



American International Group

Joe Trotti – May 4 2015

“The New Normal?”

General Market Overview
& Aviation Market Commentary





1

Introduction

2

General Market Issues

3

Aviation Market Overview

4

AIG in Aviation



- P&C market as a whole is awash with capital
- The dominant influence on all market segments is over-capacity
- All aspects of aviation insurance have been impacted by this over-supply of capital.
- In this presentation, we will look at:
 - The factors which have created this environment
 - The impact on the aviation market specifically
 - The environment in the various aviation lines of business
 - AIG's positioning and response to the current challenging conditions



GENERAL MARKET ISSUES

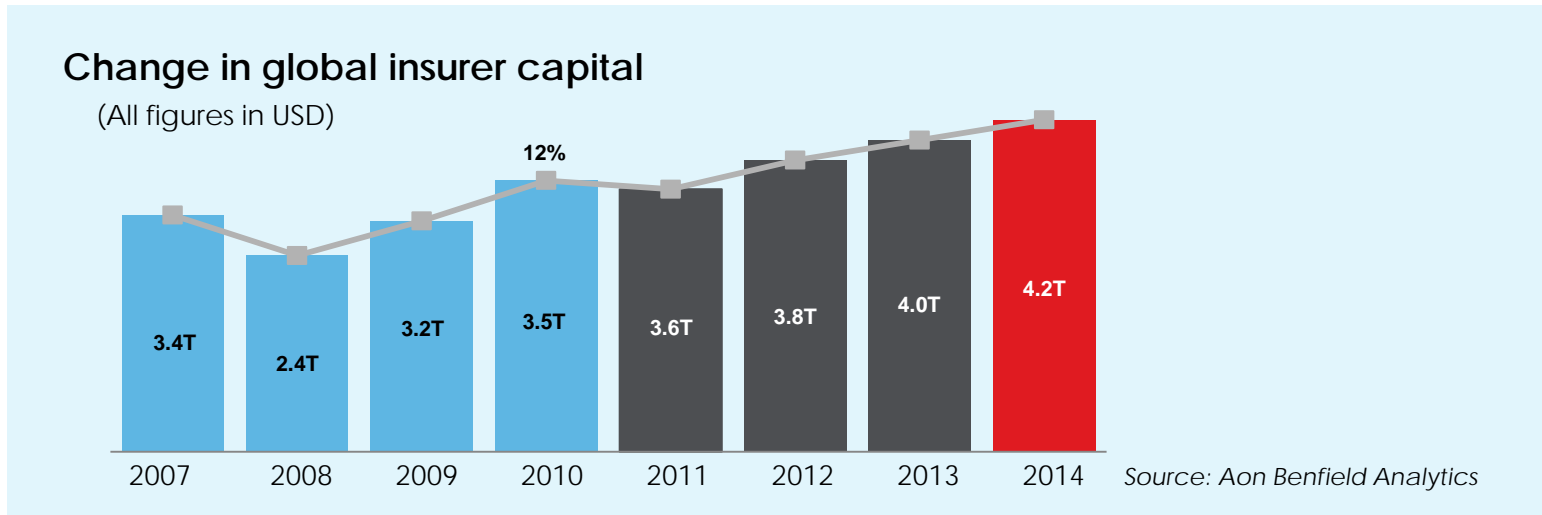
Macro-Economic Environment

- Quantitative Easing
 - Has created excess liquidity chasing superior returns
 - Stock market saturation
- Investment Environment
 - Low Interest Rates
 - Poor Bond Yields
- Benign Loss Experience in (Re)insurance Market Overall
- Influx of Capital, both traditional and non-traditional into (re)insurance market:
 - Traditional capital increased 4 percent, alternative market capital increased 28 percent over the past year (*source Aon Benfield Analytics*).
 - Q1 2015 saw (Re)insurer stocks outperform S&P (source – Dowling report April 2015) based on above expected EPS growth
 - Q1 2015 saw USD 1.5bn of new cat bond issuance, a record for the quarter
 - Continued rumours of new start-ups - Fidelis (Richard Brindle vehicle with USD 2bn initial capital)
 - ACE and Blackrock launch new captive reinsurer (USD 800m initial capital)

Strength of the overall industry balance sheet



- To some extent post 9/11 and certainly since the 2005 hurricanes (KRW), the industry's overall capital strength has grown enormously.



