

### AIG: Make AIG great again, again

AIG reported Q4 operating EPS of \$0.94, in line with Street expectations. However, the focus this quarter was the change in management, discussion surrounding the previously disclosed life and retirement disposition, go-forward guidance, and revisiting its expense/IT initiative (AIG 200). Yesterday's call was outgoing CEO Brian Duperreault's last earnings call. As noted in our [earlier note](#), the baton is being passed to Peter Zaffino on March 1, 2020.

As we listened to the call, we couldn't help but reminisce about the time when Duperreault was announced as the incoming CEO in May 2017, and the stock price was at \$61.82/share. Although today's AIG looks much different from the AIG of 2017, the stock is trading down 44% from the initial announcement. As outsiders, we appreciate that turning a behemoth like AIG will be a multi-year process and that the interim years will show meaningful volatility.

That said, with Duperreault having received \$83mn in total compensation from 2017 through 2019 only (plus \$40mn to Hamilton as part of the waiver agreement and purchase of Blackboard from Hamilton for \$127mn), we do wonder if there is a better barometer to measure his success? We don't envy Zaffino's position, and investors are likely feeling déjà vu, again. Over the years, we have been presented with different goals, metrics, and takes on capital synergies. At a certain stage, fatigue did manifest with the stock slotted in at a perma-discount on a price to book and price to earnings basis vs. its peer group. Below we share our take on what we thought of the conference call, but overall, we didn't walk away with massively different takeaways vs. going into the call.

#### First, the discussion surrounding the life and retirement separation was a continuation of previously disclosed considerations.

In its Q3 earnings call, AIG had discussed anticipating a 19.9% disposition to a private party or an IPO as one of the first steps in the eventual separation of the P&C and life businesses. We didn't really get any incremental updates today apart from AIG noting it was getting good interest from quality parties, so it appears that we are leaning towards a partial disposition vs. an IPO at this stage. AIG did reiterate that it would use a portion to repurchase its stock and although not a priority right now at some point, it would also consider inorganic opportunities.

#### Second, AIG reiterated guidance for a sub-90% accident year combined ratio excluding catastrophe losses by the end of 2022.

However, there are several pluses and minuses which will impact the eventual number. AIG 200 - its previously disclosed cost reduction initiative - will continue to improve expenses by a couple of hundred basis points, with the remainder coming from rate over trend, AIG said. That said, there are a few offsets to this in our view. 2020 is a difficult starting point due to the beneficial impact of Covid on loss cost trends. AIG has also discussed anticipating better growth as the negative impact of Covid on the global economy diminishes. This leads us to wonder about the new business penalty on underlying loss picks. For perspective, AIG reported an underlying combined ratio of 94.1% for 2020, in line with the guidance announced a year ago and better versus 96.0% in 2019.

### Inside P&C Research

#### Amit Kumar

Director of Research

E: amit.kumar@insidepandc.com

T: (212) 224 3496

#### Dan Lukpanov, CFA

Research Analyst

E: dan.lukpanov@insidepandc.com

T: (212) 224 3326

#### Gianluca Casapietra

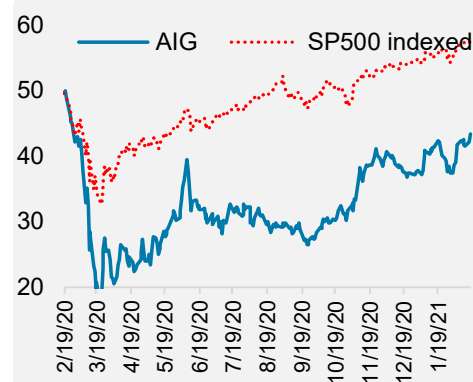
Research Analyst

E: gianluca.casapietra@insidepandc.com

T: (212) 224 3495

Market cap (\$M)	37,281.4
Price	43.3
BVPS	76.44
Tang. BVPS	70.77
Price/Book	0.6 x
Price/Tang. Book	0.6 x
52-week High/Low	49.8 / 18.78
Dividend Yield	3.0%
ROE	-0.1%

