

1-1-2014

The Gold Standard: The History of Hank Greenberg and AIG

Matthew J. Berger

Follow this and additional works at: <http://scholarlycommons.law.hofstra.edu/jibl>



Part of the [Law Commons](#)

Recommended Citation

Berger, Matthew J. (2014) "The Gold Standard: The History of Hank Greenberg and AIG," *Journal of International Business and Law*: Vol. 13: Iss. 1, Article 3.

Available at: <http://scholarlycommons.law.hofstra.edu/jibl/vol13/iss1/3>

This Book Review is brought to you for free and open access by Scholarly Commons at Hofstra Law. It has been accepted for inclusion in Journal of International Business and Law by an authorized administrator of Scholarly Commons at Hofstra Law. For more information, please contact lawcls@hofstra.edu.

THE GOLD STANDARD: THE HISTORY OF HANK GREENBERG AND AIG

Matthew J. Berger*

The AIG Story. By Maurice R. Greenberg and Lawrence A. Cunningham. New Jersey: John Wiley & Sons, Inc. 2013.

INTRODUCTION

The rise and fall of American International Group (AIG) is synonymous with the rise and fall of Maurice “Hank” Greenberg, its founder and former Chief Executive Officer (CEO). Greenberg transformed a loose collection of international insurance companies into the largest insurance company in history (p. xi). Through vision, determination, and dedication, Greenberg established an insurance giant whose assets at one time approached \$1 trillion (p. xv, 167). Only eight years removed from its peak, AIG is a shell of its former self. In a catastrophic turn of events, AIG went from the top of Wall Street to near collapse, only surviving through a last minute government takeover.¹

In the midst of the government takeover and AIG’s recovery, Hank Greenberg and Lawrence Cunningham released “*The AIG Story*,” offering a firsthand account of the building of AIG, its meteoric rise to the top of the financial world, and the crash that followed. In a well-researched and extremely detailed report, Greenberg and Cunningham provide the complete history of AIG, beginning with Greenberg’s introduction to C.V. Starr and ending with the nationalization of AIG in 2008.

This Notice addresses AIG’s remarkable success and recent turmoil. Part I summarizes the book, discussing the rise of AIG from a small insurance operation in Asia to the largest insurance company in the world and Greenberg’s unceremonious ouster later that year. Part II examines AIG after Greenberg’s ouster, its role in the financial crisis, and its subsequent bailout. Finally, Part III discusses how AIG fared following the bailout and whether it can once again rise to the top of the financial world.

THE RISE AND FALL OF AIG

I. Modest Beginnings

The company now known as AIG was founded by C.V. Starr as “American International Underwriters (or AIU), a membership association of U.S. insurance companies that held licenses to underwrite insurance in various countries” (p. 6). Greenberg joined C.V. Starr & Company as Vice President in 1960 (p. 8). His hiring immediately ruffled some feathers, as many executives were angered that Greenberg was hired at the top, without having to work his way up through the AIU or American International Reinsurance Company (AIRCO) (p. 8-9).

*J.D./M.B.A. Candidate, 2015, Maurice A. Deane School of Law/Frank G. Zarb School of Business at Hofstra University.

¹ See ANDREW ROSS SORKIN, TOO BIG TO FAIL 399 (2009).

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

Greenberg's first task as Vice President was to revitalize the struggling American Home Assurance Company (American Home), a member of the AIU (p. 12). As President of American Home, Greenberg changed the company's culture by implementing competitive pricing and challenging other AIU businesses for customers (p. 13-14). The change in culture reflected Greenberg's cardinal principle: "to make a profit by underwriting insurance, not simply relying on the returns from investing premium payments received" (p. 15). This focus on underwriting profit would help AIG succeed while others failed. Greenberg also implemented a profit center model, resolving a long-standing problem in the insurance industry of passing blame to other departments (p. 24-25). The profit center model addressed the problem of accountability by making each department manager responsible for the profit and loss of his or her department (p. 24). In addition, Greenberg pioneered the reinsurance industry (p. 16) and offered new products such as Directors and Officers (D&O) insurance and Errors and Omissions (E&O) insurance (p. 26-27). Through acquisitions, consolidations, mergers, and a changing culture, Greenberg was able to transform American Home into a thriving company, which led to increasing control over the AIU and greater opportunities at C.V. Starr & Company (p. 17).

Based on Greenberg's success in revitalizing American Home, Starr asked him to protect New Hampshire Insurance Company (New Hampshire) from a hostile takeover and to rescue the ailing National Union Fire Insurance Company (National Union) (p. 20-23). Recognizing an "opportunity to expand ownership over AIU members," Greenberg negotiated a compromise that allowed American Home to become a majority shareholder in New Hampshire (p. 20-21). After discovering that National Union suffered from "the same disease he had cured at American Home," Greenberg successfully negotiated the acquisition of National Union by American Home (p. 21-23). For Greenberg, it seemed as though everything he touched turned to gold.

