

AIG realigns P/C units in bid to keep clients

By JUDY GREENWALD

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NEW YORK—American International Group Inc. will likely continue to lose business and employees as it pursues its plan to spin off its property/casualty units into a separate holding company, observers say.

But just how bad those losses will be, and how policyholders will perceive the attempt to separate the property/casualty units from the troubled holding company is uncertain.

The creation of that holding company, AIU Holdings Inc., is part of a major corporate restructuring program announced last week, when AIG reported a \$61.66 billion loss for the fourth quarter of 2008. AIG said it may launch an initial public offering for the unit.

Kristian P. Moor, who is president and chief executive officer of AIG Property Casualty Group, will be president of AIU. Nicholas Walsh, president and CEO of American International Underwriters, will be its vice chairman.

AIU will include AIG's commercial insurance group, foreign general unit and other property/casualty operations. It will have more than 44,000 employees and 500 products and serve 40 million commercial and individual customers in 130 countries and jurisdictions, AIG said.

"For the first time, there is a common management for the global operation," Mr. Moor told Business Insurance. "It will be positioned to run more independently and transparently in the future," and customers "will be able to look at our financial strengths and ratings distinct from AIG."

AIU Holdings "will include well-capitalized businesses that hold substantial liquidity and have not required capital funded through AIG's agreement with the U.S. government to support its financial strength," Mr. Moor said.

The IPO is expected to take place in nine to 12 months, said AIG Chairman and Chief Executive Officer Edward Liddy during a conference call last week. "We'll do it as soon as practical," he said.

While about 20% of the business is expected to be spun off initially, observers say they expect AIG to ultimately spin off the entire company. "I think they probably have to do that, given what's going on," said Ann V. Kramer, an insurance recovery attorney with Reed Smith L.L.P. in New York.

John Wicher, of John Wicher & Associates Inc. in San Francisco, said, "It seems to me to be all positive." Isolating the insurance operations "appears to be a very sensible way of overcoming concerns" about its financial health, and establishing AIU is a step toward creating "a very crisp market identity, separate and distinct from the holding company."

But observers question how successful AIG's plan is likely to be in developing a separate identity for the spinoff, and how much the property/casualty operation is likely to continue to suffer from policyholders' perceptions about the parent company.

John L. Ward, CEO of Cincinnatus Partners L.L.C. in Cincinnati, said, "I think there is still a fair amount of uncertainty, and I would think that policyholders not currently with AIG will not rush to go back to AIG at this point."

Policyholders are fine-tuning their AIG coverage, say observers. Mark Rouck, Chicago-based director at Fitch Investors Service, said, "AIG had big market shares in a lot of different business lines, and so you might have a situation where an insured is saying, 'Maybe we'll buy our workers comp coverage from AIG still, but buy excess liability coverage from a different carrier.'"

With so much negative coverage about AIG, "even if a risk manager wants to maintain their relationship with AIG," management is questioning it, said Ms. Kramer of Reed Smith.

Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York, said, "I do think there are plenty of competitors that will be able to take market share" from AIG. The question is "how desperate, how aggressive does AIG become with pricing on the P/C business?" said Ms. Seifert, noting AIG's 16.3% decline in net premiums written in the fourth quarter. "I think that's going to continue," she said.

However, "even with a fair amount of incentive," to place business with AIG, "I think a business seeking to lay off liability there is going to think long and hard before they place business" with the property/casualty operation. "I can't imagine how this doesn't continue to impact their standing in the market," Ms. Seifert said.

Jim Amen, a partner with Philo Smith & Co., a Stamford, Conn., boutique investment bank specializing in insurance, said, "There's a lot of policyholders that are multi-year, which they can probably hold onto, but for the most part, I would assume 50% of the business would probably go elsewhere."

John Q. Doyle, president and CEO of AIG Commercial Insurance, said during a webinar sponsored by the Risk & Insurance Management Society Inc. last week that AIG Commercial Insurance's client retention levels were down 5% in the fourth quarter of 2008, but have "improved modestly" so far in 2009.

AIG also is likely for now to continue to lose valuable employees, observers say. Last week, for

instance, New York-based Starr International Co. Inc. announced Charles H. Dangelo, AIG's chief reinsurance officer and president of AIG Global Risk Management, said will join Starr subsidiary Starr Indemnity & Liability Co. as president and chief executive officer.

However, Mr. Amen said "as they go along the IPO route" the property/casualty operations will be able to attract talent back to the business, due to the potential financial benefit of participating in an IPO.

Mr. Doyle said the North American insurance units have lost fewer than 60 employees at the level of vp or higher. That is "a few more" than it would have liked, he said.

For now, AIG's prospects remain bleak, many observers say. "I don't see it as a viable source of competitive strength much longer," said Bill Bergman, an analyst with Morningstar Inc. in Chicago. "They still have a problem with customers, and it's going to be very, very difficult to turn around," said Mr. Bergman.

Dennis Gambill, a consultant with the Darnielle Insurance Agency in Billings, Mont., and an insurance industry veteran, said he believes the insurance companies' image has been hurt by what has happened at the holding company level. "They could do the spinoff and it'll fly for a while, but it's going to be like a wounded bird. It's going to drop someplace soon," he said.

But Jonathan Terrell, president of Washington-based Kenesis Corporate & Information Consulting L.L.C., which specializes in litigation support and asset and liability management, said the future "really depends on whether the insurance buyers collectively are going to behave rationally."

If they do so, there is no reason to believe AIG's property/casualty operations "will not survive and prosper," said Mr. Terrell. "But if everyone panics, and stops accepting AIG policies and makes their decisions on what they think that everyone else is going to do" then matters could go against AIG. "If there's a collective loss of confidence, you don't want to be the only person renewing," Mr. Terrell said

He also noted, "It's not like you can cover the risks AIG has traditionally covered with every carrier. People need AIG in their programs."

Meanwhile, "AIG is offering, on at least some of its policies, an endorsement that permits the policyholder to cancel the policy without penalty if the AIG insurer has their credit rating downgraded below a certain level," said Richard Shore, an attorney with Gilbert Oshinsky L.L.P. in Washington, an insurance recovery and litigation firm.

"The policyholders should avail themselves of that and should insist on that," he recommended.

Regis Coccia contributed to this article.