- Global Insurer capital has increased from USD 2.4 trillion in 2008 to USD 4.2 trillion by the end of 2014 with Reinsurer capacity at USD 575bn (source Aon Benfield Analytics).
- Major catastrophes such as the Japanese tsunami at USD40bn insured loss in 2011 and Superstorm Sandy (USD 30bn insured loss) are largely earnings events.
- Many commentators now suggest that even a US windstorm and earthquake of the magnitude of Hurricane Katrina (USD 50bn) would not be market-changing.

Consequences

▶ Balance Sheet Growth

+

Benign Cat Experience

=

Downward Pressure on Pricing
from traditional markets

▶ New capital - traditional and non-traditional - results in further downward price pressure in major P&C lines

▶ (Re)insurers seek to diversify/grow in other lines of business, including Specialty lines such as Aerospace

▶ Initially beneficial to (Re)insurers as income grows and rating agencies give capital adequacy credits for diversification.

▶ In the medium-term, this new influx results in downward pricing pressure and reduced margins for Specialty lines.

▶ Reinsurer activity - both as writers of direct business in their own right and via broad support for the majority of Insurers - creates further pricing pressure.



Reactive Developments ?

- M&A activity
 - Partner Re / Axis?
 - Renaissance Re / Platinum
 - XL Insurance / Catlin
 - Endurance / Montpelier
- Capital Management Strategies
 - Share buy-backs (AIG / Swiss Re / Munich Re)
 - Dividend payments
 - Debt buy-back (AIG)
- These developments may remove some capital in the medium-term, although in the short-term M&A activity may in fact increase competition as teams of underwriting specialists are displaced.
- Other factors which could help to reduce capital include:
 - Casualty losses (e.g. D&O claims from 2008 – 2012)
 - Interest rate/FX environment

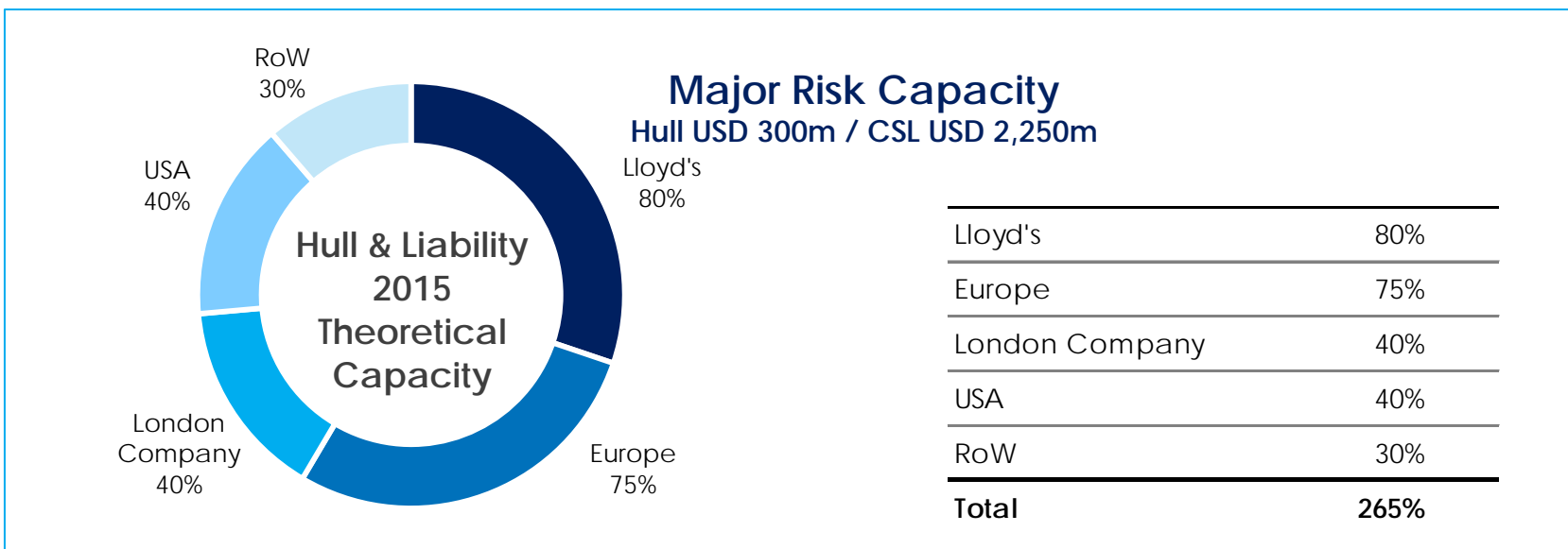


AVIATION MARKET OVERVIEW



Aviation Market Overview

- Major Risk markets (Airline & Products) often set the tone for other lines of business



- Over-capacity is again the dominant feature of the Major Risk market.
- This dynamic is impacting virtually every aviation line of business to a greater or lesser extent.

