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National Association of Insurance Commissioners Continuing Monitoring of AIG

CONVERSATION SHOULD STAY FOCUSED ON THE FACTS

KANSAS CITY, Mo. (Sept. 18, 2008) - National Association of Insurance Commissioners (NAIC) President and Kansas Insurance Commissioner Sandy Praeger today issued the following statement regarding American International Group (AIG):

"In times of crisis, the first questions on everyone's mind are often: Who's to blame? What went wrong? What should be done to fix it? And rightly so. However, to understand the problem that led to the crisis, one must be cautious and examine all the facts without letting politics get in the way.

"Yesterday, two major insurer trade associations violated that principle and let their own political agendas get in the way of informing the American public and its leaders on the AIG matter. Both the American Insurance Association (AIA) and the American Council of Life Insurers (ACLI) released statements saying that the recent crisis and the $85 billion line of credit offered by the Federal Reserve to American International Group, Inc., demonstrate the need for a federal insurance regulatory presence.

"An examination of the facts will clearly show that these organizations have gotten it wrong and are letting their desire to have an optional federal charter get in the way of making a common sense recommendation to address the problem."

What are the facts?

Although AIG is generally known to the public as the world's largest insurer, in truth, AIG is a financial services conglomerate.
American International Group, Inc., is a financial holding company that owns 71 U.S.-based insurance entities and 176 other financial services companies throughout the world. These include banks, securities firms and non-U.S. insurers, along with other related businesses like premium finance companies.

The 71 state-regulated insurance entities are not the problem. They are all financially sound - or, in insurance regulatory terms, "solvent" - and fully able to pay claims presented by policyholders and claimants.

The problem lies with the AIG financial holding company that is subject to federal regulatory oversight by the U.S. Office of Thrift Supervision (OTS). The AIG financial holding company took on more risk than they could handle when investing in collateralized debt instruments, such as credit derivative swaps on mortgage-backed securities. It is important to note that these types of investments are financial products, not state-regulated insurance products. When the U.S. housing markets experienced a downturn, these risky investments lost lots of money for the AIG financial holding company.

Even if there was an optional federal charter for insurers, and some or all of the 71 U.S. based AIG insurance entities had selected to be regulated by the federal insurance regulator, the problem at the AIG parent company level would not have been prevented.

State insurance regulators are proud of the important work they do every day to protect America's insurance consumers - using conservative accounting and investment rules. It is this conservative approach to investments that keeps insurers from investing inordinate sums in risky investments, such as the mortgage-based securities, which is what caused difficulties for the AIG financial holding company.

Even throughout the AIG financial holding company's liquidity crisis, consumers remained protected by insurance regulatory rules that prevented the parent company from simply raiding capital from its profitable and well-capitalized insurance subsidiaries. A coordinated effort by the nation's insurance regulators ensured that no policyholder assets were used for any part of this transaction.

State insurance regulators have authority over intercompany transactions with the AIG insurers. They are closely monitoring any proposed transactions to ensure they will not threaten the ability of the insurers to pay policyholder claims.

Insurance regulators from every state - but especially those regulators who oversee a large number of AIG insurance subsidiaries - have been involved in every step of this process, with the primary focus of safeguarding the assets of the insurers so that they available for the protection of policyholders and claimants.

What is the solution?

Let's start with what is not the solution. There is no reason to believe that an optional federal charter for insurers would have done anything to address this problem. Remember: AIG is a federally regulated financial holding company that took on excessive risk and is suffering the consequences of its poor judgment. Because this financial holding company is not an insurer, it would not have been regulated by a federal insurance regulator, if there were one.

The solution lies in not adding more regulation by either the states or the federal government - but, rather, in making the markets for these risky securities more transparent so that the buyers of them know about the underlying elements of each bundled security that they are purchasing.

There are ways to create the necessary transparency for these transactions. One way is to create a transaction platform where market participants - as well as state and federal regulators - have access to view the disclosures and the transaction details so that the markets become transparent, rather than opaque. Transparent information about the transaction details will keep everyone honest, while allowing all parties to make a reasonable profit from the transactions placed through the platform.

Illuminating the markets is the best way to keep all market participants - and all market regulators - informed with the best available information to make the best financial decisions. Remember: The reason for the financial difficulties was the lack of understanding, through lack of transparency, by the AIG financial holding company regarding the financial instruments they had purchased.

State insurance regulators also suggest that federal banking regulators look to state insurance regulation regarding, among other things, restrictions on derivative activities; limits on high concentrations in investment types; and appropriate minimum capital and surplus requirements.

State insurance regulators regularly collaborate with and provide information to our state and federal banking and securities counterparts. We would welcome the opportunity to coordinate efforts to help enhance the stability of our nation's financial markets, minimize disruption to our economy and - above all - ensure that every Americans' financial future is protected.