Retirement Income
JOURNAL

Fitch upgrades select AIG ratings following government sale

By Editor Test *Thu, Sep 13, 2012*

The 'A' Insurer Financial Strength (IFS) ratings on AIG's core property/casualty and life insurance subsidiaries was affirmed.

Following the Treasury Department's sale of about $18 billion of American International Group, Inc., common stock, which reduced government ownership of AIG from to 21.5% from 53%, Fitch Ratings has upgraded the firm's Issuer Default Rating (IDR) to BBB+ and affirmed AIG's unsecured senior debt is BBB.

The move created "standard notching" between those two ratings. The notching was compressed during the period of government majority ownership.

Consistent with the upgrade of the IDR, the ratings on AIG's existing subordinated debt and junior subordinated debentures are upgraded to 'BBB-' and 'BB+' respectively. All other AIG ratings, including the 'A' Insurer Financial Strength (IFS) ratings on AIG's core property/casualty and life insurance subsidiaries, are affirmed. The rating outlook is Stable.

The upgrade in the IDR considers AIG's success in restructuring and deleveraging efforts over the last three years that have strongly improved the organization's stand alone rating profile. Further, AIG has created an adequate liquidity position and has demonstrated access to capital markets through execution of several recent financing transactions.

These deleveraging efforts have led to the repayment of all government related borrowings by AIG. The company's financial leverage as measured by the ratio of financial debt and preferred securities to total capital (excluding the impact of FAS 115) declined from 77% at year-end 2010 to approximately 21% currently. Fitch's Total Financial Commitment (TFC) ratio, while still high compared to most insurance peers, has improved from 2.5x at year-end 2010 to a current level of 1.3x.

Fitch's ratings on AIG and its subsidiaries continue to reflect the benefits of the AIG organization's strong competitive positions in life and non-life insurance partially offset by the comparatively poor recent operating results of the company's core insurance operations.

AIG reported a significant improvement in first half 2012 profitability as net income increased by 76% relative to the prior year to $5.5 billion. This earnings improvement was largely attributable to investment income growth, as well as better underwriting performance within Chartis property/casualty insurance operations. Chartis combined ratio improved to 102.3% in the first half of 2012 from 111.1% in first half 2011 largely due to sharply lower catastrophe losses. Core operating subsidiary interest coverage on financial debt was 5.5x in the first half of 2012.

Key triggers that could lead to future rating upgrades include:

- Demonstration of higher and more consistent earnings at insurance subsidiaries' Chartis and SunAmerica that translate into average earnings-based interest coverage above 7.0x;

- Further improvement in AIG's capital structure and leverage metrics that reduce the company's TFC ratio to below 0.7x.

Key triggers that could lead to a future rating downgrade include:

- Increases in financial leverage as measured by financial debt to total capital to a sustained level above 30%, or a material increase in the TFC ratio from current levels.
- Large underwriting losses and/or heightened reserve volatility of the company's non-life insurance subsidiaries that Fitch views as inconsistent with that of comparably-rated peers and industry trends;
- Deterioration in the company's domestic life subsidiaries' sales or profitability trends;
- Material declines in RBC ratios at either the domestic life insurance or the non-life insurance subsidiaries, and/or failure to achieve the above noted capital structure improvements.