#### 1YR Price Performance



Source: SNL, Inside P&C

## Exhibit: 2020 outlook vs actual and history for selected items

Source: Company reports

(in millions)	2018 Actual	2019 Actual	2020 Outlook	2020 Actual	2022 exit outlook
Underlying combined ratio	99.7%	96.0%	93.8%-94.8%	⇒ 94.1%	Sub-90%
Net investment income (\$mn)	\$12,476	\$14,619	\$13,600	⇒ \$13,631	
GI net written premiums (\$mn)	\$26,407	\$25,092	\$25,000	↓ \$22,959	

### Third, AIG gave strong metrics on rate momentum in its commercial segments, but will they translate to a commensurate margin improvement?

AIG noted that its commercial business achieved increases of +15% in Q4:20. North America commercial lines rate increases were 21% in Q4, while international commercial rate increases were 14%. As followers of this industry for a long time, we have admittedly struggled to be able to draw a straight line from headline rate improvement to actual margin improvement, although this should be a straightforward mathematical exercise. We do posit if loss cost trends remain benign and the industry capital remains strong, why would the broader industry maintain its discipline? These competitive pressures might end up colliding with AIG's growth and retention plans.

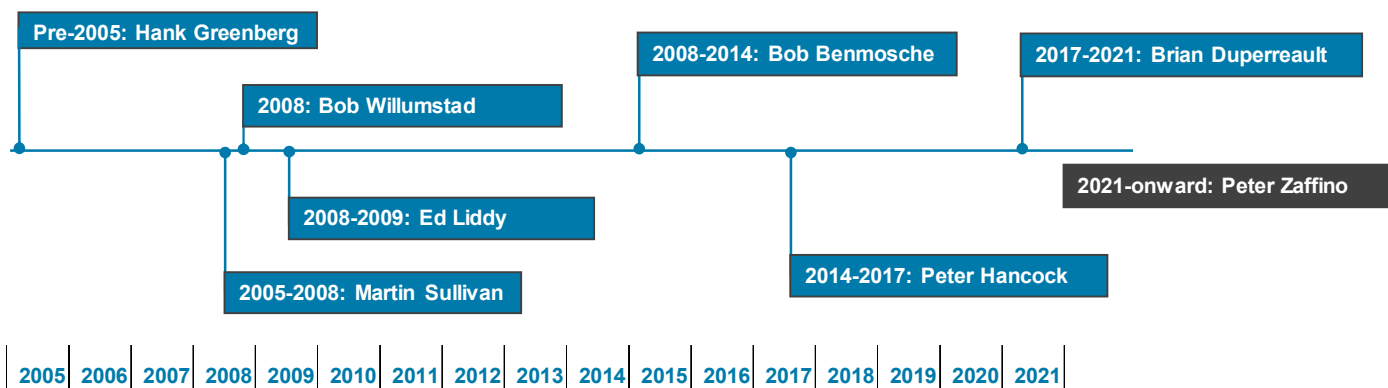
### Fourth, AIG 200 continues to chug along on its anticipated path.

Note that AIG 200 is an expense, business process, and platform reorganization plan first discussed in 2019 and is expected to achieve a run-rate saving of \$1bn by the end of 2022 vs. an investment of \$1.3bn from 2020-2022. AIG exited 2020 with a \$400mn run-rate savings, which it noted was 30% ahead of its prior guidance. It does appear that its plan is performing better than its initial expectations, although these numbers are taken at face value.

Over the next several pages, we discuss the segmental results and pricing commentary in greater detail. **More generally, much work remains to be done at this franchise, and Zaffino has his work cut out.**

## Exhibit: AIG CEO timeline

Source: Various public sources



More details on AIG Q4 results below.

## Really strong rates, but will these translate into margin expansion?

Following similar pricing reports from earlier commercial reporters (e.g. [Travelers](#)), AIG's rate disclosure suggested that the pricing may be nearing its peak as the momentum increasingly resembles a ball running up the hill with the market starting to lap rate-on-rate-on-rate.