Airline Market

ENVIRONMENT / MARKET STATISTICS



Airline Hull & Liabs

Claims Costs (calendar year) and Written Premium (UWY) 2005 – 2014 (USD M)

(Source Flightglobal Annual Review 2014 & Willis Re)

(USD M)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Totals
Written Premium	2,160	1,770	1,575	1,660	1,960	2,100	2,050	1,825	1,600	1,500	18,200
Claims Cost	1,368	1,564	2,011	1,603	2,580	2,106	1,340	1,105	1,648	1,800+	17,125

Comparing calendar year claims with UWY premium does not provide a reflection of UWY results but over a 10 year period, the overall experience picture is clear, with little or no overall margin in the business even before Insurers' expenses are deducted.



Frequency of Loss

- In terms of fatal accidents per flight, the 2014 rate of 1 fatal accident per 2.38 million flights is in fact the safest on record.
- 2012 = 1 per 2.37 million flights
- 2013 = 1 per 1.91 million flights
- 5 year average = 1 per 1.75 million flights
- Number of fatal accidents reduced from 19 in 2013 to 16 in 2014 with the 5 year average being 20.4 (jet and turboprop aircraft)
- *Source for above accident data - Flightglobal 2014 Annual Review*

Airline Market

ENVIRONMENT / MARKET STATISTICS



Exposure & Premium Comparison

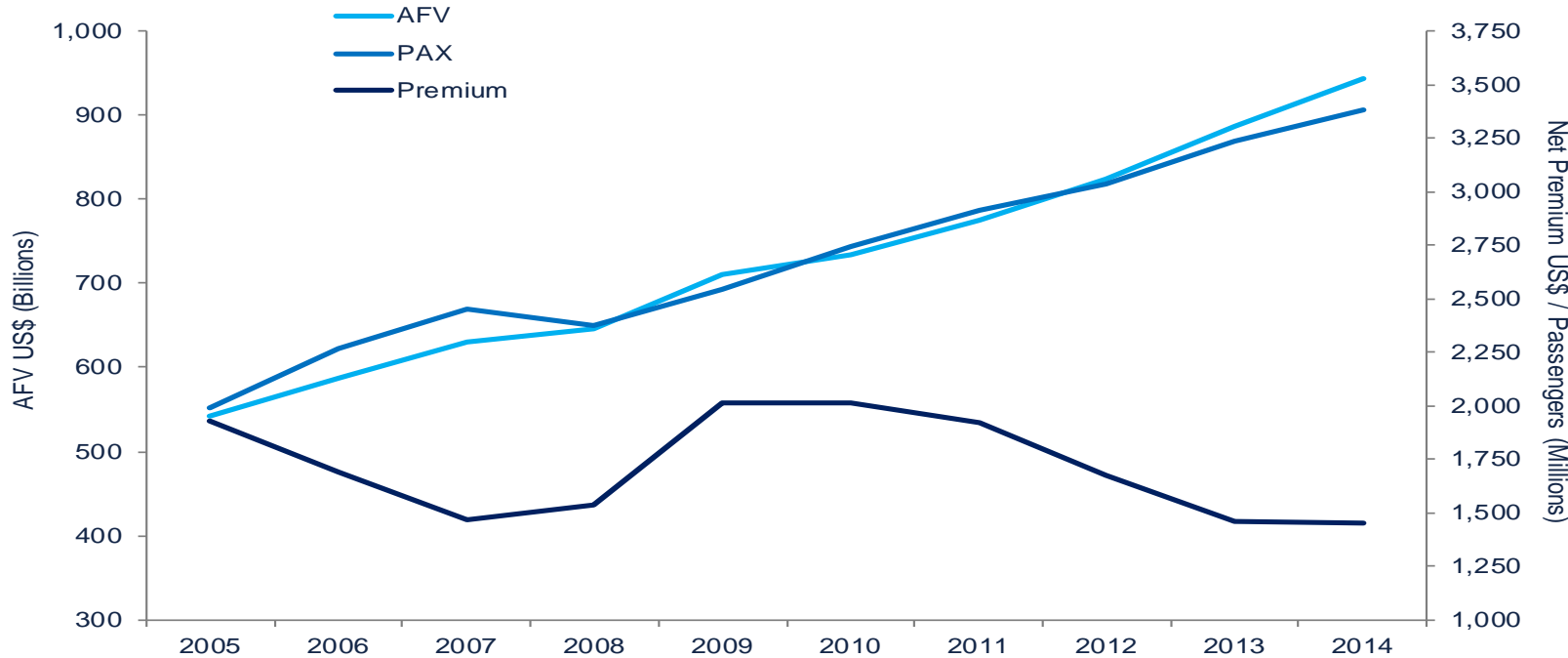
- Against a background of reducing claim frequency but rising claims cost, the current level of airline premium at around USD 1.5bn (net lead terms) will not cover normal claims costs
- Attritional losses run at USD 500m – USD 600m annually (*source Flightglobal*) and major claims ran at an annual average figure of USD 1bn over the past 5 years.
- At the same time, the gap between exposure growth and premium/rate levels is continuing to widen, as shown by the following exhibits.

