

Putting the AIG/Greenberg question to bed..

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In light of the recent release on the Lehman Bankruptcy I thought it might be a fitting time to take a look at the decline of another great American financial institution, AIG. Moreover, given the US government's slug of ownership interest in AIG, the company's storied decline will likely fade peacefully into our history books.

For those interested you can find the [bank examiner's report on Lehman here](#).

Now back to AIG. What has really bothered me about AIG's demise is Hank Greenberg, acting CEO of AIG for over 37 years (until March 28, 2005). He has yet to admit any wrong doing in the AIG debacle and insists the trades under AIG Financial Products that eventually brought down the company happened after his departure and outside of his knowledge. His pleas of innocence have been quite vocal, unwavering and in his mind, even genuine.

(Appendix 1) I direct you to a letter from Hank written to the Board of AIG on 9.16.08:

"[...] Since you [Robert Willumstand] became Chairman of AIG, you and the Board have presided over the virtual destruction of shareholder value built up over 35 years. It is not my intention to try to point fingers or be critical. My only point is that under the circumstances, I am truly bewildered at the unwillingness of you and the Board to accept my help.

- Maurice "Hank" Greenberg. C.V Starr & Company Letter.

So Hank started out strong but faded fast. This quote in particular happens to be one of the most scathing remarks from Hank on the subject and came just two days before AIG was bailed out by the Federal government.

But let's back up the story a little bit and talk about the rise and fall of Hank Greenberg and the fabled AIG. Hank became acting CEO in 1968 and continued on until March 28, 2005 when he was ejected [resigned] by the Board under heavy pressure from then Attorney General, Eliot Spitzer over accounting irregularities. [The company later admitted wrongdoing and settled the case].

(Appendix 2) With Mr. Greenberg's abrupt departure and the associated accounting scandal, Standard and Poor's downgraded AIG from AAA to AA-. The rating agency action triggered certain downgrade provisions and led to collateral calls in the neighborhood of \$1 Billion USD. Most of the calls came from a group under the AIG umbrella named AIG Financial Products ("AIGFP"). It was one of the first times, AIGFP popped up on any one's radar screen.

(Appendix 3) The AIG empire was a complex one but at its core the company had three main product lines:

- Insurance,
- Financial Services,
- Asset Management

AIGFP was nestled in the Financial Services unit and counted among its peers the airplane leasing heavyweight, International Lease and Finance Corp ("ILFC").

AIG at its core has always been an insurance company though. Between Life and General, Insurance accounted for approx. 86% of the total revenue from 1999-2004. By comparison, Financial Services accounted for just 8% of total revenue in 2004 and AIGFP accounted for just 25% of Financial Services. Clearly insurance in the classical sense was AIG's bread and butter.

Nonetheless, the story of AIGFP was an interesting one. Formed by 3 ex-Drexel Burnham Lambert traders with a green light from Hank himself, AIGFP's first major transaction was in July 1987 when it agreed to enter into an Interest Rate swap with the Italian government. Notional exposure in that deal was \$1B.

(Appendix 4) From there on, AIGFP grew at a healthy clip. For instance, from 1998-2004 the compound annual growth in revenue was 8.6%, compensation expense was \$497M and assets just over \$95B by YE'04. In deed by any traditional measure, the business was healthy and growing. Now what every business man knows (or should know) is return is commiserate to risk. Always and forever.

For everything that went wrong in AIG, Mr. Greenberg presided over the largest insurance company in the world. Insurance is all about risk, and Hank knew it well, so when AIGFP kept increasing its revenue and asset base, he would have made it his business to understand the risk they were writing. By YE'04, just 3 months before Hank would be removed from his role as CEO, AIGFP had guaranteed performance on \$290.7B in notional credit exposure. By YE'05, AIGFP guaranteed credit with a notional exposure of \$387.2B.

What AIG (and in deed the markets) didn't realize was that not all AAA's were created equal. If you read an AIG financial statement or 10K, they caveat all their credit exposure saying they are super senior and are in a secondary loss position behind equity. But the later vintage deals had little subordination and were pumped with so much subprime credit that the equity piece quickly evaporated.

So when all is said and done, when the dust settles, did Mr. Greenberg have a role in the downfall of AIG? I think he did. I will admit that part of his ultimate culpability went away with his abrupt resignation, but that was just dumb luck. He left his post kicking and screaming, and it was clear looking at AIG's balance sheet that Hank was actively growing the Financial products business.

If it wasn't for an overzealous, now disgraced Attorney General, Mr. Greenberg would have presided over the firm for 40 years and watched it crumble just the same. If I were in Hank's shoes today, I'd settle down and let the AIG saga fade peacefully into our history books.

C.V. STARR & Co., INC.
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September 16, 2008

MAURICE R. GREENBERG
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

Mr. Robert B. Willumstad
Chairman and CEO
American International Group, Inc.
70 Pine Street
New York, NY 10270
VIA FAX 212-770-5703

Dear Bob:

We have been discussing for several weeks my offer to assist the company, in any way that you and the Board desired. Throughout those discussions, you have told me and David Boies that you believed that my assistance was important to the company. The only concern that you have expressed to me is the fear that if I were to become an advisor to the company that I would "overshadow" you. I respectfully suggest to you, and to the Board, that the continuing refusal to work together to save this great company is far more important than any concern over personal positions or perceptions. I am, of course, frustrated that the agreement in principle we reached to settle our differences has now been taken off the table by the company's counsel. However, whether or not we settle our differences, I remain ready to work with you to do everything possible.