The carrier's disclosure included a headline global commercial rate increase of 15%, down sequentially from 17%. Within North America commercial, rates increased 21% from 20% last quarter. Within international, the headline rate increases were consistent sequentially at 14%.

Q4 2020		Q3 2020	
Business	Rate disclosure	Business	Rate disclosure
<b>Commercial portfolio</b>	<b>15%</b>	<b>Commercial portfolio</b>	<b>17%</b>
<b>North America commercial</b>	<b>21%</b>	<b>North America commercial</b>	<b>20%</b>
Financial lines	over 25%	Admitted property	over 30%
inc. D&O	35%	Financial lines	over 25%
Excess casualty	45%	Excess and surplus lines	over 20%
Retail property	30%	Excess casualty	over 30%
Wholesale property	30%	<b>International commercial</b>	<b>14%</b>
Wholesale casualty	25%	Commercial property	12%
<b>International commercial</b>	<b>14%</b>	Financial lines	over 20%
Global energy	over 30%	U.K. specialty	over 25%
Financial lines	over 20%	Retro	double-digit
Talbot	over 15%		
Commercial property	15%		
Q2 2020		Q1 2020	
Business	Rate disclosure	Business	Rate disclosure
<b>Commercial portfolio</b>	<b>16%</b>	GI ex Validus and Glatfelter	low double-digit
North America commercial	21%	North America	low double-digit
International commercial	10%	Excess casualty	over 30%
Retail property	over 35%	Financial lines	overall 20%
Excess casualty	over 35%	D&O	40%
Public D&O	over 50%	Wholesale casualty and property	30%
EPLI	over 30%	International	high single-digit
U.K. business and Talbot	20%	U.K. financial lines	over 15%
Energy	more than 40%	UK D&O over	20%
Aviation	more than 20%	U.K. and Middle East specialty	20%
Validus Re all lines	16%	Europe	high single-digit
Validus Re property	20%		

However, even as the numeric pricing disclosures point to fading upward momentum, carriers continue to universally talk up the market, as they see sustained pricing tailwinds from fundamental forces, including casualty loss trends, low interest rates, and elevated cat losses.

AIG's pricing outlook was largely in line with the bullish remarks cited earlier by its commercial peers, including, among others, [Chubb](#), [Hartford](#) and [CNA](#).

**Peter Zaffino**  
President and  
Global COO

*"As we look into 2021, we expect to see rate increases to continue. We expect to see these rate increases to be above loss cost. We expect that these rate increases will be balanced across our global portfolio and across multiple lines of business."*

Management also reminded that pricing trends domestically and internationally can diverge, reflecting the differences in how rates gained momentum across geographies at the beginning of the hardening cycle.

## North America commercial: Cat/Covid losses weigh on the margin

In line with the recent quarters, the North America commercial segment had a negative underwriting quarter. The segment saw a 112.4% combined ratio, up 3.6pts YoY. The result was driven by 17.4pts of catastrophe losses, including Covid (+8.7pts YoY), which offset the 3pt decline in its underlying loss ratio to 70.5%. The underlying loss ratio improvement was largely due to a change in the business mix.

The combined ratio also experienced a 1.4pt headwind from unfavorable PYD, which was mostly driven by financial lines, EPLI, E&O, and M&A insurance mostly associated with accident years 2016 to 2018.