II. American International Group is Born

In August 1968, C.V. Starr appointed Hank Greenberg as his successor, naming him President and CEO of C.V. Starr & Company (p. 33). Later that year, American International Group was born as Greenberg took the first step towards "establish[ing] one substantial company with a strong U.S. identity that would translate into a unique franchise with a defined corporate mission" (p. 37). The new company comprised AIRCO, American Home, National Union, New Hampshire, and American Life Insurance Company (ALICO) (p. 37). The AIU was kept separate from AIG and was renamed Starr International Company (SICO) as a tribute to C.V. Starr (p. 38). SICO's "assets, along with most of C.V. Starr & Company's insurance assets, were then transferred to AIG in exchange for AIG shares" (p. 38-39). As the directors of SICO, Greenberg and other managers were legally entitled to \$110 million, but Greenberg encouraged the directors to leave the money in SICO and use the shares as a way to provide "long-term incentives to AIG employees worldwide" (p. 39-40). The SICO program was similar to what would later be called Employee Stock Ownership Plans (ESOPs) and was one of the first of its kind in corporate America (p. 40).

When speaking about his tenure as CEO of AIG, Greenberg characterizes AIG as a national asset, referring to the value AIG provided to the United States, which extended well

BOOK REVIEW: THE GOLD STANDARD

beyond simply selling insurance (p. 78).² Through AIG's aggressive international strategy, Greenberg developed a global influence unmatched by any other CEO (p. 62). When asked about Greenberg's international influence, former United States Trade Representative Charlene Barshefsky stated, "Greenberg travelled more and knew more foreign dignitaries than nearly any U.S. Secretary of State," a sentiment echoed by former Secretary of State Henry Kissinger (p. 62). AIG truly was a global company in every sense of the term, deriving roughly half of its revenue from overseas markets (p. 80). The United States often relied on these relations when conducting foreign policy (p. 80-81).

At the height of the Cold War, the United States called upon Greenberg and AIG to aid in recovering a lost Soviet Union nuclear submarine carrying "nuclear weapons, codebooks, cryptology, and other Soviet technological secrets of great value to the American side in the Cold War" (p. 63). The Central Intelligence Agency commissioned Howard Hughes to build a vessel that was capable of recovering the submarine at the bottom of the Pacific Ocean (p. 63). However, Hughes was unwilling to build a vessel that cost "more than a billion dollars in today's terms" to attempt such a risky venture without insurance (p. 63-64). AIG agreed to insure the vessel, serving "a pivotal role in an important matter of national security" (p. 64).

Due to AIG's growing business in the Philippines, Greenberg spent over two decades working and developing a relationship with the President of the Philippines, Ferdinand Marcos (p. 114). In 1985, as the situation in the Philippines began to deteriorate, the United States and AIG, both of whom had invested substantially in the region, became concerned about President Marcos' ability to lead the country (p. 117). In order to protect its interests in the region, the United States government asked Greenberg to encourage Marcos to forgo seeking a fourth term in office (p. 117). After dining with Marcos in the presidential palace in the Philippines, Greenberg was unable to convince him to refrain from seeking another term (p. 118). In the end, Marcos won another term, but later renounced the presidency among widespread dissent, cabinet defections, and questioned validity of the election results (p. 118-19).

Greenberg was also influential in the aftermath of September 11, 2001. Pursuant to "typical aviation insurance contracts, the insurer can cancel the policy on seven days' notice, after the occurrence of a designated event, including terrorist acts" (p. 125). Following the terrorist attack, when most insurance companies had cancelled their policies, Greenberg and other insurance CEOs met with President George W. Bush to devise a solution (p. 125). The governments of the United States, Japan, and many European Union countries agreed to provide governmental insurance to the airline industry until the insurance industry could create "an industry-wide pool of capital to supply aviation insurance," keeping planes flying and avoiding a worldwide shutdown (p. 125-26).

III. Downfall of AIG

According to Greenberg, the primary culprit of AIG's failure was the regulation of corporate governance, which resulted in his ouster from AIG and the corresponding decisions by executives largely unfamiliar with AIG's business practices. For the majority of AIG's

² Maurice R. Greenberg, Chairman and CEO of C.V. Starr & Co. Inc. and Starr Ins. Holdings, Address at the Fordham Corporate Law Center Program: *The AIG Story* with Lawrence A. Cunningham and Maurice R. Greenberg (Oct. 9, 2013).

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

history, its Board of Directors was composed of “luminaries who made AIG into the largest insurance company in the world” (p. 149). From the beginning, AIG recognized the importance of influential outside directors, appointing “former cabinet officials, international business executives, foreign service officers, central bankers, and financial accountants” to its Board of Directors (p. 149-50). The composition of the Board of Directors reflected Greenberg’s belief that the most effective directors are those whose interests were aligned with the shareholders (p. 152). As of 2001, AIG’s “management directors owned or controlled, principally through SICO, 500 million AIG shares then worth \$48 billion (of 2.3 billion total shares outstanding)” (p. 152).

