S&P Global
Market Intelligence

MetLife, Inc. NYSE:MET

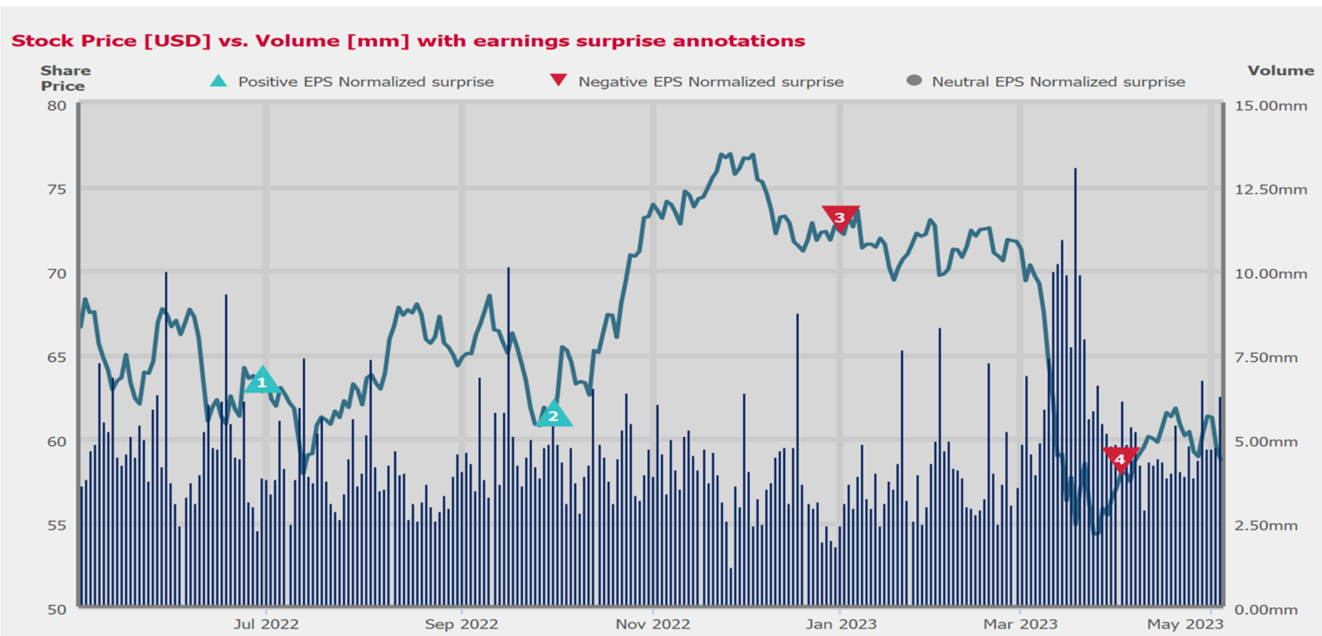
FQ1 2023 Earnings Call Transcripts

Thursday, May 4, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.86	1.52	▼ (18.28 %)	2.04	7.94	NA
Revenue (mm)	16840.15	16126.00	▼ (4.24 %)	17040.42	68617.16	NA

Currency: USD
Consensus as of May-04-2023 7:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	1.48	2.00	▲1 35.14 %
FQ3 2022	1.17	1.21	▲2 3.42 %
FQ4 2022	1.64	1.55	▼3 (5.49 %)
FQ1 2023	1.86	1.52	▼4 (18.28 %)

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Call Participants

EXECUTIVES

Eric Sacha Stephane Clurfain
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John Dennis McCallion
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Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the MetLife First Quarter 2023 Earnings Release Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. Before we get started, I refer you to the cautionary note about forward-looking statements in yesterday's earnings release and to risk factors discussed in MetLife's SEC filings.

With that, I will turn the call over to John Hall, Global Head of Investor Relations.

John Arthur Hall
Senior VP & Head of Investor Relations

[Technical Difficulty] slides are available on our website. An appendix to the slides features disclosures, GAAP reconciliations and other information, which you should also similarly review. I would like to point out this is the initial quarter we are reporting our financial results based on the new long-duration targeted improvements accounting standard. Please note that prior comparative periods have been recast to conform with LDTI.

As usual, after prepared remarks, we will have a Q&A session. In light of the very busy morning, Q&A will end promptly just before the top of the hour. [Operator Instructions]

With that, over to Michel.

Michel Abbas Khalaf
CEO, President & Director

Thank you, John. And good morning, everyone. Throughout MetLife's 155-year history, with risk management at our foundation, we have emerged from times of uncertainty in a stronger position; and I expect now to be no different. We remain focused on managing risks across economic cycles and controlling the things we can control to deliver for our shareholders and our other stakeholders.

Last night, we reported quarterly adjusted earnings of $1.2 billion or $1.52 per share, which compares to $1.7 billion or $2.04 per share a year ago. The quarter's results illustrate MetLife's resilience and underscore our continued strong business momentum and our ability to execute across what we control. We posted strong sales numbers, representing responsible growth for most of our key businesses and markets, including Group Benefits, Asia and Latin America. We generated good underwriting results, owing to our rigorous price discipline. We continued to manage our costs with vigilance and to beat our expense targets. And prudent risk selection helped push recurring investment income higher while new money rate reached 5.8% for the quarter.