### North America commercial results summary

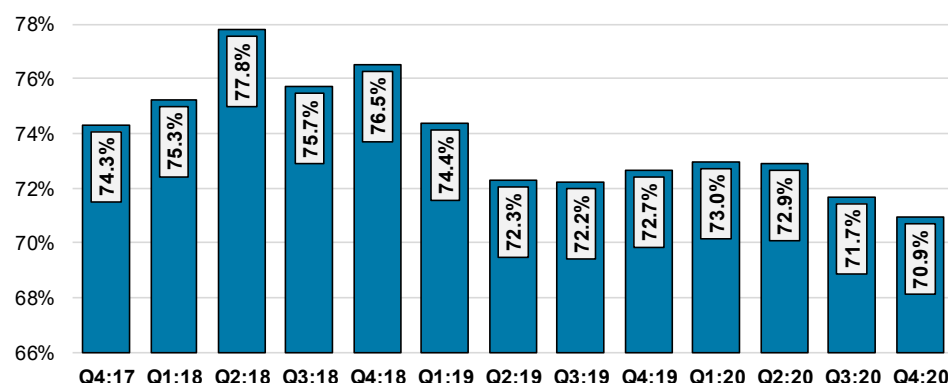
Source: Company reports, Inside P&C

(\$mn)	AIG, North America commercial					
Period:	Q4:19	Q1:20	Q2:20	Q3:20	Q4:20	VAR
NWP	1,815	2,154	2,303	2,186	1,992	9.8%
NEP	2,141	1,957	2,084	2,186	2,289	6.9%
U/W gain	(188)	(18)	(405)	(153)	(285)	51.6%
Adj.	(0.7%)	0.0%	0.0%	0.0%	0.0%	0.7pts
Cats	8.7%	6.3%	23.4%	19.1%	17.4%	8.7pts
PPD	3.2%	(3.0%)	(1.4%)	(6.3%)	1.4%	(1.8)pts
AY ex-cat LR	73.5%	70.1%	72.1%	71.0%	70.5%	(3.0)pts
Loss ratio	84.7%	73.4%	94.1%	83.8%	89.3%	4.6pts
Expense ratio	24.1%	27.5%	25.3%	23.2%	23.1%	(1.0)pts
Combined ratio	108.8%	100.9%	119.4%	107.0%	112.4%	3.6pts

On an underlying basis, AIG has been able to improve its underlying loss ratio over the past few years as seen below.

### North America commercial TTM underlying loss ratio

Source: Company reports, Inside P&C



On growth, the segment saw a 9.8% rise in NWP to \$2bn.

## North America personal: NWP fell due to lower travel/Syndicate 2019

Domestic personal lines had another quarter with unprofitable underwriting results. The segment reported a 133.2% combined ratio, up 44.6pts YoY. The large jump was driven by both 2019's result which served as a low base with 17.8pts of favorable development, and less albeit still sizeable catastrophe losses in 2020. Covid losses also negatively impacted the quarter's results. The firm saw a 6.1pt rise in its underlying loss ratio to 55.4%.

