![S&P Capital IQ]

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American International Group, Inc. NYSE:AIG

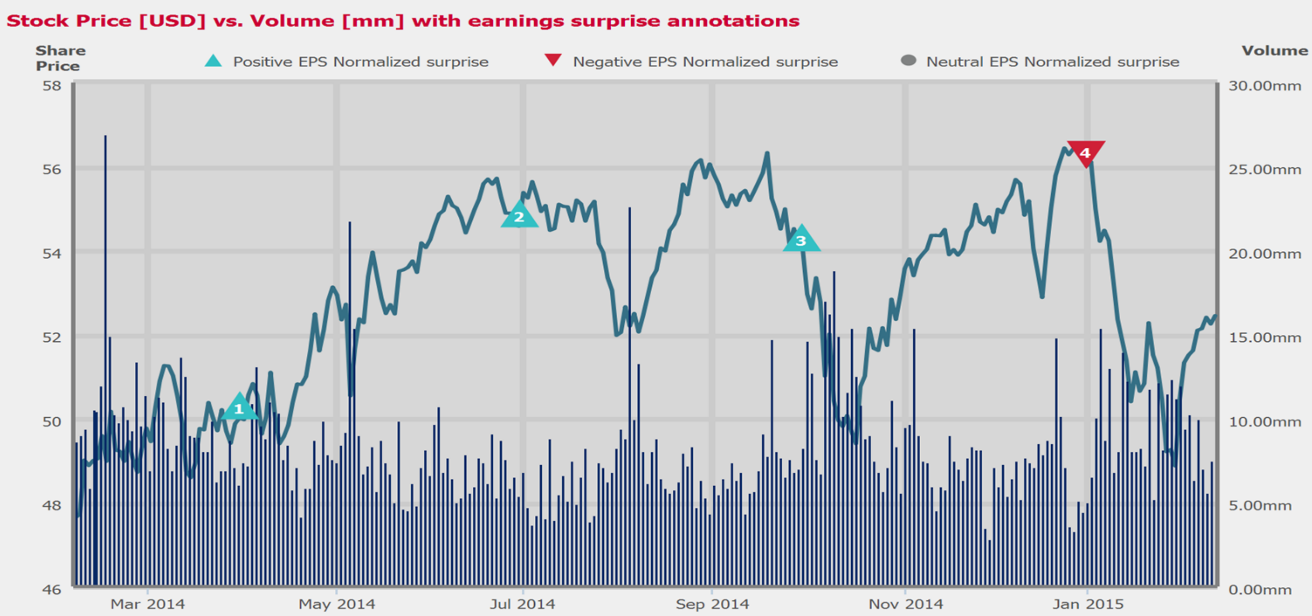
FQ1 2015 Earnings Call Transcripts

Friday, May 01, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.19	1.22	▲2.52	1.20	4.88	5.56
Revenue (mm)	11301.40	-	▲41.35	11435.56	37261.16	39396.67

Currency: USD
Consensus as of May-01-2015 12:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	1.06	1.21	▲14.15 %
FQ2 2014	1.05	1.25	▲19.05 %
FQ3 2014	1.09	1.21	▲11.01 %
FQ4 2014	1.05	0.97	▼(7.62 %)

Call Participants

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Elizabeth A. Werner
Head of Investor Relations and Vice President

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Kevin T. Hogan
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Presentation

Operator

Good day, and welcome to AIG's first quarter financial results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Liz Werner. Please go ahead.

Elizabeth A. Werner
Head of Investor Relations and Vice President

Good morning, everyone. Before we get started, I'd like to remind you that today's presentation may contain certain forward-looking statements, which are based on management's current expectations, and are subject to uncertainty and changes in circumstances. Any forward-looking statements are not guarantees of future performance or events. Actual performance and events may differ, possibly materially, from such forward-looking statements. Factors that could cause this include the factors described in our 2014 Form 10-K under Management's Discussion and Analysis of Financial Conditions and Results of Operations under Risk Factors. AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Today's presentation may contain non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in our financial supplement, which is available on our website.

This morning in the room, we have our CEO, Peter Hancock; our CFO, David Herzog; and the 2 heads of our businesses, John Doyle; and Kevin Hogan.

With that, I'll turn it over to you, Peter.

Peter D. Hancock
Former Chief Executive Officer, President and Director

Thanks, Liz, and thank you, all, for joining us this morning. I'd like to discuss key highlights from the first quarter, the progress we're making towards our financial targets and the quality and strength of our balance sheet.

Turning to Page 3. Book value per share, excluding accumulated other comprehensive income and our deferred tax asset, was over $60, up 4% for the quarter and 14% from a year ago. We're confident that we will achieve our targeted book value growth of at least 10% this year to improving profitability and active capital management. Our ROE improvement is also on track, even after considering certain noteworthy items in the quarter, which David will discuss.

On the expense front, we continue to evaluate opportunities to simplify our businesses and provide the greatest value to our customers. Again, we made progress in the first quarter and remain committed to our annual targets through 2017 of 10% per share -- to a 10% book value per share growth, excluding AOCI and DTA, and 50 basis points of normalized ROE improvement and 3% to 5% expense reductions through 2017. Our first quarter results demonstrated our commitment to balancing growth, profitability and risk.

Looking across our businesses, we saw improved underwriting results in commercial insurance. Within our consumer segment, we continue to invest in our Japan integration, which will provide a platform for long-term profitability. John and Kevin will provide additional comments on the performance of their respective businesses and how they're being positioned for sustained profitability.