Reflecting the market, variable investment income fell below our quarterly outlook expectation on the basis of returns on venture capital and real estate equity funds. In total, net income for the quarter was $14 million, driven by losses on opportunistic investment sales in Japan which offset the tax impact on the gain generated by our recent Japanese A&H Reinsurance transaction.

Shifting to MetLife's business performance in the quarter, I will start with our U.S. Group Benefits results. Adjusted earnings totaled $307 million, up substantially from the prior year when COVID-19 claims were more elevated with benefit ratios reverting to pre-pandemic seasonal norms. The momentum we've seen over the past several years for this franchise business continued in the quarter. We are strategically well positioned to grow in this attractive business given our scale, distribution reach, broad product portfolio, enrollment capabilities and importantly our thought leadership. Our differentiation in this space led to strong growth in sales and premium fees and other revenues in all market segments and across voluntary products. In total, sales were up 15%, while adjusted PFOs grew 5.4% toward the top end of our outlook expectation after adjusting for participating policies.

For Retirement and Income Solutions or RIS, adjusted earnings totaled $400 million, down from the prior year, driven by lower variable investment income. Adjusted PFOs in the quarter benefited from our sustained efforts to grow our structured settlement and our longevity reinsurance businesses. While we did not book any pension risk transfer business in the first quarter, funding levels remained strong. And despite the market turmoil during the first quarter, our capital markets investment products business was able to issue $3.7 billion of funding for the spread business, demonstrating the value of MetLife credit and the broader capital markets.

In Asia, adjusted earnings of $280 million were below a year ago on lower variable investment income. Sales on a constant currency basis were up across the board in the region. Japan saw sales rise 17% on the strength of FX annuities, while India led the sales gains in other Asia, up 45%, followed by Korea, up 21%.

Turning to Latin America. Adjusted earnings totaled $215 million, up more than 50% from last year. We are the largest life insurer in Latin America. And our business continues to put up impressive growth numbers in our major markets with sales jumping 36% and adjusted PFOs rising 26%, both on a constant currency basis. Taking a broader view of investments rising interest rates are a long-term positive for MetLife. We have a long time horizon and invest with our liabilities in mind. Our liabilities are sticky and are generally not subject to demand. Asset liability management, matching the duration of our assets with that of our liabilities, reduces reinvestment risk and is critical to our risk management process. Our investment process has stood the test of time, successfully guiding us through the global financial crisis. However, we do not have the luxury to wait until a crisis hits. We look around corners and prepare in advance. Our investment portfolio derisking began in 2019, and we remain up in quality.

Our core investment strengths have fashioned us as one of the premier private investors in the world, particularly in private credit and in real estate debt and equity. We have leveraged those trends to support our policyholders while building from a standing start MetLife Investment Management, a leading third-party institutional manager of public fixed income, private credit and real estate.

Moving to capital and cash, a tactical element of our business that we control, MetLife was active with capital management during the first quarter. We paid $389 million of common stock dividends to shareholders and we repurchased $780 million of our common stock. Also we repurchased another $223 million of our common stock during the month of April.

On the strength of our balance sheet and our free cash flow, we announced last week a 4% increase in our common dividend per share. We think an increasing common dividend per share is the hallmark of a strong life insurer, and MetLife's common dividend per share has grown at a compound rate of 9% since 2011. With roughly $200 million left on our current buyback authorization, as you saw last night, our Board of Directors has authorized an incremental $3 billion increase to our buyback authorization.

In the quarter, we announced and closed on the acquisition of Raven Capital Management, an alternative investment manager specializing in direct asset-based investments. Aided by MetLife's strategic M&A capabilities, we were able to add an important investment product adjacency that we expect MetLife Investment Management to scale over time. Taken together, these actions demonstrate our commitment to being a sound capital steward for our shareholders. In the absence of responsible organic growth or compelling M&A opportunities, we will return capital over time to our shareholders.

At the end of the quarter, we had $4.2 billion of cash at our holding companies, which is above the top end of the $3 billion to $4 billion liquidity buffer we maintain. Our holding company cash fluctuates from quarter to quarter. The balance in the first quarter typically reflects lower seasonal operating subsidiary dividends and higher seasonal holding company expenses.

Before I close, I would like to take a moment to welcome Jeh Johnson to MetLife's Board of Directors. Jeh joined at the end of April. And he brings unique perspective to our Board, having served as Secretary of Homeland Security under President Obama. I am certain Jeh's talents and experience will serve MetLife well.

In closing, while 2023 is shaping up to be another year of uncertainty, the successful actions we've taken to focus, simplify and differentiate our business can be seen in the quarter's strong underlying business fundamentals, particularly in sales, underwriting and recurring investment margins. Raising the bar and demanding more from ourselves is part of the culture we fostered here at MetLife. If we focus on what we can control, with relentless execution in mind, we can stay ahead of the curve and I am confident we will continue to do so.

Now I'll turn it over to John to cover our performance in greater detail.

John Dennis McCallion
Executive VP & CFO

Thank you, Michel, and good morning. I will start with the 1Q '23 supplemental slides, which provide highlights of our financial performance and an update on our liquidity and capital positions. In addition, we've provided some supplemental detail of our investment portfolio given the heightened focus recently. The appendix also includes slides which provide our full year 2021 and 2022 adjusted earnings recasted for the new LDTI accounting basis.