In 2000, a trade magazine published an article ranking corporate boards based on “size, ratio of insiders to outsiders, women, minorities, and committee processes” (p. 158). Notable among the characteristics not taken into consideration was financial performance, one of the most important aspects an investor considers when examining potential investments (p. 158). In the article, AIG was ranked as the third-worst board, while Enron was ranked as the third-best, an irony that would be revealed a year later (p. 158). Amidst the Enron and WorldCom scandals, Congress passed the Sarbanes-Oxley Act, which “adopted a one-size-fits-all regime of governance and auditing—including yet more power for outside directors” (p. 158). The passage of Sarbanes-Oxley signaled a fundamental shift in the corporate governance of AIG, creating a rift between the Board of Directors and AIG executives (p. 158-60).

As part of the increased scrutiny on public companies, the Securities and Exchange Commission (SEC) brought a case against AIG for a transaction involving Brightpoint, Inc. (p. 160). The SEC alleged that “Brightpoint had used an AIG insurance policy to disguise \$12 million in business losses” and accused AIG of withholding documents related to the transaction (p. 160). Even though AIG’s law firm, Sullivan & Cromwell, took responsibility for any potential failure to disclose documents, AIG’s Board of Directors, led by the outside directors, encouraged the company to settle the case for \$10 million instead of contesting the allegations (p. 160-61).

In 2004, the SEC scrutinized “a transaction between AIG’s Financial Products division (FP) and PNC Financial Services Group, Inc.” (p. 161). The transaction at issue involved an arrangement between PNC and FP in which “PNC transferred \$762 million of such [nonperforming] assets, removed them from its balance sheet, and paid FP fees of \$40 million” (p. 161). As a result of the transaction, FP would experience the gains and losses associated with the assets PNC transferred (p. 161). AIG consulted its lawyers who “advised [AIG] that it had a strong case but, again, several outside directors were more inclined to settle,” agreeing to pay a fine of \$126 million (p. 161).

When AIG was under siege from the SEC, Greenberg was adamant about defending AIG’s reputation and its employees (p. 163). This is a philosophy shared by some of America’s largest corporations, who are repeat players in the legal system. For example, Wal-Mart and Exxon Mobil fight every legal action, no matter how insignificant.³ Greenberg believed that prior AIG Boards would have mounted vigorous defenses to the Brightpoint and PNC investigations, but the outside directors were content to settle (p. 163).

³ Richard Willing, *Lawsuits a volume business at Wal-Mart*, USA TODAY (Aug. 13, 2001, 11:51 PM), <http://usatoday30.usatoday.com/news/nation/2001/08/14/walmart-usat.htm>. See generally Michael A. Berger, Book Note, *Drill, Spill and Bill: ExxonMobil, A Well Oiled Machine*, 12 J. INT’L BUS. & L. 327 (2013) (reviewing STEVE COLL, *PRIVATE EMPIRE: EXXONMOBIL AND AMERICAN POWER* (2012)).

BOOK REVIEW: THE GOLD STANDARD

As the SEC investigations continued, the problems at AIG were compounded in 2005, when then New York State Attorney General Eliot Spitzer set his sights on Greenberg.⁴ Spitzer began an investigation regarding an alleged fraudulent transaction between AIG and General Reinsurance Co. (p. 173). Instead of proceeding to litigation, Spitzer adopted a “trial-in-the-media strategy,” in which Spitzer used interviews and news broadcasts to prosecute Greenberg in the court of public opinion (p. 174).

As part of AIG’s corporate culture under Greenberg, “if an AIG employee was unjustly prosecuted, AIG mounted a vigorous defense” (p. 160). Unfortunately for Greenberg, AIG’s outside directors did not adopt the same attitude (p. 161-63). While Price Waterhouse Cooper (PwC) was conducting an audit on AIG’s behalf to investigate any potential accounting fraud, PwC executives instructed all the lawyers and AIG employees to “find as many potential accounting anachronisms, errors, or misjudgments as possible, and attribute them to Greenberg” (p. 194). Instead of defending its management, the company took a hard-line approach, directing blame towards Greenberg (p. 194-95). When the audit of AIG was completed, the results were voluntarily turned over to Spitzer, revealing the true nature of the lawsuit. It was not AIG versus Spitzer; “it was AIG and Spitzer against Greenberg” (p. 195).

IV. The Changing of the Guard

On Sunday, March 13, 2005, the AIG Board of Directors requested Greenberg’s resignation from the company he spent a lifetime building (p. 181). Greenberg described his ouster as “[a]n unorthodox hostile takeover of AIG by its outside directors” (p. 187). Under Greenberg, AIG’s stock price increased 19,000%, while the S&P 500 Index increased 700% during the same period (p. xviii). At its peak, AIG had “nearly \$1 trillion in assets and [was] worth \$180 billion” (p. 167). At the time of Greenberg’s departure in 2005, “AIG was the largest life insurance company in the world—and the life business was AIG’s largest segment, enjoying more than \$9 billion in annual earnings from 70 countries through 175,000 agents” (p. 124).