Our disciplined use of value-based metrics was evident again this quarter as we actively managed our capital structure. Our year-to-date execution of debt retirement at spreads exceeding those of our debt issuance resulted in about $170 million of incremental economic value for shareholders.

We also continue to purchase shares below our estimate of intrinsic value. In the quarter, we utilized a combination of open market purchases and a 10b5 program to deploy capital according to our objectives. This approach executes the deployment over long periods of time -- longer periods of time compared to the previous methods used.

Since our fourth quarter earnings call through today, we've repurchased 39.6 million common shares at a cost of $2.2 billion and have $3.8 billion remaining under our existing authorizations, including the new $3.5 billion share repurchase authorization that we announced yesterday. We're in line with the $67 billion in capital return that we indicated for the 2015 full year, which does not include further derisking activities, including noncore asset sales.

Our annual shareholder letter reiterated initiatives we have in place to drive sustainable profitability through science, technology and the application of value-based metrics in assessing and managing our businesses. We specifically referred to floating or selling businesses that lack synergy with our core operations. To be clear, we believe that our core insurance businesses largely meet our customers' needs and our economic return objectives. We will also consider acquisitions that build our capabilities to meet our customers' needs, enhance our infrastructure and are not overly capital-intensive. Our mission is to empower our clients and to be their most valued insurer through our risk expertise and our financial strength.

Turning to Slide 4. During the quarter, we took further actions to simplify our balance sheet and reduce risk. The continued active wind down of the direct investment book and substantial termination of CDS in global capital markets has eliminated the need to separately report these results. We would expect this change to occur later this year.

The actions this quarter, along with the many steps we have taken to exit noncore businesses and streamline our businesses, have resulted in improved balance sheet strength, risk profile and sustainability of returns. Our derisking actions provide us with a capital flexibility to execute on our strategy, to pursue profitable growth and provide the services and products that best meet our customers’ needs.

Finally, we're often asked how we are viewed under the lens of a non-bank SIFI regulation. It's important to note that as a result of our derisking activities since 2012, our analysis suggests our balance sheet size, leverage and capital in non-insurance activities is comparatively low relative to our non-bank SIFI peers. We work closely with our many regulators and respect the value they bring to all stakeholders.

Now I would like to turn it over to David.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Thank you, Peter, and good morning, everyone. This morning, I will speak to our quarterly financial results, the progress towards our financial objectives and our capital management.

Turning to Slide 5, you can see our total insurance pretax operating income was down about 7% from a year ago. The comparison reflects unusually strong alternative investment returns a year ago, combined with the negative impact of the low interest rate environment that we're in. Consistent with our comments last quarter, we expect continued pressure on investment income, given the current interest rate environment.

Our insurance earnings comparison was also impacted by nearly $220 million swing in the workers' compensation discount between periods. In the first quarter, we adopted a quarterly process for adjusting the workers' compensation discount based on changes in the interest rate environment, which is consistent with our statutory reporting practice. While a change in discount is reflected in our operating earnings, the corresponding appreciation in the fixed income securities that support these reserves is recorded in the balance sheet and accumulated other comprehensive income. So from an economic standpoint, they offset. Excluding these discount changes, total insurance operating income was up about 2% from the same period last year. John and Kevin will provide more details on the commercial and the consumer operating results in their remarks.

Reported net income was $2.5 billion and included after-tax gains associated with sale of a portion of our PICC P&C shares and the Prudential B shares, which combined for just shy of 7 -- of $575 million in gains. The shares sold in PICC were accounted for as available-for-sale and bring our ownership to 8.2%, down from 9.9%. The monetization of this portion of the PICC PC investment reflects further derisking of our balance sheet, given the significant share appreciation since our 2003 initial investment. We continue to hold stakes in both PICC P&C and the PICC Group and see mutually beneficial opportunities to broaden our strategic relationship with PICC.

Turning to Slide 6, we provide detail on corporate and other operations, which was negatively impacted by the decline in the mark-to-market earnings from the direct investment book and global capital markets. We continue to successfully further wind down the direct investment book and global capital markets, or GCM. During the quarter, we recognized gains on the termination of the credit default swaps in both corporate debt, CLOs and the multi-sector CDOs. We redeemed an additional $1.1 billion in purchase price debt using cash and short-term investments allocated to this book for this purpose. Given the substantial progress and our further wind-down of the book, we expect that we would no longer report GCM as a separate component of corporate and other. Over $2 billion of capital supporting the DIB and GCM will be freed up beginning in the second quarter.

Parent company investment in AerCap and PICC generated $175 million in pretax operating income in the quarter. With respect to our investment in AerCap, our carrying value is just over $52.50 a share, reflective of the equity earnings pickup that we record each quarter for our 46% interest. This compares to a market price of about $46 to $47 a share, which may ultimately result in an other than temporary impairment charge later this year if the market price of AerCap shares continues to trade below our carrying value or if we change our intentions with respect to the sale of these shares. You may have also seen that during the quarter, AerCap registered the 97 million shares that we own, which was a requirement for any potential sale of those shares by AIG. This registration covers a 3-year period.

Additionally, results of other operations, which primarily include earnings from Life settlements and global real estate holdings, were $235 million in the quarter and included about $170 million real estate gain for the step-up in value of some underlying investments. Our reported operating after tax rate was about 33%, which was in line with our 33% to 34% rate.