Starting on Page 3, we provide a comparison of net income to adjusted earnings in the first quarter. Net investment losses were above trend, primarily driven by sales of fixed maturity securities in Japan. Management took the opportunity to reposition some of the U.S. dollar portfolio to help mitigate some cash tax relating to our recent A&H Reinsurance transaction, enhance net investment income and improve asset liability management within the Japan business. These sales were neutral to a net positive to Japan's solvency margin ratio, which is expected to be approximately 725% at the end of March. In addition, net investment losses in the quarter included an increase in the current expected credit loss or CECL allowance, primarily in our commercial mortgage loan portfolio given the current environment. That said, the portfolio remains well positioned, and I'll provide more detail shortly.

We have itemized a new reconciling item between net income and adjusted earnings as a result of LDTI, called market risk benefit or MRB gains and losses. For certain products such as variable annuities with market-related guarantees, the change in fair value excluding changes attributable to nonperformance risk is recognized in net income each quarter. Similar to certain variable annuity guarantees previously classified outside of adjusted earnings, we'll also now identify MRB gains and losses as a reconciling item between net income and adjusted earnings.

Lower interest rates in the quarter drove an MRB loss. This loss was partially offset by derivative gains relating to lower interest rates. However, we had net derivative losses in the quarter as these gains from lower interest rates were more than offset by derivative losses relating to the strong equity markets in Q1 of '23.

On Page 4, you can see the first quarter year-over-year comparison of adjusted earnings by segment, which did not have any notable items in either period. Adjusted earnings were $1.2 billion, down 30%, and down 29% on a constant currency basis. Lower variable investment income drove the year-over-year decline, while favorable underwriting and higher recurring interest margins were partial offsets. Adjusted earnings per share were $1.52, down 25% year-over-year on a reported and constant currency basis.

Moving to the businesses, starting with the U.S. Group Benefits adjusted earnings were $307 million versus $117 million in the prior year period, primarily due to lower COVID-19 claims. The Group Life mortality ratio was 90.5%, slightly above the top end of our annual target range of 85% to 90%. As we have noted before, Group Life's mortality ratio tends to be seasonally highest in the first quarter. The drivers were excess mortality due to claims resulting from the year-end flu spike and higher severity. Regarding non-medical health, the interest-adjusted benefit ratio was 72.9% in the quarter, slightly above the midpoint of its annual target range of 70% to 75% but generally in line with higher seasonal dental utilization in the first quarter.

Turning to the top line. Group Benefits adjusted PFOs were up 1% year-over-year. As we discussed in prior quarters, excess mortality can result in higher premiums from participating life contracts in the period. The higher excess mortality in Q1 of '22 versus Q1 of '23 resulted in a year-over-year decline in premium from participating contracts, which dampened growth by roughly 4 percentage points. Taking participating contracts into account, the underlying PFO increase of approximately 5% was primarily due to solid growth across most products, including continued strong momentum in voluntary, and was within our 2023 target growth range of 4% to 6%. In addition, Group Benefits sales were up 15%, driven by strong growth across all markets.

Retirement Income Solutions or RIS adjusted earnings were down 27% year-over-year. The primary driver was lower variable investment income. This was partially offset by favorable recurring interest margins year-over-year. RIS investment spreads were 117 basis points; and 137 basis points excluding VII, up 37 basis points versus Q1 of '22 and up 13 basis points sequentially primarily due to higher interest rates and income from in-the-money interest rate caps. RIS liability exposures were up 1% year-over-year, but solid volume growth was masked due to certain accounting adjustments that do not impact fees or spread income.

That said, general account liabilities, which comprise future policy benefits and policyholder account balances collectively grew 5% year-over-year. And RIS adjusted PFOs, excluding pension risk transfers, were up 43%, primarily driven by strong sales of structured settlement products and growth in U.K. longevity reinsurance, once again reflecting the power of our diversified set of market-leading products in RIS.

Moving to Asia. Adjusted earnings were down 53% and 52% on a constant currency basis, primarily due to lower variable investment income. Asia's key growth metrics remained solid as general account assets under management on an amortized cost basis grew 3% on a constant currency basis. And sales were up 18% year-over-year on a constant currency basis, primarily driven by strong growth across the region. In Japan, FX annuity sales continued its strong momentum with growth in our face-to-face and bank channels.

Latin America adjusted earnings were $215 million, up 59%, and up 51% on a constant currency basis. This strong performance was primarily driven by favorable underwriting and solid volume growth. Overall, COVID-19 related deaths in Mexico were down significantly year-over-year. The favorable Q1 underwriting benefited from seasonality as well as additional claims favorability in the quarter. In addition, higher recurring interest margins were mostly offset by lower variable investment income year-over-year. Latin America's top line continues to perform well, as adjusted PFOs were up 26% year-over-year on a constant currency basis. And sales were up 36% on a constant currency basis, driven by growth across the region.

EMEA adjusted earnings were $60 million, up 9% and up 30% on a constant currency basis, primarily driven by higher recurring interest margins and solid volume growth. EMEA adjusted PFOs were up 5% on a constant currency basis and sales were up 27% on a constant currency basis, reflecting strong growth across the region.

MetLife Holdings adjusted earnings were $158 million, down 55%. This decline was primarily driven by lower variable investment income. Corporate & Other adjusted loss was $236 million versus an adjusted loss of $105 million in the prior year. Lower variable investment income was the primary driver. The company's effective tax rate on adjusted earnings in the quarter was approximately 22%, at the low end of our 2023 guidance range of 22% to 24%.