Airline Market

ENVIRONMENT / MARKET STATISTICS



10 Year Exposure and Premium 2005 – 2014



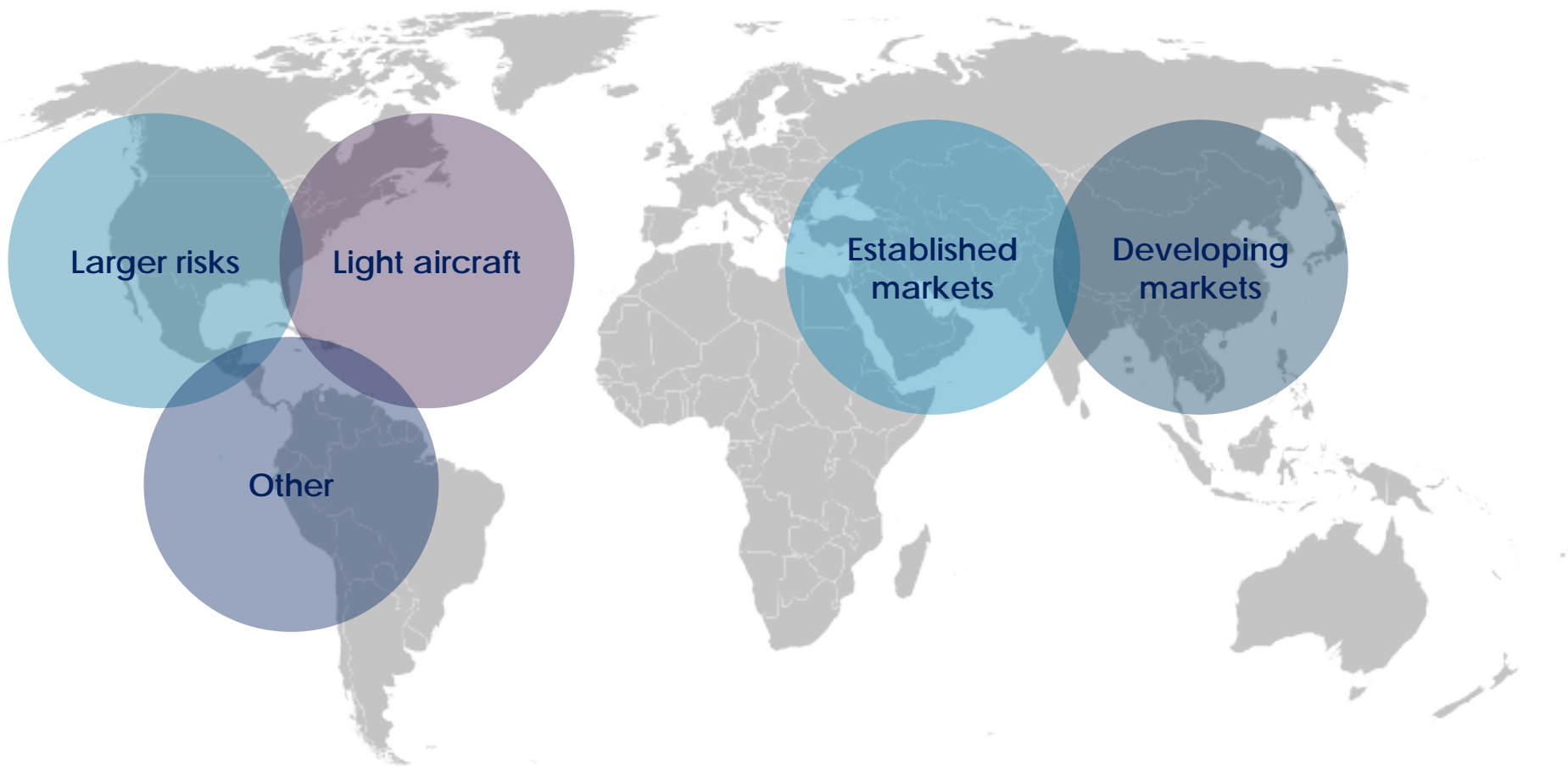
- Current premium levels are at around the same level as in 2001 (prior to 9/11 tragedy) while AFV and pax numbers have doubled since then.
- This position is not sustainable in the longer term.
- As margins in airline business have disappeared, Insurers who have not previously focused on Products, Aerospace, GA segments are increasingly turning their attention to these lines of business.