Turning to our financial objectives on Slide 7. We estimate our normalized ROE is closer to 7.8% for the quarter. Our normalization takes into account lower expected CATs, higher-than-expected alternative returns and negative impact to the changes in the workers' comp discount.

General operating expenses, which are summarized on Slide 8, were $2.8 billion in the first quarter, down 3% from the same period a year ago. Favorable effects from foreign exchange were offset by timing of when we record or reversed or true-up certain accruals in the normal course and the impact of interest rates and mortality assumptions on our pension expense. Excluding these items, the decline in GOE from these various items, the largest of which was a reduction in our real estate or rent expense realized from the rationalization efforts in that regard.

Suffice it to say, we're making progress, but we have a significant amount of work ahead of us. Further, I would emphasize that the trends can vary from quarter-to-quarter. That being said, we remain focused and committed to operational and cost efficiency.

Our capital structure is highlighted on Slide 9. During the quarter, we deployed over $1.4 billion towards the purchase of about 25.5 million shares of common stock, plus the additional 3.5 million shares that were delivered in January with the full completion of the ASR, which we initiated in December. We also purchased an additional 14 -- over 14 million shares for a little over $800 million in April, bringing the total purchases, as Peter said, to about $2.3 billion, leaving about $200 million available under the prior authorization, plus the $3.5 billion of new authorizations we just received.

We continue to manage the cost and maturity profile of our debt. In January, we issued $1.2 billion of 20-year notes for inside -- to 3.9%, $800 million of 40-year notes at a rate inside 4.4% and $350 million of 30-year callable notes for inside 4.4%. Following the end of the quarter, we also tendered for $1.25 billion of purchased price parent debt. We ended the quarter with financial leverage ratios, including hybrids of

16.4% or about 15.8% when giving effect to the April tender. We continue to be opportunistic in our debt capital management.

Cash flow to the holding company remains strong. And as you can see on Slide 10, parent received total distributions from our insurance subsidiaries of about $3.5 billion during the quarter, including the previously disclosed $2.8 billion that were paid in January. The total distributions also include almost $300 million of tax-sharing payments from our insurance subsidiaries. We also expect insurance company dividends and distributions of somewhere between $5 billion and $6 billion for the balance of the year.

Now with that, I'd like to turn the call over to John.

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Thank you, David. I will review the first quarter results for Commercial Insurance and briefly comment on an acquisition and strategic investment we recently completed. Pretax operating income for the Commercial segment was $1.5 billion, an increase from the prior year quarter and reflects strong Property Casualty mortgage insurance results.

Turning to Slide 12. Commercial Property Casualty had positive growth and improved underwriting profitability. Excluding the impact of foreign exchange, net premiums written increased 6% from the year-ago quarter. Renewal of a single multiyear policy accounted for about 40% of this net premium growth.

We grew in Property, particularly in the Americas and Asia Pacific regions, benefiting from improved client retention rates. Financial Lines had a strong quarter with growth in the mid-single-digit range and in all regions. We continue to optimize our casualty portfolio in the U.S., which led to a slight decline in net premiums in the quarter in that segment. International casualty also grew in the quarter. Specialty net premiums were flat when compared to the same period a year ago with modest growth in marine and credit lines.

We continue to see a range of price activity across markets. In the U.S., rate change in Specialty was a positive 3.2% and Financial Lines were also up by nearly 3%. We also continue to successfully raise rates where needed in segments of the U.S. Casualty. However, Property rates did decline by 5.4% in the U.S. for the quarter. Pricing outside of the U.S. is under modestly more pressure, but we -- but rated adequacy is generally more attractive in these markets.

We have confidence in the accident year loss ratio trends and continued growth in risk-adjusted profitability due to our active management of business mix and from enhanced pricing, risk selection tools and claims service. Underwriting profitability improved with the clients in the accident year loss ratio and general operating expenses on a sequential and year-over-year basis. The accident year loss ratio has an adjustment of 64.4 was 0.8 point better than the same period last year and 1.5 points better than the prior quarter. When compared to the prior year period, the accident year loss ratio benefited from enhanced risk selection and pricing discipline in Casualty, Specialty and Financial Lines, particularly in the U.S. and lower attritional losses in U.S. Property. CAT losses were also below expectations for the quarter while severe losses were on plan. We continue to expect 1 to 2 points of accident year loss ratio improvement in 2015.

We experienced modest net adverse prior year loss reserve development of $28 million for Property Casualty in the quarter, including premium adjustments. This included adverse development related to higher commercial auto claims severity in Casualty, partially offset by a favorable development in Property.

General operating expenses declined 6% from a year ago, primarily due to efficiencies from organizational realignment initiatives and offset by investments in technology, engineering and analytics. Net investment income for the quarter declined 3% compared to the same period last year to $1.1 billion, reflecting lower new money yields, lower income on alternative investments, the effect of foreign exchange and lower invested assets. We would expect modest pressure on our investment returns to continue, given the current interest rate environment.

Turning to Slide 13. Mortgage Guaranty reported another strong performance with operating income of $145 million. The year-over-year comparison for the quarter reflects a decline in incurred losses from lower delinquency rates, higher cure rates and an increase in first lien net premiums earned as a result of higher new insurance written and an acceleration of earnings on the cancellations of single-premium business. New insurance written showed a strong growth of 40% compared to last year, driven by increased refinancings, given the low rates.