On Page 5. This chart reflects our pretax variable investment income for the prior 5 quarters, including a $44 million loss in Q1 of '23. Private equity portfolio which makes up the majority of the VII asset balance and is reported on a 1-quarter lag, had a positive 0.1% return in the quarter. Venture capital which now comprises roughly 20% of the $14.2 billion PE portfolio, had a negative 6.6% return. The remainder of the PE portfolio had a positive 1.9% return. In addition, real estate equity funds, which comprise roughly $2.3 billion of VII assets and are also reported on a 1-quarter lag, had a negative 5.9% return in Q1 of '23.

While VII underperformed this quarter and is approximately 4% of the portfolio, the 3-, 5- and 10-year cumulative private equity annual returns through Q1 of '23 were 19.8%, 17.2% and 16%, respectively, demonstrating the long-term value of incorporating this asset class into our asset and liability management.

On Page 6, we provide VII post-tax by segment for the 4 quarters of 2022 and Q1 of '23. As we have noted previously, each of the businesses holds its own discrete investment portfolios, which have been built to match its liabilities. Although not readily apparent in the chart, RIS, MetLife Holdings and Asia continue to hold the largest proportion of VII assets given the long-dated liability profile. Also, Corporate & Other currently holds an outsized amount of VII assets. We expect to reduce this balance over time as part of our normal ALM process.

Now turning to Page 7. The chart on the left of the page shows the split of our net investment income between recurring and VII for the past 3 years and Q1 of '22 versus Q1 of '23. While VII has shown lower-than-trend returns over the last few quarters, recurring investment income was up roughly $850 million year-over-year, reflecting higher interest rates and growth in asset balances. Shifting your attention to the chart on the right of the page, which shows our new money yield versus roll-off yield over the past 3 years with new money yields continuing to outpace roll-off yields in recent quarters. In this quarter, our global new money yield reached its highest level in more than a decade at 5.82%, 123 basis points higher than the roll-off yield. We expect this favorable trend to continue, assuming interest rates remain near current levels.

Now let's look at our global investment portfolio on Page 8. As you can see in the chart, MetLife's general account AUM shown at fair value as of March 31, 2023, is $424 billion. The portfolio is high quality and well diversified by asset class and geography. In constructing the portfolio, we use a disciplined approach to asset and liability management, in-depth underwriting and risk management. MetLife's global footprint, combined with the local market expertise of MetLife Investment Management or MIM, allows us to source high-quality, attractive assets that fit the needs of our businesses.

Overall, the portfolio is well positioned and built for resilience through uncertain markets. And we have a strong track record of mitigating losses across all asset classes in the portfolio. From 2008 through Q1 of '23, our average annual impairment rate was 13 basis points for fixed maturity securities and only 5 basis points for commercial mortgage loans.

Now let's discuss our commercial mortgage loan portfolio in more detail on Page 9. As of March 31, the CML portfolio carrying value of approximately $54 billion is well diversified by geography and property type. The CML portfolio is concentrated in high-quality properties and in larger primary markets. These loans are typically to the larger and stronger institutional sponsors who are better positioned to effectively manage assets through periods of stress. In addition, almost all of our CML loans earn first lien positions, with less than 0.5% in subordinated loans. The portfolio has a low average loan-to-value of 58%, with a high average debt service coverage ratio of 2.4x. As shown on the table, only 0.4% of the CML portfolio has a higher than 80% average loan-to-value ratio and a below 1x average debt service coverage ratio.

The commercial mortgage loan allowance for credit loss stands at $319 million, including the roughly $100 million increase in Q1 of '23, and considers the current environment as well as the risk around the economic outlook. We estimate that our allowance for credit loss is sufficient to cover current expected credit losses in the CML portfolio. The delinquency rate on the portfolio is only 5 basis points and is related to one loan as of March 31, 2023.

With regards to loan maturities, only 14% of the CML portfolio is scheduled to mature in 2023, with 36% of these loans already favorably resolved through extensions or payoffs. Of our remaining 2023 maturities, we expect most will be similarly resolved, with only 0% to 3% of our 2023 maturities potentially resulting in defaults. If the full 3% or approximately $200 million of loans were to default, this could result in an impairment of up to approximately $15 million.

Continuing on Page 10, let's drill down further on our office commercial mortgage portfolio. As of March 31, the office loan portfolio was approximately $21 billion or 4.9% of our total general account AUM. The portfolio is high quality with 89% collateralized by Class A properties which have seen less market pressure. The portfolio also has an attractive average loan-to-value ratio of 57% and an average debt service coverage ratio of 2.4x. As shown on the table, less than 1% of the office CML portfolio has a higher-than-80%

average loan-to-value and below 1x average debt service coverage ratio. The office CML portfolio is geographically diverse across Class A markets in the U.S. and internationally. While we remain confident in the office portfolio given its high quality, we have been very selective on new office loan production in the current environment. In 2022, office loans represented only 8% of our total U.S. commercial mortgage loan production. And since 2016, we have reduced our overall office exposure from approximately 50% of the CML portfolio down to 39% today.