Greenberg’s strategy of encouraging employees to seek out new markets bred AIG’s employees for success. There are at least a dozen AIG executives who “went on to serve as CEOs of other major insurance companies,” which, when adjusted for size, “put AIG among the leading progenitors of CEOs in corporate America, rivaling the likes of larger companies such as General Electric and IBM” (p. 49). AIG was also known for creating influential political figures, including a large number of prominent members of the Philippine government who began their careers at Philamlife, one of AIG’s most profitable subsidiaries (p. 119).

It is hard to imagine that less than four years removed from its peak AIG was on the verge of collapse and required a government takeover to survive. The outside directors did not understand the culture of protecting AIG employees from unjust prosecution. Throughout his career, Greenberg went above and beyond to protect AIG’s employees, but when Greenberg was the one in need of protection, the Board turned its back on him.⁵

⁴ Ben White, *AIG Ex-Chief Cast as Spitzer’s Latest Target*, WASH. POST, Apr. 13, 2005, <http://www.washingtonpost.com/wp-dyn/articles/A48255-2005Apr12.html>.

⁵ While AIG experienced a great deal of success overseas, AIG’s aggressive strategy of opening new markets often put its employees in harm’s way. When AIG employees were injured in the “deadliest fire on record in

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

AIG AFTER GREENBERG

I. The Tumultuous Transition

Still reeling from the forced resignation of its founder and leader, AIG struggled to regain a sense of normalcy. In March 2005, the Board selected Martin Sullivan as Greenberg's replacement, making him the third CEO in AIG's storied history.⁶ Despite the planned succession, Greenberg's exit led to a civil war within AIG.⁷ From the beginning of his tenure, Sullivan was saddled with the looming criminal and civil investigations that forced Greenberg's resignation.⁸

Following Greenberg's dismissal, AIG began increasing FP's operations and dismantling many of the safeguards in place to allow for greater risk taking and larger anticipated profits (p. 230-31). While CEO, Greenberg set up a risk management system that was designed to prevent FP from threatening AIG's AAA credit rating (p. 147-48, 229-30). According to Greenberg, AIG had the best risk management system in the United States.⁹ Not only did the company have formal meetings once a week to discuss FP's risks, but AIG managers and auditors closely scrutinized every trade FP made on a real-time basis (p. 147). Under Greenberg, AIG also limited FP to writing credit default swaps (CDS) to "blue-chip American corporations or European banks whose credit was also rated AAA" (p. 230-31). As these safeguards were dismantled, the percentage of CDS written on subprime mortgage pools increased from two to ten percent (2-10%) to ninety to ninety-five percent (90-95%), which resulted in "nearly \$80 billion of swaps on the riskiest mortgage pools, quintupling its 2005 position, all unhedged" (p. 231).

Sullivan and Greenberg, two men who once enjoyed a mentor-mentee relationship, were engaged in multiple lawsuits and competing for business.¹⁰ After being removed from AIG, Greenberg assumed control of the three AIG affiliates for which he served as CEO (SICO, C.V. Starr & Company, and the Starr Foundation) and began separating these entities from AIG.¹¹ Fighting state and federal investigations on one front and a vengeful Wall Street

Vietnam's largest city," AIG flew doctors from the United States to Vietnam to aid its injured employees and their families (p. 77). Following the Iranian Revolution of 1979, "the Iranians accused [an AIG manager] of being a spy for the CIA and asserted that Greenberg was the director of CIA operations in the Middle East" (p. 69). Since the United States' government was dealing with the Iranian Hostage Crisis, there was little it could do to help the detained AIG manager (p.69-70). Greenberg worked tirelessly to rescue the manager from custody (p. 69-70). In a similar situation, after AIG's business was seized in Nigeria, Louis D. LeFevre, the general manager, was taken into custody (p. 58). After speaking with a representative in the Secretary of State's office, Greenberg convinced President Carter's office to bring an insurance representative on President Carter's next scheduled trip to Nigeria to orchestrate the release of LeFevre (p. 58).

⁶ Zachary Tracer, *AIG Bailout Ends Four Years After Two-Year Plan: Timeline*, BLOOMBERG (Dec. 11, 2012, 9:36 AM), <http://www.bloomberg.com/news/2012-12-11/aig-bailout-ends-four-years-after-two-year-plan-timeline.html>.

⁷ Anthony Bianco, *A.I.G. Chief Can't Stop Looking Over His Shoulder*, N.Y. TIMES, Feb. 3, 2008, http://www.nytimes.com/2008/02/03/business/03sully.html?pagewanted=all&_r=0.

⁸ *Id.*

⁹ Greenberg, *supra* note 2.