Turning to Slide 14. Institutional markets pretax operating income declined to $147 million for the quarter, primarily due to lower alternative investment income and the impact of base portfolio returns from lower reinvestment rates. Fee income increased, driven by growth in reserves and assets under management, primarily from continued development of the stable value wrap business.

In March, we purchased NSM Insurance Group, a leading U.S. managing general agent and insurance program administrator. NSM provides us with an access point to attractive markets, including programs, small specialty commercial segments and complementary distribution networks. We have worked with NSM for 15 years and expect to build on this strong relationship. We also recently acquired a minority stake in K2 Intelligence, an investigative consulting firm with particular expertise in cybersecurity, which is a top-of-mind risk for our clients.

I am pleased with Commercial's improved results in the quarter as we continue to advance our strategic initiatives and build on our vision to be our clients' most valued insurer.

Now I'd like to turn the call over to Kevin to discuss Consumer Insurance.

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Thank you, John, and good morning, everyone. This morning, I'll discuss the trends in our Consumer Insurance businesses and provide an update on our ongoing investments in Japan. In the first quarter, Consumer generated pretax operating income of $945 million. The performance of the business reflects the sustained low interest rate environment and reflects stable Property Casualty underwriting results.

Turning to Slide 16. Operating income for Retirement was $800 million for the quarter, benefiting from an increase in fees due to increased assets under management. Investment income comparisons were negatively impacted by very strong alternative returns a year ago and a decline in base portfolio income. The investment rates were below the weighted average yield of the overall portfolio, and average assets declined, driven by the significant return of capital to parent over the last 12 months.

As you can see on Slide 17, base yields for Fixed Annuities and Group Retirement declined sequentially, consistent with the anticipated 4 to 6 basis point quarterly reduction I spoke to last quarter. We would expect that trend to continue for the rest of the year should interest rates remain at current levels.

The impact to net investment spreads was partially mitigated by adhering to disciplined new business pricing and active management of crediting rates. The outflow of older policies, which carry higher crediting rates than current rates offered, also contributed to the reduction in our cost of funds, which has declined consistently for both Fixed Annuities and Group Retirement over the last 12 months.

Assets under management ended the year at nearly $227 billion, 2% higher than a year ago. Strong net flows in Retirement Income Solutions and positive separate account investment performance were partially offset by net outflows for Fixed Annuities and Group Retirement. AUM growth was achieved while paying out over $8 billion in distributions to the parent over the last 12 months.

Net flows for Fixed Annuities continue to be affected by the low interest rate environment, and we expect sales of Fixed Annuities will remain challenged as we maintain our new business pricing discipline.

We also expect Group Retirement deposits to be impacted by a sustained low interest rate environment. In the quarter, we experienced an increase in surrender activity in our Group Retirement business compared to a year ago, in part due to several mid to large group surrenders. The retirement plan market has been impacted by consolidation of health care providers and other groups in our target markets, which is impacting both new sales and surrender activity in this business.

In Retirement Income Solutions, although recent market results suggest pressure on new sales of variable annuities, our index annuity sales continued to gain momentum, and macro trends support the varying customer need for quality income solutions.

I would like to take a moment to comment on the Department of Labor's recent fiduciary rule proposal. While it is still early to discuss in great detail, we, like our industry peers, are in the process of carefully reviewing this detailed 800 pages of proposed guidance so that we understand the regulations and can provide constructive responses to the DOL. We would look for any final proposal to ensure both important protections for qualified plan participants, beneficiaries and IRA owners as well as the continued availability of valuable and broad-based product solutions, essential income guarantees and appropriate advice for these individuals to prepare for a successful retirement.

At AIG, we have the resources, expertise and commitment to the retirement space to respond quickly and to meet the needs of consumers as the regulatory landscape changes. We believe that consumer demand for lifetime income guarantees will continue to grow, and that the insurance industry is uniquely positioned to meet this increasing need in the years to come. We will monitor this closely, and we'll work with the DOL and the industry at large to achieve an outcome that truly benefits the American consumer.

Slide 18 presents results for our global Life business. Life pretax operating income of $171 million declined from the prior year quarter, primarily due to lower alternative investment income and base portfolio income as well as higher operating expenses from the investments we are making in distribution and technology in the U.S. In addition, Life also experienced lower favorable mortality compared to the same period last year, but still better than our pricing expectations.

We realized a 10% increase in Life premiums from the year-ago period, excluding the effects of foreign exchange, reflecting continued growth in Japan and the acquisition of Ageas Protect in the U.K. We also closed on the acquisition of Laya Healthcare, Ireland's second largest primary health insurance provider, on March 31, and the integration of Laya has commenced according to plan.

Turning to Slide 19. Personal Insurance reported an operating loss of $26 million as underwriting results were essentially unchanged but net investment income declined from the year-ago quarter. Net premiums written increased 1% from the same quarter a year ago, excluding the effects of foreign exchange. The increase was driven by premium growth in all regions except the U.S. Japan grew by 4% compared to the prior year period, driven by personal property and rate actions in A&H. The decline in the U.S. was primarily attributable to declines in individual travel and warranty services as we continue to maintain underwriting discipline in pricing and terms and conditions.

