

State Regulators Hold Talks, Say AIG Subsidiaries Are Sound

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While American International Group Inc. fights to stay afloat, its state-domiciled subsidiaries remain sound, state regulators said as officials held talks on the AIG units in their jurisdictions.

"It's changing by the minute at the holding company level," Connecticut Insurance Commissioner Thomas Sullivan said. "Nothing's changing at the subsidiary company."

Regulators from Pennsylvania, New York and Florida -- which between them have 24 AIG subsidiaries -- discussed how to respond to the insurance giant's liquidity crisis, said Ed Domansky, spokesman for the Florida Office of Insurance Regulation. New York Gov. David Paterson earlier announced plans to permit AIG (NYSE: AIG) to use up to \$20 billion in assets from its subsidiaries to provide collateral and maintain daily operations (BestWire, Sept. 15, 2008).

Pennsylvania regulators have been approached about "a possible transaction to alleviate the liquidity issues" with the AIG parent company, state insurance department spokeswoman Roseanne Placey said. Placey declined to discuss details of the discussions, only saying, "We will consider no transaction that does not have the guiding principle of policyholder protection at its core."

Sullivan said he has not been involved in those discussions, but that state regulators are united on the principle of protecting the solvency of the subsidiary companies. "That's a very conditional offer," he said of the New York plan.

There has been no need to invoke plans to dip into state guaranty funds, and insurance officials are reluctant to discuss such contingencies for AIG subsidiaries.

"Those companies are solvent and paying claims," Placey said.

Domansky said no one is "speculating or looking at any what-if scenarios."

Roger H. Schmelzer, president and chief executive officer of the National Conference of Insurance Guaranty Funds, said under normal circumstances, officials at state guaranty funds are the last to know when a company is in crisis.

"This is unusual because it is so public," he said of the AIG holding company situation. "If there is a solvency problem with a company, the company knows about it and the regulator knows about it, and eventually we find out about it."