### North America personal results summary

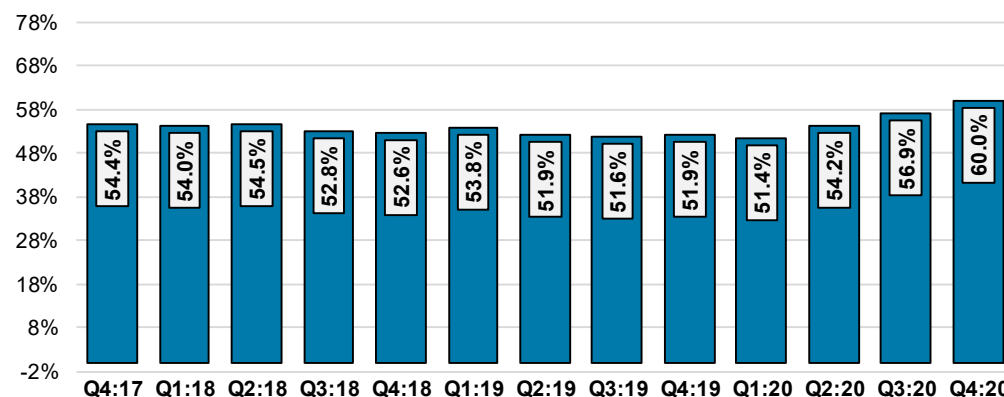
Source: Company reports, Inside P&C

AIG, North America personal						
(\$mn)						
Period:	Q4:19	Q1:20	Q2:20	Q3:20	Q4:20	VAR
<b>NWP</b>	<b>824</b>	<b>545</b>	<b>(150)</b>	<b>385</b>	<b>369</b>	<b>(55.2%)</b>
<b>NEP</b>	807	774	390	308	314	(61.1%)
<b>U/W gain</b>	<b>92</b>	<b>(85)</b>	<b>(34)</b>	<b>(217)</b>	<b>(104)</b>	<b>(213.0%)</b>
<b>Adj.</b>	<b>(0.6%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.6pts</b>
<b>Cats</b>	<b>14.8%</b>	<b>7.9%</b>	<b>2.6%</b>	<b>51.3%</b>	<b>22.6%</b>	<b>7.8pts</b>
<b>PPD</b>	<b>(17.8%)</b>	<b>5.1%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>8.0%</b>	<b>25.8pts</b>
<b>AY ex-cat LR</b>	<b>49.3%</b>	<b>57.8%</b>	<b>61.7%</b>	<b>68.2%</b>	<b>55.4%</b>	<b>6.1pts</b>
<b>Loss ratio</b>	45.7%	70.8%	65.6%	120.1%	86.0%	40.3pts
<b>Expense ratio</b>	42.9%	40.2%	43.1%	50.4%	47.2%	4.3pts
<b>Combined ratio</b>	<b>88.6%</b>	<b>111.0%</b>	<b>108.7%</b>	<b>170.5%</b>	<b>133.2%</b>	<b>44.6pts</b>

Unlike in its North American commercial segment, the underlying picks in the personal segment have been deteriorating. That said, the segment continues to decline in premium as AIG continues the re-underwriting, resulting in a smaller impact on its total GI result.

### North America personal TTM underlying loss ratio

Source: Company reports, Inside P&C



AIG incurred \$106mn of Covid losses in North America in the quarter (commercial and personal combined).

On growth, the segment's NWP was down 55% due to the recession/Covid headwind and repositioning of high net worth book to Lloyd's Syndicate 2019, which resulted in higher cessions.

Looking forward, management expects an improvement in growth in 2021, particularly beyond Q1:21 that was not fully impacted by the Covid impact on travel.

## International commercial: Rates and retention drive topline higher

Unlike North America's results, the international segment had a profitable underwriting quarter. The commercial segment saw a 92.1% combined ratio in the fourth quarter, down 4.8pts YoY and driven by a decline in both its loss and expense ratio. On losses, its underlying pick declined by 3.5pts YoY to 55.9%, and the expense ratio fell 1.4pts to 33.3%.

NPW grew 7%, reflecting the higher rates and improving retention.

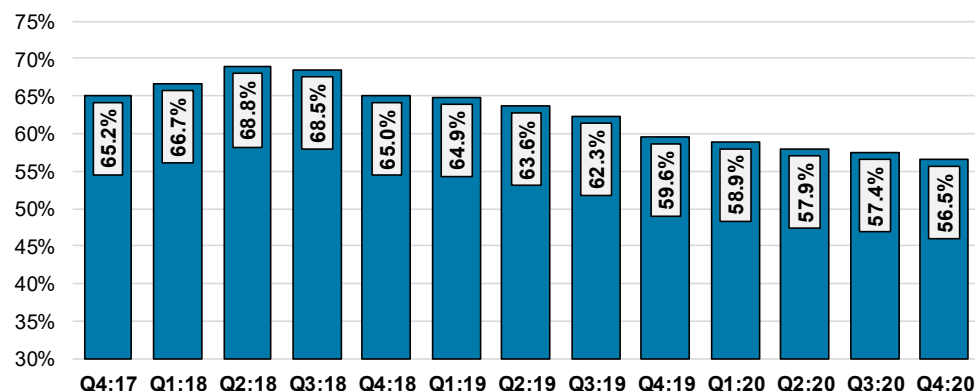
### International commercial results summary