Now let's switch gears to discuss expenses on Page 11. This chart shows a comparison of our direct expense ratio over the prior 5 quarters, including 12% in Q1 of '23. As we have highlighted previously, we believe our full year direct expense ratio is the best way to measure performance due to fluctuations in quarterly results. Our Q1 direct expense ratio benefited from solid top line growth and ongoing expense discipline. We remain committed to achieving a full year direct expense ratio of 12.6% or below in 2023, demonstrating our consistent execution and focus on an efficiency mindset.

I will now discuss our cash and capital positions on Page 12. Cash and liquid assets at the holding companies were approximately $4.2 billion at March 31, which is above our target cash buffer of $3 billion to $4 billion and down from $5.4 billion at December 31. The sequential decline in cash at the holding companies reflects the net effects of subsidiary dividends, payment of our common stock dividend and share repurchases of roughly $800 million in the first quarter, as well as holding company expenses and other cash flows. Our first quarter tends to be lower in subsidiary dividends and higher in holding company expenses. As illustrated in the chart, you can see that the same seasonal pattern occurred from 4Q of '21 into Q1 of '22.

Regarding our statutory capital. For our U.S. companies, our 2022 combined NAIC RBC ratio was 367%, which is above our target ratio of 360%. For our U.S. companies, preliminary first quarter year-to-date 2023 statutory operating earnings were approximately $1 billion, while net income was approximately $700 million. Statutory operating earnings increased roughly $500 million year-over-year, primarily driven by favorable underwriting, partially offset by lower variable investment income and higher expenses. We estimate that our total U.S. statutory adjusted capital was approximately $17.7 billion as of March 31, 2023, down 3% compared to December 31, 2022, due to derivative losses from certain equity options and dividends paid, partially offset by higher operating earnings. Finally, as I referenced earlier, we expect that Japan's solvency margin ratio to be approximately 725% as of March 31, which will be based on statutory statements that will be filed in the next few weeks.

Let me conclude by saying that MetLife's results reflect the strength of our business fundamentals: solid top line growth, favorable underwriting and ongoing expense discipline. While private equity and real estate funds underperformed this quarter, core spreads remained robust. In addition, results in our market-leading franchises, Group Benefits and Latin America, continued their strong top and bottom line growth. While market fluctuations are expected to continue, MetLife remains in a position of strength given our balance sheet, investment portfolio, free cash flow generation and the diversification of our market-leading businesses. Finally, our commitment to deploying capital to achieve responsible growth positions MetLife to build sustainable value for our customers and our shareholders.

And with that, I will turn the call back to the operator for your questions.

Question and Answer

Operator

[Operator Instructions] And our first question is from the line of Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Couple of investment questions. So John, the 19% of office CMLs that mature in '23, you guys said 36% of them have been resolved so far through the end of April. Can you just elaborate a bit on what's actually happening there? What does resolved mean? I know -- I think you mentioned either pay down or extended. As you're going through that process, are you -- are most of them actually paying off of maturity? I assume there's not a lot of liquidity out there, so you're probably extending more than you're seeing payment in principle at the end here.

And then also, what kind of yields are you getting, assuming you are extending a lot of these or restructuring? Are you getting yields commensurate with the higher risk in the market for that asset class right now? Or are you having to subsidize amid all? Sorry for the rapid-fire questions but wanted to just get a better sense for what's happening.

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Tom, it's Steve. And thanks for those questions. And talking about kind of what's happening, how we're managing the portfolio today and John did give some high-level numbers. And when you look at how we're actually managing the portfolio, and there of course are a number of ways to resolve, most of what we're doing right now is on extending, but those are all extension options that are part of the original contract where it's the borrowers' option to extend or not. And when they do, they still have to meet all of the various restrictions and requirements of the contract, including financial status, terms and conditions and the like. And there's usually a fee paid with it too. And they're generally all that market.

So that's where we do see a lot of the activity in resolving the portfolio. And then looking at the -- we have conversations with virtually every borrower who has a maturity coming up this year. And basically, I think that most of the borrowers who have that extension option probably will exercise them. We actually are seeing payoffs, though across the portfolio as well, so I think that that's a strong result too. I think, when we look at sort of numbers of loans, probably, on the order of 1/4 of the loans, we're actually paying off to. So we're actively managing the portfolio as we always do with obviously a heightened sense of attention today, but very confident.

And John gave numbers. We think that there will be a very, very small number of closures likely when we're through this year. And your second question was, well, I can expand. I sort of answered your second question just saying the extensions are at market, but -- and also what I'd say is, yes, this is a market where we're very picky. And looking at all of the office -- well, frankly, across all of the commercial loan space, we're getting kind of a minimum of 200 basis points over likely indices on floating-rate loans or on treasury indices. And if we were to do an office, it would probably be at least 100 basis point premium over that too. So it's a market, where again you have to be very cautious, but there are opportunities as we've seen through other cycles in the past.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

That's really helpful. And just a quick follow-up. Last year, at the end of '22, I think you had a big increase in CM 3-rated loans that had an adverse impact on RBC. Can you talk about what you expect for migration positive or negative for '23?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Yes. And I think, first, we probably want to just address what happened with those numbers for the 2022 migration, because it's a fairly unique circumstance. I mean, we do a reasonable amount of floating-rate loans. About 30% of our portfolio are in floating-rate loans. And just the way the mechanics of those LTV calculations work, there are lags involved. Net operating income is a 3-year average. So when you think about something like caps, those basically kind of get delayed in how they work into the actual calculations. And so we do see that migration, but again over time, that cap income will also get incorporated in, obviously depending on the overall interest rate environment. So when we look at it, we're not really concerned that that's a credit issue. It's really just more the mechanics of the formulation and the timing. So that's what really is driving it. We wouldn't expect significant negative deterioration across the portfolio other than just the mechanics.