General Aviation

USA

Rest of World



General Aviation OVERVIEW



- The worldwide GA market develops an estimated income of around USD 2.5bn.
- Approximate split USD 1.5bn USA and USD 1bn RoW.
- This makes GA a substantially bigger segment than airline, and certain territories/product lines continue to offer returns which are superior to the expected margins in airline business.
- However, as capacity has moved into the GA segment in recent years, competition has in certain areas been fierce.
- The increase in capacity in the US market from 2005 has been well-documented and many other territories/regions around the world have also seen highly competitive behaviours.
- Established markets such as the UK, Germany and less well-developed markets such as India, SE Asia have all been under severe rating pressure, with broker lineslips/facilities often exacerbating the situation.

General Aviation OVERVIEW



- The market is often seen as being organised into 2 main segments, being USA (or Americas) and Rest of World.
- There is also a distinction amongst those markets with a presence outside their home territory.
 - Global players who are strong regionally
 - Strong regional players
 - Those with a genuinely global footprint
- In reality, there are a very small number of markets which can claim to fall into the third category.
- These players offer what might be viewed as a US-style approach to all GA business but one which also recognises the unique characteristics of specific markets/regions.
 - Client focus
 - Risk appetite (100% writings/substantial net retentions)
 - Technical, localised expertise
 - Understanding clients' specific requirements
 - Balance sheet strength