¹⁰ Bianco, *supra* note 7. After working together for over thirty-five years, Greenberg went as far as openly questioning "his successor's managerial ability, his entrepreneurial verve, his educational credentials and even his nationality." *Id.*

¹¹ *Id.* Separating the AIG affiliates from AIG was difficult since "[t]he Starr agencies long had been part of A.I.G. in all but name." *Id.* The separation process involved removing Sullivan and other AIG executives from

BOOK REVIEW: THE GOLD STANDARD

titan on another, Sullivan opted to settle the state and federal allegations by paying a \$1.64 billion fine.¹² Despite Greenberg's threatened proxy fight for control of the company, "A.I.G. rebounded nicely in 2006, Mr. Sullivan's first full year as C.E.O., posting a record \$14.05 billion in net income—34 percent more than the previous year."¹³ The first half of 2007 also proved promising for AIG as the stock price hit a fifty-two-week high, up almost eighteen percent (18%) from the day Sullivan assumed the role of CEO.¹⁴

Unfortunately, just as AIG was beginning to stabilize from the allegation of accounting fraud and the tumultuous transition that nearly upended the company, the bottom would fall out as the value of subprime mortgages collapsed.¹⁵ As the economy began to slow, AIG executives remained oblivious to FP's risks, publicly defending AIG's strength and the unlikelihood of experiencing losses on CDS contracts. When asked about the risk facing AIG, Chief Risk Officer Robert Lewis posited, "[i]t would take declines in housing values to reach depression proportions, along with default frequencies never experienced, before AAA and AA investments would be impaired" (p. 234). In a similar statement of confidence, the head of FP, Joseph Cassano, stated "[i]t is hard for us, without being flippant, to even see a scenario within any kind of realm or reason that would see us losing \$1 in any of those transactions" (p. 234).

Approximately six months later, AIG reported derivative losses associated with the CDS contracts totaling \$11.1 billion.¹⁶ As the value of mortgages continued to decline, the insurance owed to AIG's counterparties continued to increase and AIG found itself in a downward spiral.¹⁷ Throughout 2008, the problems at AIG worsened as the market continued to decline and AIG was forced to make increasingly larger collateral calls to its counterparties.¹⁸ After serving as CEO for slightly over three years, Sullivan stepped down after two straight quarters of record losses, including "the worst results in [AIG's] 89-year history."¹⁹

SICO's Board of Directors and eliminating the employee compensation plans paid to AIG employees from SICO. *Id.*

¹² Tracer, *supra* note 6. Based on the allegations against Greenberg involving accounting fraud, Spitzer was threatening AIG with an indictment, which would have been "a likely death sentence for America's ninth-largest company by revenue." Bianco, *supra* note 7. Sullivan immediately gained favor with AIG shareholders as he "ushered AIG through the difficult process of reaching a settlement with regulators, paying \$1.64 billion to settle charges of fraud, bid rigging and improper accounting, one of the largest regulatory settlements in U.S. history." Lilla Zuill, *Willumstad Replaces Sullivan as AIG CEO*, INS. J. (June 16, 2008), <http://www.insurancejournal.com/news/national/2008/06/16/91004.htm>. See Tracer, *supra* note 6.

¹³ Bianco, *supra* note 7. Approximately six months after being forced out of AIG, Greenberg notified the SEC that he was initiating "a proxy fight to unseat Mr. Sullivan and certain directors." *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ Tracer, *supra* note 6.

¹⁷ *Factors Affecting Efforts to Limit Payments to AIG Counterparties: Hearing Before the H. Comm. on Gov't Oversight and Reform*, 111th Cong. 7 (2010) (statement of Thomas C. Baxter Jr., Executive Vice President and General Counsel, Federal Reserve Bank of New York).

¹⁸ *Id.*

¹⁹ Zuill, *supra* note 12.

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

II. Three CEOs in One Year

In June 2008, Sullivan was replaced with Robert Willumstad, who formerly served as the Chief Operating Officer at Citigroup and had been serving on AIG's Board since 2006.²⁰ At first, Willumstad was hesitant to accept the position, but after some convincing he decided to accept the Board's nomination.²¹

Willumstad immediately went to the Federal Reserve to seek access to the Federal Reserve's discount window.²² By the time AIG received a bailout, Willumstad had approached Timothy Geithner multiple times requesting access to the discount window.²³ Despite the Federal Reserve opening the discount window to international banks and other non-financial institutions, Willumstad was rebuffed each time (p. 244).²⁴ The message was clear: "There would be no public money for AIG."²⁵

As AIG continued to receive collateral calls on its subprime holdings, Willumstad scrambled to find a solution (p. 245). The credit agencies began threatening to downgrade AIG if it could not meet growing collateral calls.²⁶ Willumstad "managed to convince the agencies to hold off on a downgrade while he approached high-profile investors for assistance."²⁷ In order to shore up AIG's balance sheet without access to the discount window, Willumstad sought out private market solutions and negotiated with AIG's counterparties to reduce the collateral calls, all to no avail.²⁸ On September 15, 2008, Lehman Brothers entered bankruptcy, making it the largest bankruptcy in United States' history, sending the already fragile markets into a panic.²⁹ The Dow Jones Industrial Average saw its largest one-day drop in history, and AIG's stock price plunged over sixty percent (60%).³⁰ At that point, "nobody would lend AIG lunch money."³¹

With nowhere else to turn and only "minutes away from bankruptcy,"³² the government stepped in to prevent AIG from failing (p. 246). However, the government was unwilling to negotiate and offered a take-it-or-leave-it deal, resulting in the effective nationalization of AIG (p. 255). As the authors note, "Americans recoil at government assistance to failed private enterprise, though such incidents recur in U.S. economic history" (p. 244). In the last few decades, the government has orchestrated the bailout of "the Chrysler Corporation of the late 1970s, the savings-and-loan industry in the 1980s, and both the automotive and financial sector in 2008-2009" (p. 244-45). However, the AIG bailout was different because the "government made AIG the 'poster child' for the unpopularity of

²⁰ *Id.*; Lauren Tara LaCapra, *AIG Ex-CEO Breaks Down the Final Days*, STREET (Sept. 25, 2009, 1:39 PM), <http://www.thestreet.com/story/10603344/1/aig-ex-cco-breaks-down-the-final-days.html>.

²¹ LaCapra, *supra* note 20.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Case Study: The Collapse of Lehman Brothers*, INVESTOPEDIA (Apr. 2, 2009), <http://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp#axzz29wkTvZWa>.

³⁰ LaCapra, *supra* note 20.

³¹ *Id.*

³² SORKIN, *supra* note 1, at 399.

BOOK REVIEW: THE GOLD STANDARD

bailouts while also imposing the most punishing terms imaginable unlike those imposed on any other financial institution” (p. 245).

On September 16, 2008, AIG was offered a bailout on terms that were “mandatory, nonnegotiable, and punishing” (p. 246). The terms required that

[t]he government would take 79.9 percent of AIG’s ownership, initially in the form of a new preferred stock that could be issued quickly and massively dilute existing common shareholders; separately, it would also lend \$85 billion, at a 14 percent annual rate, vastly exceeding the prevailing market interest rate of 1.5 percent, fully secured by 100 percent of AIG’s assets and to be repaid within two years.

(p. 246).

As the deal was laid out, AIG was required to pay “100 cents on the dollar to every one of FP’s 16 largest financial product customers, a clique of Wall Street firms and foreign banks, led by Goldman Sachs” (p. 249). Greenberg viewed this arrangement, which was contrary to every other bailout offered by the government, as a backdoor bailout to the rest of Wall Street (p. 247-50). In fact, Greenberg and Cunningham explain that two of AIG’s customers had offered to take a discount, making the terms less stringent on AIG, but the Federal Reserve insisted they be paid 100 cents on the dollar (p. 249-50).³³

The final part of the deal was that Robert Willumstad resign as CEO of AIG and be replaced by Edward Liddy, the man Geithner and Henry Paulson had chosen to lead AIG through the bailout (p. 247). After possibly the shortest and most tumultuous tenure in American CEO history, Willumstad resigned from AIG, serving as CEO for only ninety-one days.³⁴ On September 18, 2008, Edward Liddy became the new CEO of AIG.³⁵ The benefit of appointing Liddy was that he was an outsider at AIG and had not been involved in any of the decisions that plagued AIG, such as the accounting fraud and, more recently, the subprime investments.³⁶ Despite being appointed to rescue AIG from the poor decisions of his predecessors, Liddy was vilified almost as soon as he took over.³⁷ Shortly after taking over, AIG suffered one of its worst quarters ever, posting a loss of \$61 billion.³⁸ The loss was compounded by news of the lavish conferences and multimillion-dollar retention bonuses executives at AIG were paid, which drew the ire of Congress and sparked public outrage.³⁹ No one could believe that the people who caused the worst financial crisis since the Great Depression were being paid millions of dollars in bonuses with taxpayer money.⁴⁰ Even though the commitments were made by Liddy’s predecessors, he was criticized for honoring

³³ As part of the deal, AIG “transferred \$63 billion of funds nominally at AIG’s disposal to the following banks, with no strings attached: Société Générale \$16.5 billion; Goldman Sachs \$14 billion; Deutsche Bank \$8.5 billion; Merrill Lynch \$6.2 billion; Calyon \$4.3 billion; UBS \$3.8 billion; and another 10 at an average of \$1 billion each” (p. 250).

³⁴ LaCapra, *supra* note 20.

³⁵ Tracer, *supra* note 6.

³⁶ Douglas A. McIntyre, *Behind Ed Liddy’s Departure from AIG*, TIME (May 22, 2009), <http://content.time.com/time/business/article/0,8599,1900429,00.html>.

³⁷ *Id.*

³⁸ *Id.*

³⁹ Joseph Weber, *Liddy on AIG’s Long Road Ahead*, BLOOMBERG BUSINESSWEEK (Mar. 23, 2009), http://www.businessweek.com/managing/content/mar2009/ca20090320_802549.htm.

⁴⁰ McIntyre, *supra* note 36.