The Personal Insurance accident year loss ratio improved 0.6 points from the same quarter a year ago, reflecting better performance across all lines of business. Underwriting and rate actions taken in prior years in Japan personal property resulted in improved accident year loss experienced in that business. A U.S. warranty retail program also generated improved loss experience. However, the benefit was offset by a related profit-sharing expense, which contributed to the increase in the acquisition ratio from a year ago. The Personal Insurance acquisition ratio increased primarily due to this warranty profit-sharing expenses, partially offset by lower direct marketing expenses.

The Personal Insurance general operating expense ratio was unchanged from the first quarter last year as both expenses and premiums grew. General operating expenses increased from the same quarter a year ago, reflecting the increased technology-related project spend in the current quarter.

The Japan integration initiative had not fully commenced in the year-ago period. We continue to remain intensely focused on our Japan integration initiative, and we are making good progress in these efforts. At this time, our outlook for completion of our integration work is unchanged. Upon obtaining approval from the relevant authorities, we will be able to provide more information on the target merger date, expected benefits emergence profile and updated program expenses for the Japan integration.

To close, for our Consumer businesses, we remain focused on achieving profitable growth and effectively managing risk by executing on our customer-focused strategies, maintaining a prudent risk profile and targeting capital-efficient growth opportunities.

Now I'd like to turn it back to Liz to open up the Q&A.

Elizabeth A. Werner
Head of Investor Relations and Vice President
Thank you. Operator, could we open up the line for Q&A now?

Question and Answer

Operator

[Operator Instructions] We'll first hear from Jimmy Bhullar, JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

First, I had a question for Peter, just on your stake in AerCap. The lockup on part of the shares has expired already. So is this a core holding? Or would you consider selling it at some point? And if you do, what's your view on how you would use the proceeds? And then secondly, you have been buying back stock on a consistent basis, but you haven't really raised the dividend at all over the past -- I think it's been 5 quarters that you haven't. So if you could just discuss your reasoning for that.

Peter D. Hancock
Former Chief Executive Officer, President and Director

So as far as AerCap is concerned, it's certainly not core. We are looking at the various options in terms of pace and timing of disposition and are very conscious of the value of that stake, and we'll make a decision based on when and if we get fair value for that divestiture. As far as redeployment of the proceeds, it would become part of the broad pool of capital that we generate through both noncore asset disposal, derisking of the DIB and DTA monetization and dividends from the opcos. And we have a sort of waterfall hierarchy of how we think of deploying that capital. We certainly want to prioritize organic growth, meeting our customers' needs. We also are well aware of the opportunities to buy back shares if they are trading below what we view as intrinsic value. And I think that as we start to near or exceed intrinsic value, we also want to explore dividend policies that are a bit more consistent with peers. So I think that we recognize that we're in a sort of transition period as we continue to monetize noncore assets.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And just if I could ask one more for John. On pricing trends in P&C, obviously, the market commentary has gotten worse, especially on the commercial side. So how confident are you in the goals that you had laid out for improvement in your combined ratio? And if trends remain the way they are, would you -- do you consider that you'd need to revise the targets down a little bit in terms of...

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

See, I didn't feel -- I didn't see much different price activity in the first quarter than the fourth. And as I said, it's -- the property CAT market's quite competitive, right? Outside of that, on average, things are fairly stable. And some companies are in better position to get rate than others, right? So not all are equal. I think, for example, I've reported good Financial Lines rate increases in the first quarter. I think if you hear from brokers, the overall rate activity in that market is not quite so positive, and I think we're positioned very favorably in that market and are able to get a bit of a different result than the market can. Having said all that, the underwriting improvement, I remain confident, as I said, 1 to 2 point improvement during the course of this year. It's not all about price. It's about managing the mix of our business. It's about further implementing and developing the tools that we rolled out over the course of the last several years, both in underwriting and in claims. And then lastly, we saw it in the first quarter here, our short Casualty results last year, the attritional losses in Property, in particular, were a bit elevated. And I would expect not every quarter, but I would expect over the course of the year, it'll move back to more normal levels.

Operator

[Operator Instructions] We'll next hear from Randy Binner, FBR Capital Markets.

Randolph Binner

FBR Capital Markets & Co., Research Division

I appreciate the comments in the slide deck about derisking that's happening in the company over the last several years, but I'm wondering what that means as far as potential non-bank SIFI off-ramp. And what I'm getting at is if there was an off-ramp and you could explore structural change similar to what we saw at GE, would that now be necessary now that you view yourself as having a more derisked balance sheet?

Peter D. Hancock
Former Chief Executive Officer, President and Director

Well, AIG is regulated by about 200 regulators. The fed is simply the designated enterprise-wide one as a result of the SIFI designation. To date, they've been extremely constructive coordinator of those regulators and have prioritized derisking exactly along the lines that management would have done already. So we see them as a very highly aligned regulator with our intentions to create a robust balance sheet to serve our clients. The amendment to the -- Collins Amendment that occurred in the first quarter, which allowed the fed to treat insurance companies differently from banks, was a significant positive in our view in terms of the potential risk that future application of the SIFI regulation would be detrimental. So we are still awaiting greater clarity on exactly how SIFI rules will be applied in the future. But so far, as I've said, they've been extremely constructive. But the discussion of the off-ramp certainly means that there is a strategic question to be answered at some point down the road as to whether in the light of however those rules get applied and formulated, whether the optimal path is to not be a SIFI. And as we think about the criteria for SIFI designation, it's really important that we recognize that it's not simply size of assets. It's a multidimensional set of parameters, most of which we look very good on. So the only thing to remember is should you get off this off-ramp, there are 200 other regulators that are also very interested in how we run the company. So it's not clear to me getting off that -- an off-ramp changes management's flexibility in any material way.

