating you on future calls. Have a great day. Thank you very much.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect.