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## More regulations could arise out of AIG's complications

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American International Group Inc.'s travails could lead to more regulation of the holding companies of commercial property/casualty insurers, observers say about the possible effects of its troubles on others in the market.

While state insurance regulators have done a praiseworthy job of guarding AIG policyholders' security, observers say the state officials were neither authorized nor equipped to handle its noninsurance operations, notably AIG Financial Products Corp.'s exposure in the credit default swap market.

Meanwhile, some observers say they believe AIG's bailout by the federal government increased price competition and extended the soft market.

John Wicher, principal of John Wicher & Associates Inc. in San Francisco, said many feel state regulation "is antiquated and overprotective and an impediment to innovation. But all that said, state regulations stood up pretty well throughout this entire process."

However, Mr. Wicher said he expects more regulation of insurers' holding companies. "They're not going to be floating in the middle of the pond," like now. Instead, "they're going to be tethered to somebody's dock," whether it is state or federal regulators, he said.

Another possible outcome is that AIG may be the last of its kind.

"A company of the size and diverse risk of AIG may not be assembled again," said Jonathan Terrell, president of Washington-based Kenesis Corporate & Information Consulting L.L.C. It is unlikely an insurer will be permitted to pair its capital market risk business with its insurance business to the extent AIG did, he said.

Meanwhile, some say they believe AIG's federal aid lengthened the soft market.

"There's no doubt in my mind that preventing AIG from failing has helped to extend" the soft market "in a meaningful way," said John L. Ward, chief executive officer of Cincinnati-based Cincinnatus Partners L.L.C.

John Doyle, Chartis executive vp and president and CEO of Chartis U.S., said in response, "The financial strength of our insurance companies was never a question." Mr. Doyle said, "We have more policyholder surplus than anyone in our business. Our balance sheet continues to be very strong."

Steven K. Bolland, president of New York-based intermediary Gill & Roeser Inc., had a different take. "I'm sure AIG didn't help the situation," but "effectively everyone" participated in the soft market.

Kevin Ahern, credit analyst with Standard & Poor's Corp. in New York, said the rating agency's sense is that AIG is pricing its business "based on the fundamentals and not on any implied government support."

Ultimately, said Eric Andersen, chief executive officer of Aon Risk Services U.S. in New York, “I think we may end up with a more diversified, healthier market.” AIG competitors “have certainly been able to pick up some market share, and have broadened their appetite in terms of some products they're willing to write. It's become a more balanced market,” he said.

But “people buy by product, rather than portfolio,” Mr. Andersen said. While insurers “have broadened their appetite a little,” they have not done so for every line, he said.

This means there could “be a more difficult market” for certain lines of coverage for which AIG seeks a balanced portfolio.

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