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

the extravagant bonuses.⁴¹ Liddy attempted to argue that the traders were needed to successfully unwind AIG's positions in complex derivatives, but the arguments were unreceptive on Capitol Hill.⁴²

As Liddy attempted to sell some of AIG's more profitable subsidiaries to repay the government, potential buyers were either struggling themselves or attempting to take advantage of AIG's weakened position by low-balling AIG on the value of its subsidiaries.⁴³ In August 2009, AIG posted "its first profit in seven quarters."⁴⁴ As AIG began to stabilize, Liddy decided to resign as CEO of AIG. He was replaced by AIG's fifth CEO in less than five years, Robert Benmosche.⁴⁵

THE FUTURE OF AIG

Robert Benmosche, formerly the CEO of MetLife, Inc., came out of retirement to guide AIG through the government takeover.⁴⁶ Benmosche's abrasive and outspoken personality was immediately on display.⁴⁷ When contacted by the AIG Board of Directors about becoming the new CEO, Benmosche negotiated a \$10 million compensation package and an immediate vacation to oversee the harvest of his vineyard. This was a far cry from the \$1 salary Edward Liddy earned during his tenure at AIG.⁴⁸

When Benmosche took over for Edward Liddy, AIG had stabilized, but remained predominately owned by the government.⁴⁹ In order to repay the government, AIG would have to divest a substantial portion of its assets, which included selling subsidiaries Greenberg spent years acquiring (p. 256-57). Shortly after the government takeover of AIG, the government began selling AIG's assets at heavily discounted prices, requiring the sale of more assets (p. 256). As the government continued to sell assets, AIG's sources of revenue dwindled, prompting "some experts to wonder whether, as structured, AIG could ever repay the government's loans and escape its clutch" (p. 256). Among the assets sold were American International Assurance Company (AIG's "flagship Asian insurance company that was among AIG's most valuable assets"),⁵⁰ Philamlife, ALICO, the investment in Blackstone Group, International Lease Finance Corporation (ILFC), and "[m]ost of AIG's iconic

⁴¹ *Id.*

⁴² *Id.*

⁴³ Weber, *supra* note 39.

⁴⁴ Tracer, *supra* note 6.

⁴⁵ *Id.*

⁴⁶ Leslic Scism, *Benmosche Keeps AIG on Course*, WALL ST. J., Sept. 21-22, 2013, at B1 [hereinafter Scism, *Benmosche Keeps AIG on Course*].

⁴⁷ Leslic P. Norton, *The Man Who Saved AIG*, BARRON'S, Aug. 13, 2012, at 14.

⁴⁸ *Id.*

⁴⁹ Tracer, *supra* note 6.

⁵⁰ AIG sold American International Assurance Company through an IPO in Hong Kong, which raised approximately \$20.5 billion. *Id.*

BOOK REVIEW: THE GOLD STANDARD

buildings around the world” (p. 256-57).⁵¹ In addition to selling many of its assets, AIG wound down FP and renamed some of its brands to avoid the stigma associated with AIG.⁵²

As AIG returned to profitability and the stock price began to rise, the government gradually sold its shares, recouping its investment in AIG and returning the company to public ownership.⁵³ On December 11, 2012, the United States government sold the last 234 million shares of AIG, “ending the controversial bailout of the insurance giant with a \$22.7 billion profit.”⁵⁴ Robert Benmosche described the sale as “one of the most extraordinary—and what many believed to be the most unlikely—turnarounds in American business history.”⁵⁵ As a result of AIG’s success, the government was able to close the doors on one of the largest bailouts in American history sooner than expected.⁵⁶

Despite AIG’s return to profitability, it still remains far below its 2005 peak under the direction of Greenberg, and is still dramatically different than in December 2007, on the eve of the government takeover.⁵⁷ At roughly half its pre-crisis size, Robert Benmosche believes “AIG is a fundamentally different, simpler company than it was three years ago.”⁵⁸ New regulations have been put in place to avoid the types of risks associated with FP and eight Federal Reserve employees have been placed at AIG to monitor risk and ensure “history doesn’t repeat itself at AIG.”⁵⁹

After dominating the insurance industry for the majority of its existence, AIG is now under siege, struggling to maintain control over its market share and key employees.⁶⁰ As AIG began to regain its footing, Berkshire Hathaway entered the excess-and-surplus

⁵¹ After being transferred to the federal government in December 2009, ALICO was sold four months later to MetLife Inc. for \$16 billion. *Id.*

⁵² Norton, *supra* note 47, at 15; Weber, *supra* note 39. While acting as CEO, Edward Liddy even considered renaming the entire company, believing the name “AIG” was so despised among the public, customers would steer clear of purchasing insurance from the company. *Id.*

⁵³ Jim Puzzanghera, *Sale of last AIG shares brings U.S. bailout profit to \$22.7 billion*, L.A. TIMES (Dec. 11, 2012), <http://articles.latimes.com/2012/dec/11/business/la-fi-mo-aig-bailout-treasury-department-20121211>.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ Scism, *Benmosche Keeps AIG on Course*, *supra* note 46. After completing the sale of the government’s last AIG shares, the Treasury Department released a statement summarizing AIG’s progress, “[s]ince the financial crisis, AIG has undertaken a dramatic restructuring effort, which put it in a stronger position to repay taxpayers. The size of the company has been cut nearly in half as it sold non-core assets and focused on its core insurance operations. AIG’s Financial Products unit (AIGFP) is continuing to be wound down and has cut its legacy derivatives exposure by more than 93 percent to date.” *Investment in AIG*, U.S. DEP’T TREASURY, <http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/aig/Pages/status.aspx> (last updated Dec. 9, 2013, 4:55 PM).