General Aviation – The US Market 2005

USA SEGMENT



General Aviation – The US Market 2015

USA SEGMENT



General Aviation

US Business Jet Accident Rate per 100 aircraft in service

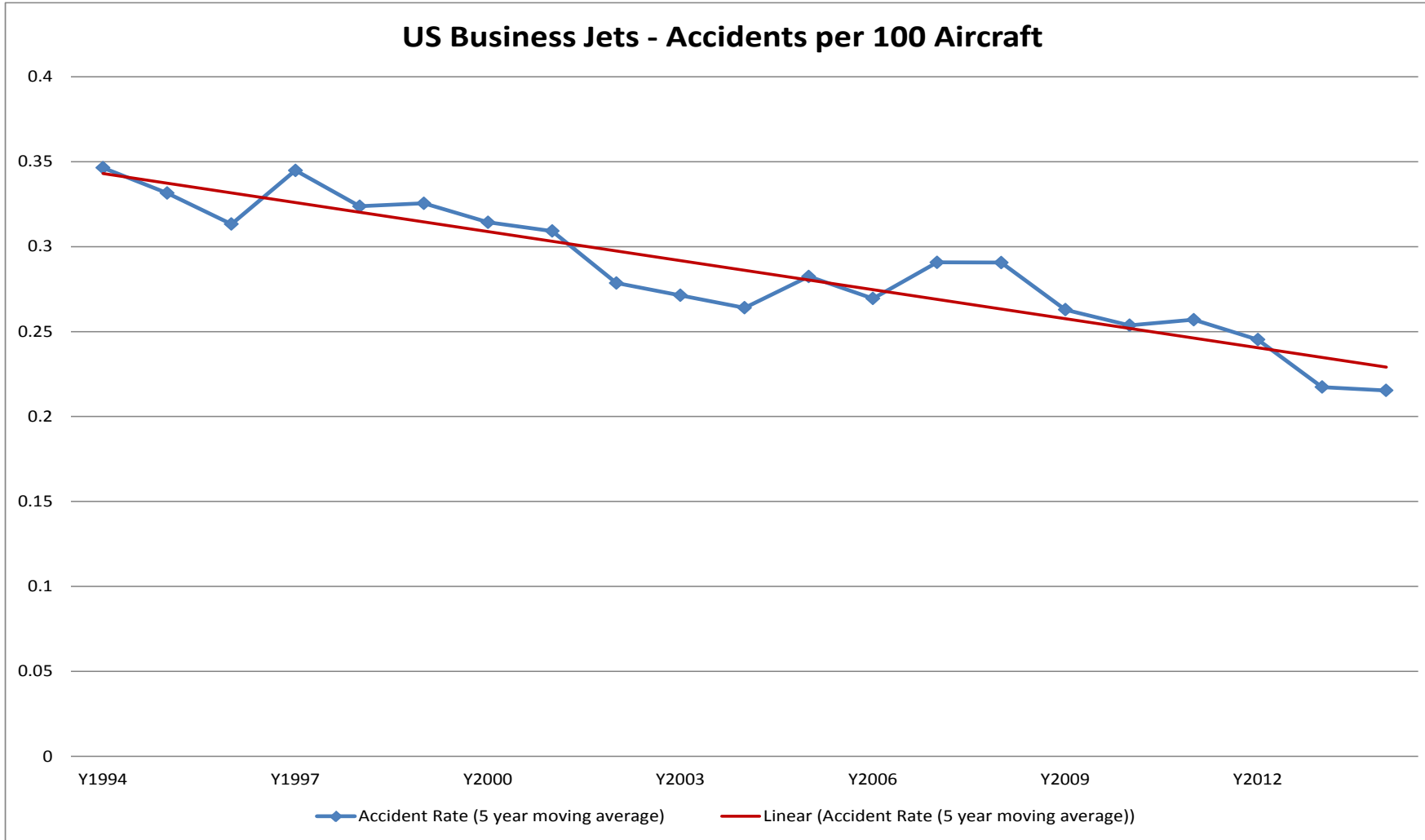


Chart Courtesy of Ascend (a Flightglobal Consultancy)