Randolph Binner
FBR Capital Markets & Co., Research Division

I appreciate that. But the quick follow-up, if there were a structural change and the company split, is there any color or guidance you can give us on what the status of the NOL would be? If, say, for instance, AIG became a Life and a P&C company or domestic, international, whatever the split is, would that NOL be structured in place after that?

Peter D. Hancock
Former Chief Executive Officer, President and Director

I think we explained and probably point enough detail in the shareholders' letter that there would be significant tax -- negative tax consequences or something like that.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

And that language will also be included in the 10-Q.

Operator

And next we'll hear from Brian Meredith, UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here for you. First one, just for John. I'm just curious, can you talk a little bit about your strategy in the Property insurance lines? You've had some good growth there, although we continue to see pretty significant rate decreases. Is it where you're attracted the business is better underlying loss ratios? If you can tell a little bit about that.

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Sure, Brian. So the real rate pressure in the property markets, really, in the CAT market, in the wholesale market here in London, it's in the United States. The growth that we have seen in the last couple of years has been around getting into the middle market in Property, which we were not a player in many markets around the world. It was also entering the large limit space as well. We've made a very meaningful investment over the course of the last several years in our engineering capabilities. In fact, we've hired over 500 engineers in the last 4 years and are now winning largely non-CAT business due to our engineering capability, which I can tell you is not the reason why we want Property business going back sometime. So our analytics and capability in helping our clients manage their property-related cost of risk over time is the key there. What I would also share with you is that outside of a couple of major markets, primarily the United States and the United Kingdom, we chose to operate historically, I'm not quite sure why, but chose to operate in a subscale way. So our risk appetite in many other countries around the world was set by that country and really trying to manage to a result, a P&L result, for that country. So we've increased our risk appetite in many smaller countries around the world. And beyond that being attractive business for us from a property perspective, it's also changed who we are to our customers in those markets. In many countries outside of the United States, Commercial business is really a property-led market. And as we've improved our capability there, our customer sees us in a differently way, and it positions us in the future to write the Casualty and other Specialty lines of business unlike we had in the past.

Brian Robert Meredith
UBS Investment Bank, Research Division

I'm curious, is any of the increase also because of the new wrap models? Does that make the Property look more attractive than the Casualty?

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Sure, yes, low rates and our wrap model -- wrap -- yes, low interest rates, thank you, Peter.

Peter D. Hancock
Former Chief Executive Officer, President and Director

Not premium, not risk rates.

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

So low interest rates and the wrap model is what's guiding really all of our strategies. We're pursuing value, not volumes. So that adds a fair amount to it. I guess one other factor, not so much this year over prior year, although it played a little bit of a role, is lower reinsurance costs over the course of the last several years as well. So you're observing really net premium written increases.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then one quick one for David. I'm just curious, on the DIB, you talked about it's going to be, I guess, going away next quarter. Where are those results going to be reported? And I think you also said that $2 billion of capital are going to be freed up from the DIB. Does that mean we're pretty much done with the DIB as far as additional capital be freed up going forward?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

A couple of things, Brian. The assets that will be freed up may -- some of it may be cash, maybe securities. We would look to report those in our financial supplement in the other invested assets. There's a schedule in there. But you'll be able to see where those assets are because we still will get earnings off of those assets. So you'll see the assets there, and then it'll be in the other line. And we'll make sure there's enough transparency around the earnings results so that you're able to see what the assets are, what the yields are. So there'll be about $2 billion that'll come out in the very near term. The other aspects of assets in the direct investment book, global capital markets are the residual interests in the Maiden Lane III investments. And I know the team is working hard to, likewise, free that up. Now there are a lot of capital requirements associated with that. But nonetheless, it does give us more flexibility by having that asset outside of the direct investment book, and then that asset would monetize in the normal course over the next several years. If we choose to try to do something on an accelerated basis, that'll be a discussion for another day.

Operator

[Operator Instructions] We'll now hear from Jay Cohen, Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just a quick follow up on Brian's question, that is I seem to recall there was about, I don't know, $6 billion or $7 billion of equity at the DIB. Is that right?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Yes. That was -- there was about $7 billion at the end of the year. And when we file our 10-Q in the next day or so, you can expect to see about the same amount, and then, again, you'll see an update to that in the second quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And the capital that gets freed up, I assume that's unencumbered, that you can do with what you want at the corporate level.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Well, yes, it is unencumbered, but it would be then -- we'll look at it like we do other available or deployable capital in the context of the facts and circumstances at the time.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's great. And then David, for you another one. I seem to recall you mentioning that for the rest of the year, you expect the insurance subs to send to the holding company another $5 billion to $6 billion. Does that -- did I hear that right?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

You did.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And that's in addition to what you did in the first quarter.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Yes.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

So now we're talking north of $8 billion?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Excuse me. Yes, that's about the way the math works.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. And then lastly, if you could just give us the -- what you think the -- assuming no more debt capital management, the quarterly run rate of your corporate interest, that would be helpful, given all the changes that's occurred there.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

So you can see that in the financial supplement that -- I think it was about -- I want to say $275 million or so this particular quarter. I think that's right. So yes, it's -- it was about $275 million in this quarter, in the second quarter. Again, on Page 13 of the financial supplement, you'll be able to see that. And I -- again, I -- that may be down slightly, given the timing of what we did. And again, you'll see the changes to that going forward. But again, I will be opportunistic about how we deploy the capital and the remaining access or any future access to the capital markets. They've been -- the debt capital markets have been open, and we've taken advantage of what we believe to be cost-effective capital.