Source: Company reports, Inside P&C

(\$mn)	AIG, International commercial					
Period:	Q4:19	Q1:20	Q2:20	Q3:20	Q4:20	VAR
<b>NWP</b>	<b>1,554</b>	<b>1,648</b>	<b>1,769</b>	<b>1,795</b>	<b>1,662</b>	<b>6.9%</b>
<b>NEP</b>	1,720	1,701	1,685	1,770	1,771	3.0%
<b>U/W gain</b>	<b>52</b>	<b>(24)</b>	<b>7</b>	<b>(148)</b>	<b>138</b>	165.4%
<b>Adj.</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	0.0pts
<b>Cats</b>	<b>3.0%</b>	<b>11.2%</b>	<b>11.4%</b>	<b>7.6%</b>	<b>4.0%</b>	1.0pts
<b>PPD</b>	<b>(0.2%)</b>	<b>(1.5%)</b>	<b>(2.5%)</b>	<b>11.9%</b>	<b>(1.1%)</b>	(0.9)pts
<b>AY ex-cat LR</b>	<b>59.4%</b>	<b>57.1%</b>	<b>57.2%</b>	<b>55.9%</b>	<b>55.9%</b>	(3.5)pts
<i>Loss ratio</i>	62.2%	66.8%	66.1%	75.4%	58.8%	(3.4)pts
<i>Expense ratio</i>	34.7%	34.6%	33.4%	33.0%	33.3%	(1.4)pts
<b>Combined ratio</b>	<b>96.9%</b>	<b>101.4%</b>	<b>99.5%</b>	<b>108.4%</b>	<b>92.1%</b>	(4.8)pts

### International commercial TTM underlying loss ratio

Source: Company reports, Inside P&C



AIG incurred \$72mn of Covid losses internationally in the quarter (commercial and personal combined).

## International personal: Covid continued pressuring topline

The international personal lines segment also fared well, posting a 95% combined ratio in the fourth quarter, down 1.8pts YoY. The result was driven by a 2.9pt improvement in its underlying loss ratio to 51.8%. The improvement was due to the pandemic-related frequency benefits and change in the mix.

NWP was down 6% due to a lower level of consumer travel.

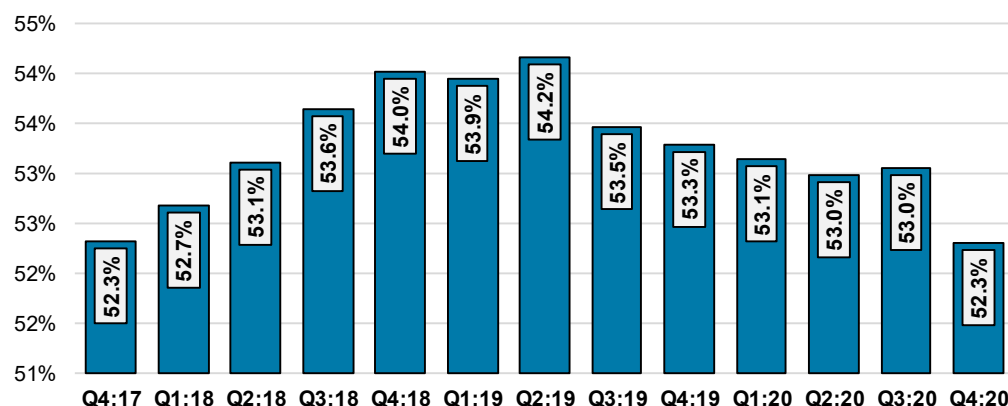
### International personal results summary

