



Printed from BusinessInsurance.com

## AIG's future still murky after year of turmoil

### Weakened firm remains big market player

Posted On: Sep. 20, 2009 6:00 AM CST  
Judy Greenwald



Former MetLife Inc. President and CEO Robert H. Benmosche was named president and CEO of AIG in August. PHOTO: REUTERS

A year after the federal government came to the rescue of American International Group Inc., the insurer remains a company in transition, observers say.

The many moving parts in play include ongoing efforts to sell noncore assets, installation of a new chief executive officer and the expected spinoff of its commercial property/casualty operations now under the new Chartis brand.

Looming over everything is AIG's obligation to repay billions it owes in federal loans, with some observers questioning how long the federal government's patience on this score is likely to last (see story, page 24). With all this going on, it is difficult to get a firm fix on AIG's future, observers say.

Last September, AIG turned to the federal government for help as it faced the imminent threat of bankruptcy (see story, page 25). After a number of revisions, the federal government's financial commitment to AIG was about \$182 billion as of June 30.

There is general agreement the situation is a lot better today.

An AIG spokeswoman cited the company's \$1.82 billion second-quarter 2009 profit and other factors. "Our businesses continue to show stability and signs of improved results," while the financial products unit "continues on shrinking its portfolio and reducing risk," she said.

Observers also praised the recent selection of Robert H. Benmosche as CEO, but said uncertainty remains.

“A year later, we really don't have a resolution” to the restructuring. The longer it takes, “the more the underlying franchise is eroded,” said Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York.

“There's really been a lot of talk, and there's been a lot of chatter, and there's been a lot of speculation, and there have been a lot of CEOs, but there have not been a whole lot of substantive transactions,” Ms. Seifert said.

“The biggest challenge they have from an insurance company perspective is, the longer it plays out in the papers, the more of a headline risk it is to the risk manager” who has a “lot of explaining” to do each time AIG appears in the news, said Eric Andersen, New York-based chief executive officer of Aon Risk Services U.S., a unit of Chicago-based Aon Corp.

However, “the financial health of the company is significantly improved from a year ago,” when it “teetered on the edge of insolvency,” said Jonathan Terrell, president of Washington-based Kenesis Corporate & Information Consulting L.L.C., which specializes in litigation support and insurance-related asset and liability management.

“I think many competitors were licking their lips at the prospects of a disabled AIG. But that was obviously premature,” Mr. Terrell said.

John Doyle, Chartis executive vp and president and CEO of Chartis U.S., said, “We're very optimistic about the future for Chartis. We have some compelling competitive strengths and our rebranding has been received in the market.”

AIG's property/casualty operations remain strong, say rating agencies, brokers and consultants.

“They're still a behemoth to be reckoned with,” said Daniel Ryan, vp at Oldwick, N.J.-based A.M. Best Co. Inc. “We view them certainly as a viable market with very strong leadership positions in the P/C marketplace, particularly the commercial marketplace.”

Its problems “were not caused by their insurance operations,” said Steven K. Bolland, president of New York-based intermediary Gill & Roeser Inc. “The insurance operations were, by and large, performing quite well, so effectively they have continued to do what they've always done.”

“As time has gone by, people are feeling more comfortable that (AIG) remains a solid insurance company,” said Aon's Mr. Andersen. While it has lost people, “they had a pretty deep team.” Clients have always valued their AIG relationship and realized that it “filled a very big role in the market,” he said. They “honestly were hoping they could survive and regain some strength. I think a lot of that has played out in the last nine to 12 months.”

“The redefinition of AIG has resulted in some clients reassessing their working relationship with the insurer, prompting some shifts in capacity, but most have remained loyal and continue to value the leading role AIG and now Chartis provide,” Sally Bramall, London-based managing director of Willis Global Carrier Management, said in a statement.

To some extent, AIG policyholders have “been able to look through some of the company's problems” and accept they are dealing with a particular subsidiary of the whole company, said Mark Rouck, Chicago-based senior director at Fitch Ratings.

The decision to rebrand commercial property/casualty operations as Chartis “is a step in the right direction,” said Mr. Ryan. “Just intuitively, the further away you get from a tainted brand, we would presume the better off they'll be in the market.”

Meanwhile, no date has been set for the Chartis spinoff, which many expect to be in the form of an initial public offering. Chartis has done a good job of explaining to its clients “that it would take some time” to accomplish the

spinoff, said Mr. Andersen. "I think there is some growing expectation that it may happen next year," he added. "The clients are hoping for a smooth transition to an independent firm," he said.

One issue that had been of concern was the flight of professionals and businesses from AIG (see story, page 25). But observers generally agree the exodus has leveled off.

A remaining issue, though, is the slowness of the asset sales. The AIG spokeswoman said Mr. Benmosche "is very focused on making sure that we get full value for our businesses. These businesses are unique, they are strong, and it's important and in the interests of all our stakeholders, including the government, that we get full and fair value for them."

Bruce Ballentine, an analyst with Moody's Investors Service in New York, said most of the assets sold to date have been small- to medium-size pieces, while the largest parts considered for sale have moved more slowly. "Market conditions over the past year have been especially difficult for large transactions," he said.

There also is the question of whether AIG will be able to repay the federal government.

"I think the taxpayers are going to be paid back, but the terms and conditions and the timing are going to have to reflect the current reality," said John Wicher, principal of John Wicher & Associates Inc. in San Francisco.

"When you drill down into some of the parts it seems unlikely" that the amount owed "can be repaid from the existing operations of AIG," said John L. Ward, CEO of Cincinnati-based Cincinnatus Partners L.L.C.

Moody's questions the government's continued support of AIG. "Their support has been extensive, flexible and critical to date," Mr. Ballentine said. Its initial motivation, he said, "was to avoid further disruption to the financial markets in a time of stress."

However, as the markets have stabilized, "we think their motivation is shifting to recovering value from their investments rather than avoiding a collapse of the financial markets," Mr. Ballentine said.

We may "start to see the government taking more of an active role in basically making sure their interests" are being looked out for, Ms. Seifert said. The government could "force a sale or a spinoff sooner than perhaps market conditions may render ideal to the extent that they want to be made whole," she said.

---