
AIG Life and Retirement gets an A+ from Fitch

By Editor Test *Thu, Feb 21, 2013*

AIG reported significantly improved profitability in the first nine months of 2012, with net income of \$7.6 billion relative to a modest net loss in the prior year period. Life & Retirement's pre-tax income rose 22% in the same period, year over year.

Fitch Ratings has upgraded the IFS (Insurer Financial Strength) ratings of American International Group's U.S. life insurance unit, led by AGC Life, to 'A+' from 'A', according to a Fitch release.

At the same time, Fitch affirmed the 'A' IFS ratings of AIG's rated property/casualty insurance subsidiaries, as well as AIG's Issuer Default Rating (IDR) of 'BBB+' and senior debt rating of 'BBB'. The rating outlook is "stable."

In upgrading the IFS of AIG's Life & Retirement units, Fitch cited "continued improvement in statutory capital position, recovery of investment values over time and return to stronger operating profits and earnings stability."

The company has largely recovered from the financial crisis and can generate about \$4 billion of annual run-rate operating earnings, Fitch said.

"Surrender activity has stabilized and is currently at or below historical levels and is now reflective of the low interest rate environment rather than AIG-specific issues," the release said. "Net investment spreads have improved as a result of an increase in base yields due to the reinvestment of cash and short-term investments in 2011 combined with lower interest credited."

But Fitch cautioned: "These positive factors are offset somewhat by concerns as to the effect of continued very low interest rates on product performance and future profitability."

AIG has repaid its government borrowings and other support; the remaining 15.9% U.S. Department of the Treasury ownership in AIG's common stock was sold in December 2012, Fitch said. "The organization more closely represents a traditional insurance holding company with an operating focus on global property/casualty insurance and domestic life insurance and retirement products."

The pending sale of 90% of AIG's ownership of aircraft leasing firm International Lease Finance Corporation (ILFC) which is expected to close by midyear 2013, will also help, Fitch noted.

The company's financial leverage as measured by the ratio of financial debt and preferred securities to total capital (excluding operating and ILFC debt and the impact of FAS 115) declined from 31% at year-end 2010 to approximately 22% currently.

Fitch's Total Financial Commitment (TFC) ratio for AIG, while still high compared to most insurance peers, has improved from 2.5x at year-end 2010 to a current level of 1.3x. Elimination of ILFC debt and airline purchase commitments will further reduce financial leverage and TFC. AIG has also created an adequate

liquidity position and has demonstrated access to capital markets through execution of several recent financing transactions.

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