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Future of AIG not clear, but it probably will ask for more government help: Observers

By Judy Greenwald
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While the outlook for American International Group Inc. remains unclear, there are two things about which many generally agree: AIG is likely to seek more funding from the federal government, and AIG eventually will be a much smaller company.

AIG announced a \$61.66 billion loss for fourth quarter and a \$99.29 billion loss for the year. The losses were attributable to a combination of restructuring, market disruption and accounting charges as well as repaying part of its existing federal loan.

Simultaneously, AIG said it was asking the federal government for funding for a fourth time (see box). Paul Kanjorski, the chairman of the House Financial Services Subcommittee on Capital Markets, told reporters after his subcommittee held a hearing on systemic risk, "One of the reasons we had to rescue AIG was the fact that it was going to bring down Europe."

The insurer also announced a broad package of measures, among them the formation of AIU Holdings Inc., a general insurance holding company that would include its commercial insurance group (see story, page 1).

The latest announcement "is another sign that the original estimates" for the help that was needed "were unfortunately low," said Bill Bergman, an analyst with Morningstar Inc. in Chicago.

It is possible the capital needs were larger than originally acknowledged, he said. "We've also had intensifying economic weakness and problems in related financial markets that weren't necessarily foreseeable the first time the first bailout package was announced," he said.

Mark Rouck, Chicago-based director at Fitch Ratings, said the latest plan enhances the company's liquidity and reduces the preferred dividend requirements of the previous agreement, which reduced AIG's financial leverage.

On the negative side, said Mr. Rouck, "some of the things they announced were required due to the company's weak operating performance and inability to sell assets within the time frame that they had laid out originally when they started entering into these agreements with the government."

"I don't think there's a market out there for the AIG assets that they're trying to sell, or if there is a market, that market is waiting for a fire sale, and not a more rational, fair value sale," said David W. Steuber, an attorney with Howrey L.L.P. in Los Angeles and co-chairman of its insurance recovery practice.

"This is really a matter of AIG trying to buy some more time so they can get into a position where they can try to sell some of their assets at a better price, so they can pay off their loans," Mr. Steuber said.

The company is obviously "still very much in trouble at this point," even after compartmentalizing its businesses, he said.

"There's a toxic business there, and that's the financial products business, and unfortunately, that business is a cancer," said Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York. "It's metastasizing to the other businesses, and I think everyone—shareholders, policyholders and taxpayers—would be better served if there was more of a cutout or carve out made of the financial products business."

"At this point, there are so many unknowns it's hard to have a lot of confidence, one way or the other" as to the plan's success, although "there's clearly still some great value in the company," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

Observers generally agree that AIG ultimately will be a much smaller company. The holding company will not continue "to exist in its current form much longer," said Mr. Bergman.

It is beginning to look like "there may not be anything at the end of the day if the bailout comes to a (close) and they work through all these problems," said John L. Ward, CEO of Cincinnati Partners L.L.P. in Cincinnati. "There may not be anything that remains."

"It's really tough to say at this point," he said. "I think even the people running the show will be the first to admit there's plenty of uncertainty in the short term on this."

"I don't think we're going to have AIG as we know it," said Ann V. Kramer, an insurance recovery attorney with Reed Smith L.L.C. in New York. "They seem to be in the process of dismantling," with units going off in different directions and obviously they're winding down AIG Financial Products...so there's not going to be what we know as AIG in a few years."

There will "be an evolution" and what's left will be different, said Jennifer Marshall, a senior financial analyst with Oldwick, N.J.-based A.M. Best Co.

"It will be smaller and simpler," 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'm sure there'll be a core" of AIG that will be in liquidation and runoff mode "for tens of years to come, but I think the key operating units are really very sound operations," which will either be spun off in IPOs, or sold over time, said Jim Amen, a partner with Philo Smith & Co., in Stamford, Conn.

One lingering question is whether additional federal help is needed. "I don't think anybody thinks AIG has finished going to the well," said Ms. Kramer.

"There almost, without a doubt, will be another variation on the bailout theme," said Mr. Ward. "It may not necessarily be more money, but there will certainly be another adjustment as the market conditions continue to unfold, because there's too much that's unknown at this point, and it's a rapidly moving economic climate right now, and things are going to change."

With the structure of the bailout "I would not be surprised to see another iteration of some sort of government assistance...coming to the fray," said Ms. Seifert.

"It really depends on how quickly the economy starts turning," said Mr. Amen. If it is not for two years, more help may be needed, but if it turns in a year, it may not be, he said.