Source: Company reports, Inside P&C

(\$mn)	AIG, International personal					
Period:	Q4:19	Q1:20	Q2:20	Q3:20	Q4:20	VAR
NWP	1,637	1,574	1,627	1,558	1,542	(5.8%)
NEP	1,704	1,647	1,578	1,589	1,619	(5.0%)
<i>U/W gain</i>	56	40	89	95	80	42.9%
<i>Adj.</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0pts
<i>Cats</i>	3.3%	2.7%	(0.4%)	4.8%	0.0%	(3.3)pts
<i>PPD</i>	(3.5%)	(0.6%)	1.2%	(3.0%)	0.9%	4.4pts
<i>AY ex-cat LR</i>	54.7%	54.8%	52.1%	50.4%	51.8%	(2.9)pts
<i>Loss ratio</i>	54.5%	56.9%	52.9%	52.2%	52.7%	(1.8)pts
<i>Expense ratio</i>	42.3%	40.7%	41.4%	41.8%	42.3%	0.0pts
<b>Combined ratio</b>	<b>96.8%</b>	<b>97.6%</b>	<b>94.3%</b>	<b>94.0%</b>	<b>95.0%</b>	<b>(1.8)pts</b>

### International personal TTM underlying loss ratio

Source: Company reports, Inside P&C

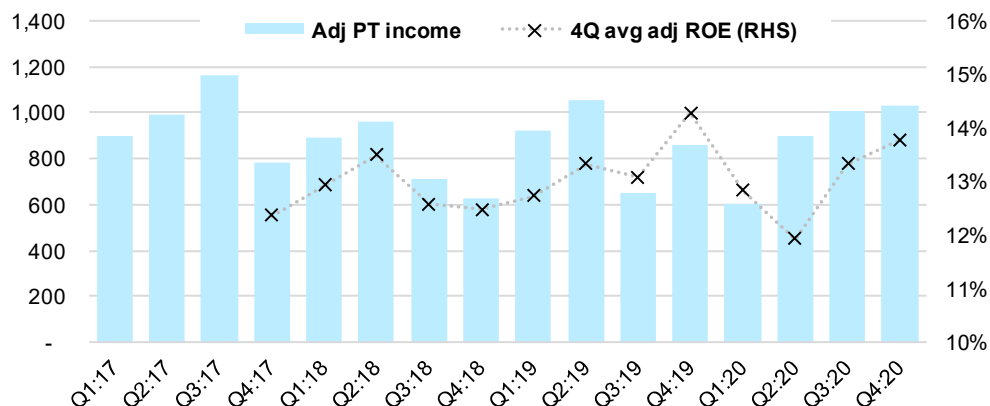


## Life and retirement

The life and retirement segment saw \$1bn in adjusted pre-tax income during the fourth quarter, up from \$860mn last year. The increase was primarily attributable to its individual and group retirement and institutional markets sub-segments. The segment income reflects higher net investment income driven by private equity returns, which are reported on a one quarter lag. Additionally, the segments benefitted from higher call and tender income due to favorable impacts from lower rates and tighter spreads.

### AIG life and retirement adj pre-tax income and 4-quarter avg adj ROE

Source: Company reports, Inside P&C



On breakup, although there was no materially new information around AIG's plan to divest a 19.9% of its life and retirement business, management did note that it received inquiries from parties interested in acquiring the operations. This may potentially move the IPO option and its resultant distractions off the table.

**Peter Zaffino**  
Global COO

*"We are pleased with the level of interest and quality of potential partners for life and retirement business and believe a sale of a minority stake could be an attractive option for AIG, its shareholders and other stakeholders. We are carefully weighing the relative merits of this path compared to a minority IPO, taking into account the impact on value creation for AIG, execution certainty, regulatory and rating agency implications and delivery of life and retirement's growth strategy over the long term."*



This research report was written by Insider Publishing's Research team which includes Amit Kumar, Gianluca Casapietra, and Dan Lukpanov.

The content of this report includes opinions based on publicly disclosed financials and management commentary.

*The content of this report is the copyright of Insider Publishing Ltd. All rights reserved. Registered in England 3923422. Insider Publishing actively monitors the usage of our reports, emails and websites and reserves the right to terminate accounts if abuse occurs. No part of this report may be used, reproduced or stored in an information retrieval system or transmitted in any manner whatsoever without prior consent from Insider Publishing*

*For further information on what you can, and cannot, do with the information contained within this report, please refer to our Terms & Conditions page on our website.*