Operator

And next, we move on to a question from Erik Bass with Autonomous Research.

Erik James Bass
Autonomous Research US LP

Maybe, Steve, sticking with you for one. And maybe just stepping back, I was hoping you could provide sort of an estimate as you think of kind of a more severe stress scenario for commercial real estate and office in particular? How do you think about what the potential capital impacts are in total if you add up impairments and ratings migration?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Thanks, Erik. That's certainly something that we spend a lot of time looking at. We regularly stress test the portfolio. We've just gone through another round of that testing, no surprises, just given what's happening in the market. And what I'd say in summary is we're very comfortable with the portfolio. The implications of severe stress tests are really very modest. And what we did in our most recent stress test scenario is we assumed that all valuations across the entire commercial mortgage loan portfolio declined by 30% to 35% from where they are today.

So think about that. That's pretty severe. And then you work that through in terms of impact on net operating income, loan migrations, foreclosures, REO impacts. The net impact to us from a capital perspective, we estimate, would really only be about 10 to 15 RBC points over 3 years. So when you really put that in the context of what it means to capital, it's very, very modest impact. And I think that is a very severe stress case as well. So I think it just -- it points to the overall strength of the portfolio and the overall strength of our capital.

Erik James Bass
Autonomous Research US LP

Very helpful perspective. I guess, maybe turning to the business. For Latin America, you continue to see strong growth. And it looks like you're running well ahead of what your guidance would imply for 2023 earnings even with some of the headwinds from VII and encaje this quarter. So I guess, is there anything unusually strong in the underwriting results in 1Q? Or is $200 million plus of run rate earnings kind of a reasonable expectation?

Eric Sacha Stephane Clurfain
Regional President of Latin America

Yes. Erik, this is Eric. So let me shed a little bit more color around Lat Am first, and then answer your question. So we have, as you know, a significant footprint in the 3 largest markets in the region. We are market leaders with a very strong brand in Mexico and Chile and a very fast-growing presence in Brazil. Our strategy around the region is really centered around 3 pillars. One is protecting the core, the other one is growth through diversification. And all that underpins through a transformation to meet our customers' and our partners' evolving need. So I can give you a couple of examples that -- of the execution of this strategy around the region.

So in Mexico, which is our third largest market globally, we have a very unique government franchise that continues to grow very nicely, but in parallel, we've been very successful in diversifying and expanding that distribution reach into the private sector both in retail and group. In Chile, where we have a very strong face-to-face agency franchise, we're growing very fast our bancassurance and third-party distribution. And then in Brazil, which now represents roughly 20% of the region's sales, we're also growing very, very fast with 60% year-over-year this quarter alone. And there the focus is really on bancassurance and third-party distribution. So that continued momentum across the region really reflects the strength and diversity of our distribution channels and product offerings combined with the technology investments that allow us to continue to differentiate for our customers and our distribution channel.

So overall, we believe we're really well positioned in the region to capture the growth opportunities that these markets that are still underpenetrated and underserved have to offer. Now going back to this quarter's results and your question particularly, this was another strong quarter on the heels of a record year, but as mentioned by John, this quarter, strong results included that roughly $20 million of favorable underwriting really driven by seasonality and overall favorable claims experience. But that being said, we believe that the guidance we provided is still a reasonable run rate for the remaining of the year for the region. So hope this helps to give you a little bit more context around Lat Am.

Erik James Bass
Autonomous Research US LP

Yes.

Operator

Next we go to the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I just want to touch upon VII. In today's environment, do you still feel like $500 million of quarterly alternative asset returns is still an appropriate run rate? And if you can also touch upon what you're seeing intra-quarter?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Tracy, it's Steve. I guess I'd go back to how we talk about VII fairly consistently. And recall -- we're not trying to predict quarterly, monthly, interim returns. I mean, we really set our projection based on our long-term performance track record in the classes. And that's how we've come to the 12% number, 3% a quarter. So that's always our standard projection. Certainly, as we go through the year, we do look. And given the lag, we can look and try and make some connections to what's happening in the markets. And I think that kind of relates to a little bit of what John talked about on our performance, although venture capital certainly was something that everyone was focused on for a while, so I think we did see those negative returns come through, yes, in the last quarter.

So again, looking ahead, I mean, I'd still look at what the overall market has done in the previous quarter just given the lag. That will serve as some directional indicator for where we are. And I think our view is always that our portfolio should be less volatile and probably less extreme on returns than the overall market. So again I think, compared to last quarter, venture capital took a big hit across the rest of the portfolio, we actually saw pretty decent returns, looking at the LBO portfolio and some of our specialty sector like power, infrastructure, energy; and those sorts of portfolios. So there is performance. And I guess I'd just look at the overall market as an indicator.