General Aviation

US Turbine RW Accident Rate per 100 aircraft in service

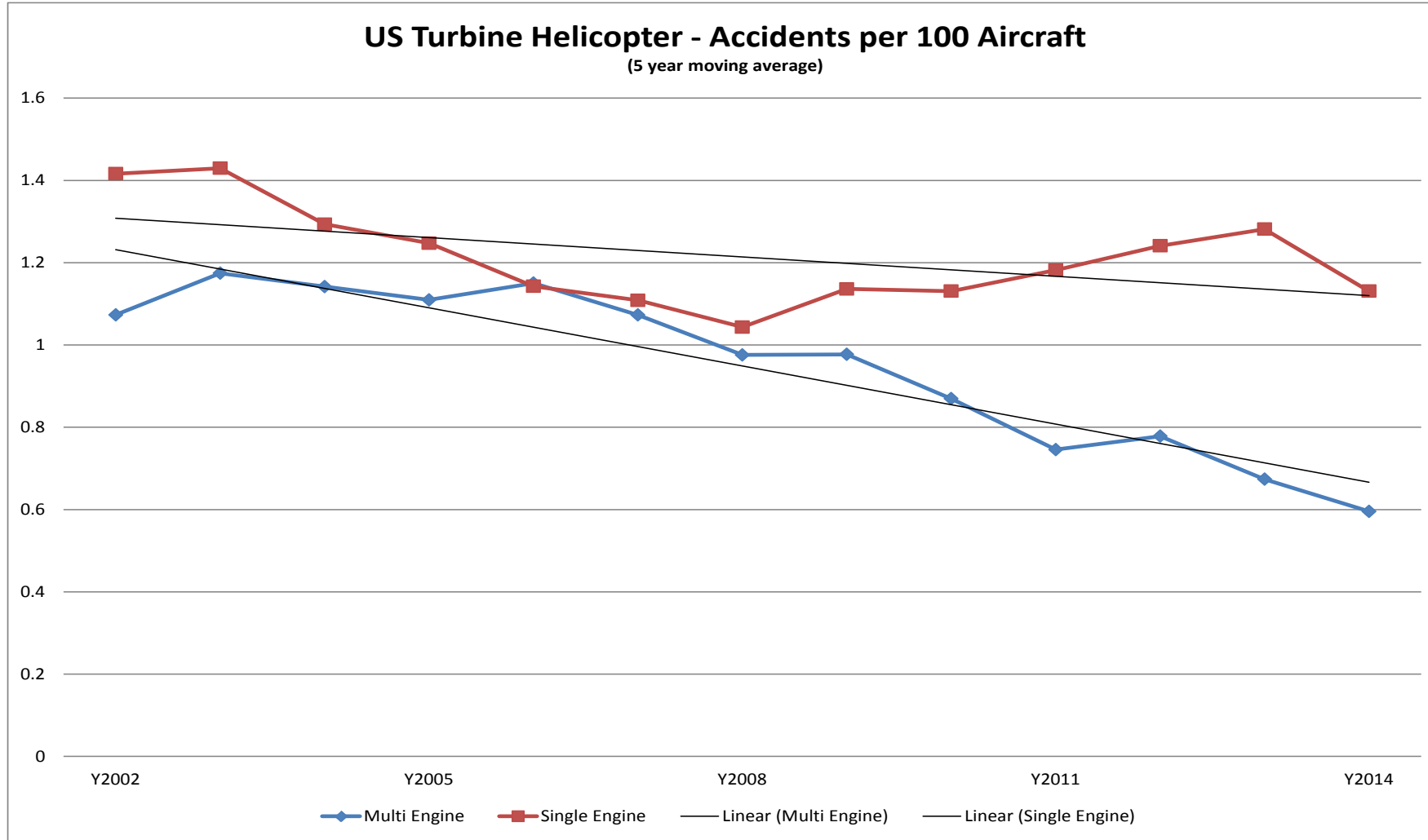


Chart Courtesy of Ascend (a Flightglobal Consultancy)

Products / Aerospace / Airports Market ENVIRONMENT



- Pricing conditions have generally been more stable.
- Clients, especially for Major Products risks, understand the potentially very long-tail of their exposures and have tended to value quality security and longevity of relationships with Insurers more highly than some airline buyers.
- However, as margins in airline business have eroded, markets which have not previously specialised in this segment have been attracted by the prospect of better returns.
- Price competition has therefore increased for this segment, especially for business which could be termed minor or non-critical and which can often be written 100% by one market.



AIG in AVIATION

**“WE’RE OPTIMISTIC AND NOT SPENDING OUR TIME
LAMENTING THE STATE OF THE MARKET –
WE’RE INVESTING IN OUR BUSINESS REGARDLESS OF
MARKET CONDITIONS BUILDING OUR CAPABILITIES
AND INFRASTRUCTURE –
PUTTING OUR CLIENTS & BROKERS AT THE CENTER OF
WHAT WE DO IN ORDER TO BETTER UNDERSTAND THEIR
REQUIREMENTS AND DELIVER TRUE VALUE.”**



- Breadth and depth of the account
- Resource committed
 - Underwriting
 - Systems
 - AIG Actuaries & Science
 - Safety and Loss Control
- Product Innovation
 - USD 1bn limits for Non-Major Products / Airports / Service Providers
 - Occurrence coverage for non-critical products
 - Industry-leading UAV expertise (Business Insurance Innovation Award 2015)
 - Launch + 10 years coverage in space segment
- Capital strength
 - Size of balance sheet
 - “Skin in the game”
- Global Footprint

Implications for AIG's clients



- Broadest product range offered by any market.
- Ever-evolving coverage.
- The investment made in understanding what drives our profitability allows us to offer the most competitive overall proposition for our core business/clients.
- Full commitment to working with our brokers and agents to service our mutual clients' needs.