⁵⁸ Leslie Scism, *Dividend Restored At AIG*, WALL ST. J., Aug. 2, 2013, at C2; Scism, *Benmosche Keeps AIG on Course*, *supra* note 46. In the five years since the government takeover, AIG has scaled back its risk by decreasing the number of employees and selling off many of its major subsidiaries. These actions resulted in declining annual revenue, total assets, and stock-market capitalization, in an effort to shore up its long term stability and prosperity. *Id.* Annual revenues and total assets have been roughly cut in half, declining from \$110.1 billion to \$65.7 billion and \$1.1 trillion to \$548.6 billion, respectively. *Id.* Stock-market capitalization has taken a larger hit, representing roughly one-third of its value in 2007 (\$147.5 billion vs. \$52.1 billion). *Id.* In addition, AIG has also cut its employment by over half, reducing its number of employees from 116,000 to 63,000. *Id.*

⁵⁹ Scism, *Benmosche Keeps AIG on Course*, *supra* note 46.

⁶⁰ Leslie Scism & Anupreeta Das, *As Berkshire Plants Flag, AIG Chafes*, WALL ST. J., Sept. 13, 2013, at C1.

THE JOURNAL OF INTERNATIONAL BUSINESS & LAW

insurance market, which is “one of AIG’s most profitable businesses.”⁶¹ Berkshire Hathaway’s entrance into the new market came after hiring four AIG senior executives.⁶² In addition, Greenberg poached many AIG managers who have since left AIG and joined him at Starr Companies.⁶³ Defections are hardly a new phenomenon at AIG, as over forty insurance executives have left for rival insurance companies since 2008 amid concerns over bonuses and AIG’s ability to repay taxpayers.⁶⁴

When Benmosche joined AIG in August 2009, he planned to stay on as CEO through 2012.⁶⁵ In December 2011, Benmosche notified the Board of Directors that, despite suffering from cancer, he intended to continue leading AIG.⁶⁶ Five years after receiving one of the largest government bailouts in history, AIG has returned to profitability and Benmosche believes AIG’s employees “can make [AIG] the largest and most valuable insurance company in the world again.”⁶⁷

CONCLUSION

In a period of less than four years, AIG went from the largest insurance company in the history of the world to the brink of collapse, only to be rescued by the U.S. government. After such a controversial bailout, critics questioned the Federal Reserve’s decisions regarding AIG. In fact, Paulson admitted in his memoirs that he questioned his and Geithner’s decisions, believing their actions were on “shaky ground” (p. 255).

The stark contrast between Greenberg’s vision for AIG and the way AIG’s new management ran the company caused experts to question whether the crisis would have unfolded the same way had Greenberg still been at the helm (p. 240). In an interview, John J. Byrne, an insurance executive who served as the CEO of GEICO, White Mountains Insurance Group, and Fireman’s Fund, stated:

Hank Greenberg was the most amazing manager I ever saw. Just by dint of his personality and his fierce drive he turned AIG from a medium sized company into a giant, until the day it wasn’t a giant anymore. It is quite remarkable the story of how AIG grew and grew, spread its tentacles around the world and developed enormous relationships. The end result was they forced Greenberg out and brought the company down. I continue to believe that if Hank had been there for the last five years he never would have let the risks taken on by those derivative traders get so out of hand.

(p. 240-41).

Based on the principles with which AIG was founded, Greenberg is now in the process of building Starr Companies into an international insurance company servicing all

⁶¹ *Id.*

⁶² *Id.*; Andrew Simpson & Young Ha, ‘Business As Usual’ Following Departures of AIG Execs, *INS. J.* (Apr. 29, 2013), <http://www.insurancejournal.com/news/national/2013/04/29/290069.htm>.

⁶³ Leslie Scism, *At 88, Former AIG Boss Is Building a New Empire*, *WALL ST. J.*, July 6-7, 2013, at A1.

⁶⁴ Dave Lenckus, *Rivals snatch AIG Staff as uncertainty lingers*, *BUS. INS.* (Nov. 2, 2008, 6:00 AM), <http://www.businessinsurance.com/apps/pbcs.dll/article?AID=9999100026381>.

⁶⁵ Serena Ng, *AIG’s Benmosche Extends His Stay*, *WALL ST. J.*, Dec. 23, 2011, at C1.

⁶⁶ *Id.*

⁶⁷ Norton, *supra* note 47, at 15.

BOOK REVIEW: THE GOLD STANDARD

lines of insurance (p. xx). In the aftermath of AIG's nationalization, Greenberg, on behalf of SICO, filed a lawsuit against the government alleging a violation of the Fifth Amendment Takings Clause, seeking just compensation for the taking of a 79.9% interest in AIG.⁶⁸ As for AIG, whether it regains its status at the top of the financial world remains to be seen.

⁶⁸ See generally Matthew J. Berger, Note, *Biting the Hand that Feeds: The Takings Clause and AIG*, 12 J. INT'L BUS. & L. 341 (2013) (analyzing the merits of *Starr Int'l Co., Inc. v. United States*).