John Dennis McCallion
Executive VP & CFO

Yes. And I would just maybe add, Tracy. I mean I think obviously Q1 is a -- year-end marks. We're moving into now Q1 -- Q2 being off of Q1 results. So I think directionally we would be kind of optimistic that it would improve from Q1. Maybe we don't revert back to plan, but I think we're on kind of an upward trend.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Got it. And the first quarter was an active FABN quarter. You raised $3.7 billion. And some of these coupons, not surprisingly, were much higher than what we've seen historically. So my question is do you feel like this product is attractive in today's environment? Or you could still earn like a 200, 300 spread by reinvesting? Or was the first quarter activity more a function of refinancing maturing issues?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

I'd say both. It was elevated activity-wise just because of maturities that we wanted to refinance, but we manage the program very actively. And it still meets all of our target thresholds for returns and income on the portfolio, so we're very happy with the returns.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So what kind of assets are you reinvesting in, in today's environment to make that return?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Yes. And again you have to go and look at the maturity because again it's still an overall match portfolio, but what we're looking at are really mostly fixed maturities, structured finance, some private assets, not much in the way of real estate these days.

Operator

Our next question is from Jimmy Bhullar with JPMorgan. Mr. Bhullar, do you have your phone muted? We don't hear you. We will attempt to come back to him. One moment, please.

Next, we'll move on to the line of Ryan Krueger with KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

You addressed most of this, but I just had one more question on CM ratings. When you do extend commercial mortgage loans, does that trigger resetting LTV and all the metrics that go into the CM ratings? Or does it kind of maintain the prior metrics that already existed?

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Ryan, I'd really relate it more to just our overall valuation process. When loans get refinanced or extended, there's a valuation that's right in line with our normal valuation process. So -- and like I said, most of the extensions we're doing are extensions that are at borrower's options who've met all the financial criteria required for the loan, so we wouldn't expect to see migration as a result of that.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And then just one on retirement spreads that came in quite high on a base level excluding VII. Is that a level that you think in the current rate environment can be maintained near term?

John Dennis McCallion
Executive VP & CFO

Ryan, it's John. So like you said, RIS spreads, I think overall 117, but ex VII, were very strong in the first quarter at 137. And just recall our overall all-in range was 135 to 160. So again, if you kind of add back a normal contribution to VII, that would have been certainly high end of the range. And look, I think we highlighted this on the outlook call. We did think that the first half of '23, certainly based on the forward curve, would have, I'll say, the higher end of spreads just given our in-the-money caps. We probably think Q2 has some kind of similarity to Q1 at this point for ex VII spreads. And then we'll need to see how the forward curve and how rates progress through the rest of the year.

Operator

And next, we move to a question from John Barnidge with Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Can you maybe talk about persistency of renewals in the group business? We've heard other participants talk about letting business walk that didn't match pricing objectives with this renewal season after a couple years of elevated experience, so curious your thoughts there?

Ramy Tadros
President of U.S. Business

Thank you, John. It's Ramy here. Maybe let me just give you the punchline in terms of the results we're seeing. Our persistency in terms of the Q1 renewals was extremely strong, and it was higher than prior year across all of our major markets. So we're seeing very strong persistency alongside renewal actions that were very much in line with our expectations, so we're very pleased about the outcome as we go into the year. Maybe just to give you a bit of flavor on that, we've always talked about the group business as a business where price is important, but it's also a business where you can differentiate on many factors beyond price, right?

And you certainly see that in our national accounts franchise. Our average customer has been with us for more than 2 decades. You see that in the very wide breadth of our products which allow us to be much more consultative with our customers and meet their needs. And you also see that because of our scale. So our scale has continued to afford us the ability to invest in our capabilities across the business and therefore drive greater persistency and stickiness with our customers. So all in all a very strong persistency as well as a rate action story for us in the first quarter.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Great. And as a follow-up question, on Raven Capital. I see you obviously announced another buyback authorization, but can you talk about market volatility and opportunities that may create to do other acquisitions either in products or geographic interest specifically?

Michel Abbas Khalaf
CEO, President & Director

Yes. John, it's Michel. The first thing I would point to is really the consistency in terms of our capital deployment. And you can see that over, I would say, a number of years; and it was again evident in the first quarter. So if you just look at the first quarter, one, we saw sales growth across most of our key markets and businesses. So we're deploying capital to support responsible growth. We are active from an -- we were active from an M&A perspective. We announced the acquisition of Raven Capital Management which adds an attractive adjacency to our main business which we think we can scale over time. We deployed $389 million in dividends and we announced a 4% increase in our dividend.

Again if you look at the increase since 2011, 9% annual compound rate increase. And then we bought $780 million in our shares in Q1, another $223 million in April. And we have a new $3 billion authorization from our Board. Our liquidity at the -- we're above our liquidity buffer of $3 billion to $4 billion at the holdco. So if you take all of these together, I think they signal sort of confidence in terms of our financial strength and the free cash flow generation capabilities of our businesses. So again, we're confident in terms of how we're positioned. And we'll continue to sort of explore M&A opportunities provided those fit strategically or accretive over time, meet our minimum risk-adjusted hurdle rates and the like and we'll remain also disciplined on that front as we always have been. So hopefully, that gives you some color.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

It does.

Operator

Next, we go to Suneet Kamath with Jefferies.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Ramy, I was hoping you could unpack the group disability results a little bit in terms of what you saw in the quarter. We did have one company yesterday talk about sort of a pretty significant improvement in loss ratios and that actually persisting for the balance of the year. I'm just wondering how your business is doing and if there's any expectation for ongoing improvement as we move through '22 -- sorry, '23?