Operator

And we'll now hear from Tom Gallagher, Crédit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

David, just one last follow-up to the last few questions about the DIB capital. So the $2 billion, you said that's already been freed up? The $2 billion of DIB and GCM capital, so that's already been taken out? Or are you planning to take it out shortly?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

No, Tom. It will be done in the second quarter, so it's not currently out. So as I said, when we file the 10-Q, you'll see the -- in the disclosure, about the direct investment book, global capital markets. When you look at the net asset value that will be reported at that point in time, it is still in there. And as I said, in the second quarter, i.e., now, we will move upwards of $2 billion out and then get to work on the -- on an additional extraction, which would be principally the Maiden Lane III notes.

Thomas George Gallagher
Crédit Suisse AG, Research Division

And what -- and I assume the $2 billion would be counted as noncore, and I think you've been pretty clear at that. So that could be additive to your $6 billion authorization if you determine that's the appropriate use for that. I just want to make sure I should be adding the $2 billion to -- on top of what you've already announced.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

It would be incremental to that. The dividends and distribution and our -- the dividends and distributions that I commented on were not subject to monetization of noncore assets, and the 2015 capital plan that we -- that management prepared and reviewed with our board and other various stakeholders was not contingent upon the monetization of noncore assets.

Thomas George Gallagher
Crédit Suisse AG, Research Division

And the Maiden Lane opportunity, in terms of how much that could end up harvesting, and I -- is that something we should plan on within this calendar year as well?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

I'm not going to comment on that, Tom. It is -- it would be unencumbered, but I don't want to comment on what we may or may not do.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And then just 2 other quick ones, if I could. The core earnings definition to get you to the 7.8% ROE this quarter, did that include the $0.08 of gains from the legacy real estate investments? And if so, should we really be thinking about that as part of core? Or should we be stripping it out?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Well, we -- well, first of all, on the normalization in our -- and our definition of operating income, we give the disclosure around the normalizations in the spirit of transparency. So we're not redefining our principal non-GAAP measure of operating income. Those -- the real estate is a -- it may be legacy or it may be long-standing, but it is not noncore. I mean, those are investments that we make in the normal course, and we consider them part of the operating income. Now they're going to be lumpy. They're going to be -- they're going to vary from period to period. And so there were -- again, we don't expect the same kind or same level of mark or the same level of monetization. And so some portion of that, you can view how you -- however you like to view it. We view it in total over a long period of time. That's part of the return on those invested assets.

Thomas George Gallagher
Crédit Suisse AG, Research Division

But I guess my question related to that, is there a pool of sizable real estate investments that could be harvested over multiple years that we should be thinking about as sort of a sustainable source of gains that you would have there? Or is this unusually large?

Peter D. Hancock
Former Chief Executive Officer, President and Director

I think that you should think about it in the broader context of our private equity and alternative investment portfolio, some of which is held within the statutory balance sheet, some of which is held at the holding company. And so that is in the fin sup, and it totals about $35 billion. And so the real estate portion of that is about $4.5 billion. And we have an expected return on that entire portfolio, which we then normalize above or below when we come up with our ROE calculation. So I wouldn't think of it as any different than the alternatives.

Thomas George Gallagher
Crédit Suisse AG, Research Division

That's helpful, Peter. And just one last quick one. I noticed you showed catastrophe budget and earnings normalizing for catastrophes. That's the first time I've noticed that. Can you comment on what your full year CAT load budget would be for 2015?

Peter D. Hancock
Former Chief Executive Officer, President and Director

We haven't done that. And I think that we would -- has a substantial seasonality to it. And so I would treat it with a high degree of caution because it -- which quarter the CAT hits and obviously is very sensitive to that. But obviously, there are a whole lot more in wind season, but as we know, Superstorm Sandy just happened to fall in the fourth quarter. So you have some -- either you've got to be careful before you do it. We have not disclosed the full year numbers, short answer.

Operator

We'll now hear from Meyer Shields, KBW.

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

Going back really quickly to the global capital markets, David. Is there any sort of run rate of income that we should anticipate this providing in the future?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

As I've said -- and this is David. As I've said in the past, we would expect on those, on that pool of assets, or pool of net assets, somewhere between an 8% to 10% pretax return on the NAV overall is a reasonable proxy. It's not that simple by any stretch of the imagination, but it's a -- it gives you a signal of what our expectation is. And so that just -- that will give you a sense of it.

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

Okay, that's helpful. I didn't know whether you had a change. And then really quickly, John, you talked about anticipating 100 to 200 basis points of -- I think it was core or adjusted loss ratio improvement. What's the anticipated aggregate loss costs baked into that?

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

The -- we do that, obviously, by product and geography. There's a pretty meaningful range. We haven't disclosed an aggregate number to date, but we obviously look at that when -- in our actual rate activity and underwriting actions that we take when we make loss picks and loss pick adjustments on a quarter-to-quarter basis. So that's obviously factored in then to what -- the 100 to 200 basis point improvement is the accident year loss ratio this year compared -- as adjusted compared to prior year.

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

Okay. No, that's fair. One last question, if I can. The adverse development on Commercial liability, is that actual claim emergence? Or was that the product of an actuarial review?

