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Chaney Joins NAIC AIG Oversight Group

State Regulators Assure Policy Holders AIG Insurers Able to Pay Claims

Jackson –In the wake of news that the non-insurance parent company of American International Group (AIG) is facing a financial crisis, state insurance regulators quickly mobilized to ensure that policyholders of the insurance subsidiaries remained protected. This oversight will continue as AIG operates under the credit facility offered by the Federal Reserve.

The National Association of Insurance Commissioners (NAIC) has established a working group to oversee AIG insurance interests in this financial situation and to coordinate with federal regulators as needed. New York State Insurance Superintendent Eric Dinallo is chair of the working group and Pennsylvania Insurance Commissioner Joel Ario will serve as vice-chair. Mississippi Insurance Commissioner Mike Chaney has joined this group.

“I will be working closely with this group to continue protecting the interests of Mississippi policyholders. I want to reassure everyone that AIG’s insurance subsidiaries are solvent and able to pay their obligations," Commissioner Chaney said.

He added that AIG’s non-insurance parent company is under federal regulation and not subject to the same high investment, accounting and capital adequacy standards as the insurance subsidiaries, which fall under state regulation.

Why are the insurers in a position to help out the financially challenged parent? State insurance regulators have numerous actions they can take to prevent an insurer from failing. Rating downgrades and drops in share price do not change an insurer's ability to pay claims. From conservative accounting rules and mandatory annual CPA audits to investment regulations/limitations and minimum capital/surplus requirements, a state insurance regulator's "toolbox" allows insurers to handle greater losses than other parts of the financial sector in down-market cycles. Additional regulatory tools include performing regular, periodic financial analysis of insurers, and on-site examinations.

How are the policyholders protected, in the unlikely event that the insurer fails? Claims from individual policyholders are given the utmost priority over other creditors in these matters - and, in the unlikely event that assets are not enough to cover these claims, there is still another safety net in place to protect consumers: the state guaranty funds. These funds are in place in all states. If an insurance company becomes unable to pay claims, the guaranty fund will provide coverage, subject to certain limits, similar to the FDIC's coverage for bank accounts.

This entire solvency framework and safety net for policyholders is uniform in every state as evaluated by the NAIC's Financial Regulation and Accreditation Program.

How did the AIG parent get into financial distress? Non-insurance entities are not subject to the strict solvency framework applied to insurers. This allowed various non-insurers to engage in risky credit transactions (huge positions in credit derivative swaps on mortgage-backed securities) without the appropriate limits and minimum capital/surplus to protect the company from a downswing in the mortgage-backed security markets.

Per the federal Gramm-Leach-Bliley Act (GLBA), insurance regulatory authority only applies to actual insurance entities and transactions with those entities. Within AIG, there are 71 U.S. insurers subject to this authority. The remaining 176 entities are split between foreign entities and non-insurance U.S. entities. The lead U.S. regulator of AIG financial holding company is the Office of Thrift Supervision (OTS), a federal banking regulator.

"The key distinction here is that AIG's insurance subsidiaries did not cause this crisis - rather, they will play a critical role in the solution. In fact, it is highly likely that these insurance subsidiaries - or their valuable blocks of business and high- quality assets will be sold in an attempt to return the AIG parent company to a more stable financial position," NAIC President and Kansas Insurance Commissioner Sandy Praeger said. "Calls for federal regulation of insurance in light of these events are simply unable to be supported. State regulatory oversight has kept the AIG insurance subsidiaries solvent, despite the actions of its federally regulated parent and non-insurance entities. If future developments challenge that solvency, there are state insurance regulatory safeguards in place to protect policyholders."

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