Ramy Tadros
President of U.S. Business

Thank you for the questions. So inside our nonmedical health ratio, disability business is a contributor to that. And we have certainly seen favorability in our disability results this quarter, and that favorability came in through both lower incident rates as well as stronger recoveries. And when we think about that favorability, there are some external factors in the environment and there are some internal drivers as well. So externally, you could look at the low unemployment levels as well as the fact that we're now clearly out of the pandemic environment, which kind of decreased the pressure on the STD line. So a favorable environment in Q1.

Internally, when you look at disability, this is a product where our customers have complex needs. And here again I would point to scale and investment you need to make here to really differentiate yourself in the marketplace and particularly differentiate yourself in terms of outcomes. So in our case, that's come from investments in our human capital. We've built a world-class team of clinicians who diligently work on returning people to health. We deploy data and analytics on our pricing, underwriting and our claims process. We have world-class capabilities in terms of leave and absence, which again when packaged with LTD drive greater customer value and persistency in our books, so certainly a favorable disability ratio.

As we think about the rest of the year, we continue to -- from a pricing perspective, we continue to bake in a load for softness in the environment. I mean, -- so from a pricing and renewal perspective we continue to look at that and continue to bake in a pricing loan to make sure that our margins are resilient should we see softness from the claims side.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Okay. Got it. And then maybe just pivoting to Steve on the CML portfolio. I know that Class B is a pretty small percentage of the office book, but as we think about those scheduled maturities for '23 and '24, any sense of is it -- like what's the piece of it related to Class B? Have you resolved any of the Class B loans? Just some color on that would be helpful.

Steven Jeffrey Goulart
Executive VP & Chief Investment Officer

Suneet, we didn't -- we haven't broken out the maturities. Again, I think, if you look at the overall resolution and the path we're down, it's very strong for the overall portfolio, extension options where they are provided at market with fees and a good number of payoffs too. I'm sorry, I don't have the specific breakdown, but I'm very pleased with the overall structure of our resolution right now.

Operator

Next, we go to a question from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. I believe in your prepared remarks you guys mentioned that you might want to rightsize the VII portfolio over time. Was that an overall comment on the portfolio or was that just related to the corporate segment?

John Dennis McCallion
Executive VP & CFO

Elyse, it's John. Yes, I made the comment. I mean, we -- more because, as you've seen, we probably have a little bit of outsized sensitivity in C&O for VII. It was a function of a number of things. Remember, last year, a year ago, we were able to monetize about $1 billion of our private equity portfolio. We also, just with some asset and liability management, moved a bit more into Corporate & Other. I would call that a holding pattern for now. And that's really the comment I'm making. And so it does, I think, on the margin cause us to probably -- we're not stopping our investment, but it's -- relatively speaking, the new commitments are a bit slower. But they're -- we're still doing that. We want to always invest through the cycle, but that was the gist of the comment.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then your direct expense ratio, 12%, was pretty stable year-over-year. And outside of group, it doesn't look like expenses moved much. How much active expense management is going on? And how much underlying pressure are you guys seeing from wage inflation or other drivers?

John Dennis McCallion
Executive VP & CFO

It's John again, Elyse. As you said, it was a good result for the quarter. Look, how much -- a lot of active management, a lot. And inflation has been challenging. And I think we've seen that throughout the insurance industry on both sides, and it's a challenging environment. And as a result, it takes active management. And I think our -- the culture here has been really strong around efficiency mindset. We continue to use that mentality to build capacity so that we can continue to invest in -- through these cycles and not let things like inflation slow us down. And it gives us optionality should we see more stressful environment. So I think the team has done a really, really great job, but it's -- every day, it's active management.

Operator

And our next question will come from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is for Asia. Can you talk about the organic growth there and particularly how U.S. rates and, I guess, JGB rates are impacting your annuities business there and in particular your ability to sell new product and have attractive product in the market?

Lyndon Oliver
President of Asia

Alex, it's Lyndon. Yes, look. We really are benefiting from the U.S. rate movement. It's really giving us an advantage as we compare to the Japanese rates. We've seen demand for the foreign currency products go up consistently over the year. If we look at fourth quarter sales, annuities were very strong and that continues as we go into the first quarter. So as far as rates go, it really puts us at an advantage as we're selling this product, but if you look at the fluctuation in the foreign currency, that is -- really kind of makes the market tentative going into the product. So overall I think rates have really benefited us in this environment.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

And then along the same lines, in Lat Am, I just wanted to kind of peel back the organic growth a little bit and see if you can tell us a little bit about what you're doing, whether it's on distribution or actions that you're taking that are allowing for such strong organic growth and seemingly the market share taking?

Eric Sacha Stephane Clurfain
Regional President of Latin America

Yes. This is Eric. So yes, as I mentioned earlier, really it's a combination of diversifying our distribution, combined with the introduction of new digital tools and active distribution growth through different channels. And our -- again, our breadth and depth of our franchises in the key largest markets across the region.

Operator

And ladies and gentlemen, we have no more time for questions. I will turn the call back to John Hall, Global Head of Investor Relations.

John Arthur Hall
Senior VP & Head of Investor Relations

Thank you for joining us today. And we appreciate your patience with the technical difficulties at the beginning of our call. We look forward to seeing you over the course of the quarter. And have a nice day.

Operator
Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.