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Well, it's an -- relative to the rest of our portfolio in Commercials, relatively short tail lines. So it's largely related to recent emergence and the increase in both frequency and severity, some underlying economic trends that led to it. So it wasn't a detailed reserve review, but emergence that we observed over the course of the last few months and felt like we needed to take action on. So of course, we're taking underwriting action as well and dealing with pricing attachment points and the like and adjusting our direct approach as we look forward as well. Take a little bit of time, obviously, for those actions to earn in, but that is still factored into the underwriting improvement that I anticipate during the course of the year.

Operator

We'll now hear from Josh Stirling, Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So listen, I appear -- I was looking at the proxy, and you have a few different measures of how you measure executive performance. One of them is really interesting. It's -- I think you call it contributive normalized ROE for the different segments, Commercial and Consumer. And if I understand it correctly, I think it's intending to back out noise from CATs and alternatives and such normalized, but also to back out the strategic investments, which are currently a big drag on your current earnings. And if I'm reading it right, it says you're -- absent all those things, your target right now for Commercial is about 16% ROE and something like 26% in Consumer. I was curious if you could help us think through how we should think about these in the context of both sort of reported numbers and the long-term goals, which are obviously much lower, but also just maybe make it simple. I know this is a long way off, given all the investments. But can we kind of look at these as the targets that you're hoping to deliver once you finish investing and start realizing the benefits of all the efforts to fix P&C?

Peter D. Hancock
Former Chief Executive Officer, President and Director

The proxy is always backward-looking. And with the new operating committee, I have had a chance to align the entire leadership team around the stated public goals that we disclosed in the last conference call. So I think in next year's proxy, you'll see a much clearer alignment between our publicly stated goals and the way we pay people in the short term. The long-term incentive is unchanged and is linked to shares, leveraged up and down based on our total shareholder return relative to a peer group as well as our ability to maintain our credit default swap spreads within a range of our peers so that -- we've never attempted to over-lever our balance sheet in the pursuit of short-term unsustainable shareholder returns.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Okay. If I can ask a separate question on capital then. I think David, last year, I think you itemized that, in addition to core dividends based on earnings from Life and P&C, the shareholders can count on liquidity from all the noncore assets, DIB, cap, et cetera, the DTA, as being available for further buybacks. If we take a long-term view, I think this is probably, Peter, for you, I mean math would suggest that all adds up to $50 billion or more over, say, 5 years. As we think about the long-term future of AIG, balancing the risk models and the conversations of all the 200 regulators as well as your guys on -- own growth ambitions for organic and acquisitions, how much of that free capital, which you're going to generate, do you think that we ought to imagine you're going to return to investors?

Peter D. Hancock
Former Chief Executive Officer, President and Director

I think that it really is dependent on market opportunities. We've had a very benign capital markets environment for the last 6, 7 years since the crisis. I think that our clients depend on us to be there through good times and bad. I think acquisition opportunities become more attractive in downturns than they do at the top of the market. And I think that we have some very attractive organic growth opportunities as we rebuild our international Life business, focused on the largest and fastest-growing markets in the U.K., Japan and China. And the opportunities for supplemental health in a number of markets is attractive as well, and EMEA is obviously a small but meaningful signal of our ambitions there. But we are extremely focused on returning excess capital to shareholders in the most efficient way possible, so through buybacks, when we feel that we're trading below intrinsic, and through dividends, once we're trading above, and a combination of the 2, once we're above. So I wouldn't hazard a guess as to what percentage of your number, not mine, $50 billion we might do, but that's a general gist of our philosophy.

Operator

We'll take our last question from Josh Shanker, Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Two quickies. The general operating since last year seemed much lower in the first quarter than the 3 that followed. Is there a seasonality to that? Or should we expect that to flatten out over time?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

There's generally a seasonality to it, and a lot of it's related to project spend or compensation accruals, et cetera. Peter, you want to...

Peter D. Hancock
Former Chief Executive Officer, President and Director

Yes. And seasonality would suggest that it repeats itself from year to year, and I'd just say I'd use the word lumpy. And so you're looking for a trend over time as opposed to any single quarter. We've got projects which come in, as I said, and then we got severance that comes in sometimes. So there are various things which will make it lumpy.

Joshua David Shanker
Deutsche Bank AG, Research Division

That's fine. And I just want to follow-up quickly on Randy Binner's question about regulators. I understand that the Board of Directors approved the $3.5 billion authorization yesterday. To understand the relationship with the fed prior to the SIFI rules being codified, to what extent are they aware and to what extent have you have their test understanding about your capital management plan?

Peter D. Hancock
Former Chief Executive Officer, President and Director

We're very transparent with the fed. At every stage, they sit in on our board meetings. They certainly scrutinize our capital plans. We have the right to amend our capital plans. They are very focused on making sure that governance on how we amend or change our capital plan through time is done appropriately. And I think that in terms of constructive feedback from the fed, they're being very focused on the operational integrity of how we generate our stress test that help determine our capital adequacy, and we've made a lot of progress in tightening that up. So I'd say it's a very constructive engagement to make sure that we are prudent and measured in a way we return capital.

Elizabeth A. Werner
Head of Investor Relations and Vice President

Thank you, everyone. At this time, we'd like to end the call, and we look forward to catching up with anyone who was not able to get through in the queue this quarter. Thank you.

Operator
And that does conclude today's conference. Thank you, all, for your participation.