In a little over a year, I, and other shareholders, have watched the company that I helped build over 35 years into the largest and most successful insurance company in history and one of the strongest and one of the most profitable financial companies in the world lose over 90% of its value. Despite repeated assurances from management and the company that everything was under control, it is now clear that nothing was under control. Over the last two weeks as the threats to the company increased, I have made repeated requests to meet with you and to meet with the Board to offer my suggestions and help. Those requests have been ignored. I was told last Friday that I could meet with the company's investment banker, but despite our expressed willingness to meet any time, any where, even that meeting has not yet been scheduled.

Mr. Robert Willumstad
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I do not know whether or not it is now too late to save AIG. However, we owe it to AIG's shareholders, creditors and our country to try. I remain ready to offer any assistance that I can and to meet with you and the Board at any time. I ask nothing from you or the Board except the opportunity to help.

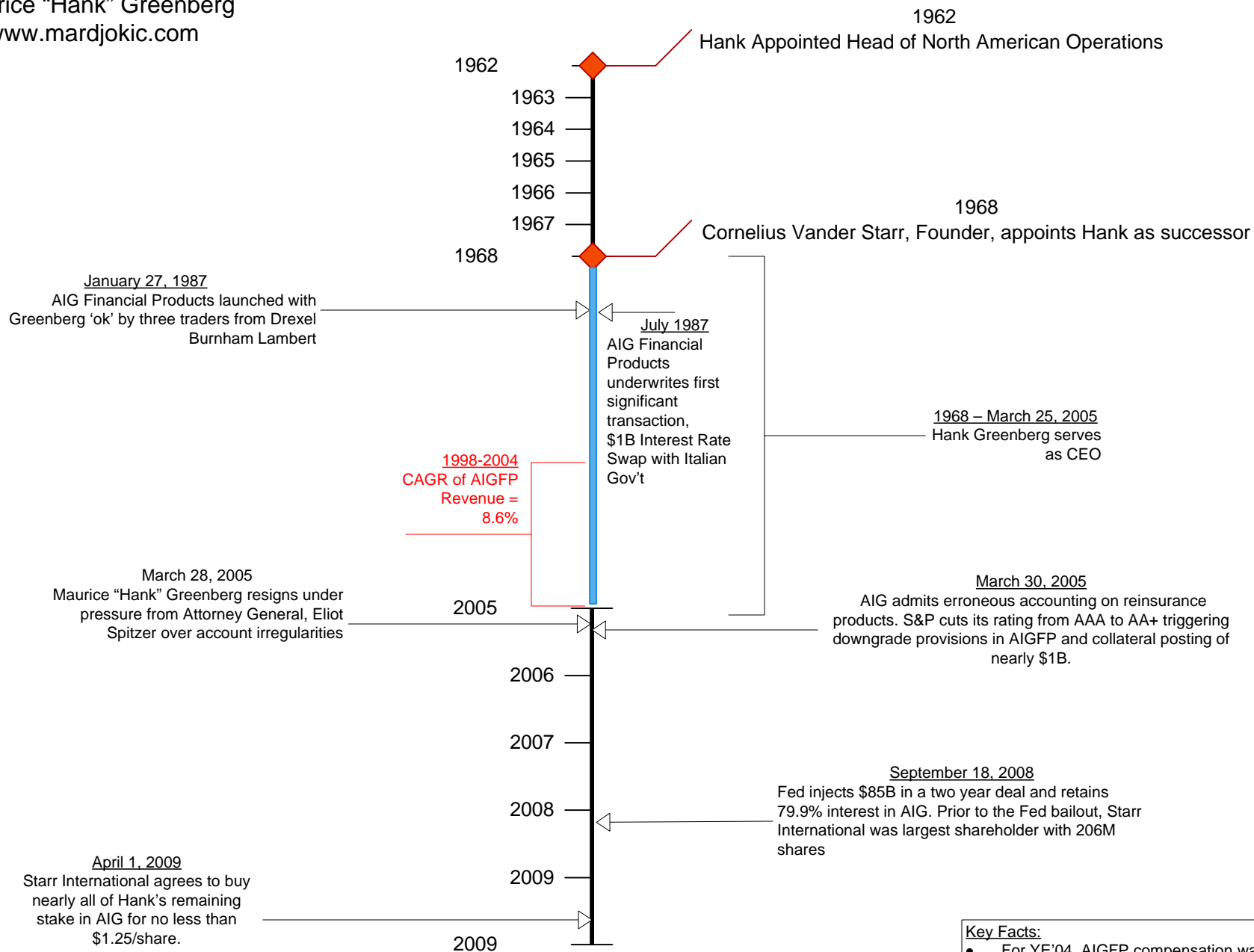
Since you became Chairman of AIG, you and the Board have presided over the virtual destruction of shareholder value built up over 35 years. It is not my intention to try to point fingers or be critical. My only point is that under the circumstances, I am truly bewildered at the unwillingness of you and the Board to accept my help.

Sincerely,



MRG/mb

cc: AIG Board of Directors



- Key Facts:**
- For YE'04, AIGFP compensation was \$497M.
 - AIGFP's revenue grew annually at a rate of 8.6% from 1998 to 2004 increasing from \$924M to over \$1.7B by YE'04.
 - The Financial Services business accounted for 8% of AIG's total revenue in YE'04. Revenue contribution from AIGFP to Financial Services was 21% and averaged 25% over the period, 1998-'04.
 - By YE'04, AIGFP had guaranteed performance of some \$291B in notional credit exposure.

