

AIG Consumer FAQ

Is AIG going bankrupt? I have an insurance policy with AIG. How does this impact me?

AIG is an international financial holding company with businesses ranging from aircraft leasing through investment services through insurance. The policy you hold is written by an insurance company that is an operating subsidiary of AIG. Those insurance companies are financially sound. State insurance regulators and federal regulators, in cooperation with the new management of AIG, are taking steps to make sure that insurance customers of AIG subsidiaries are protected.

Will the AIG insurance companies be able to pay claims?

In short, yes. The AIG affiliated insurance companies are financially solvent and able to pay claims. The financial issues facing AIG are occurring because of investments in risky mortgage-backed securities by the parent company. The Federal Reserve is basically extending a line of credit to the parent company to help it work through these issues.

What are state regulators doing to make sure AIG insurance companies can continue to pay claims?

State insurance regulators are closely monitoring the financial condition of the AIG affiliated insurance companies and are reviewing any activity at the parent company that impacts insurance company assets. Any significant transaction impacting an AIG insurance company, including sale of the company, is subject to state regulator approval.

What happens if AIG affiliated insurance companies get into financial trouble?

State regulators have a variety of tools available if it appears that an insurer is not going to be able to fulfill its promises to policyholders. Your state regulator can take over management of an insurer through conservation or rehabilitation. Even if liquidation of an insurance company is necessary, policyholder claims will generally be paid either by the insurance company or by a guaranty fund, which all states have in place to provide coverage to policyholders.

Are the insurance and annuity policies I purchased from AIG safe — or am I going to lose my money?

Your policies are safe. AIG's insurance companies are financially strong and fully able to honor all policyholders' claims. Your state's insurance department will continue to closely monitor the situation to ensure policyholders are protected and that there will continue to be sufficient assets to pay claims.

AIG Consumer FAQ (Cont'd)

I own an AIG American General fixed annuity. Is that protected by state insurance solvency standards in the same way that insurance policies are?

Yes. Fixed annuities are considered a type of life insurance, and as such are protected by the same solvency and guaranty framework as traditional life insurance. If at some point in the future AIG insurance companies or their assets and blocks of business are sold, fixed annuity-holders should experience no changes to the way their policies are administered — other than the fact that their correspondence may come from a different company. This is not unique to AIG; insurance companies are bought and sold everyday. Your benefits as defined in the original annuity contract remain the same in a sale.

Should I cash in my insurance and annuity policies and purchase insurance from another insurer?

As stated above, the AIG insurance companies are financially strong so your policies are not in jeopardy. Whether you should cash in your insurance policy or switch insurance to another insurer is, as always, a personal decision. Please be aware that some policies may contain surrender charges and/or cancellation penalties. Contact your state insurance department to find out all the information your agent or broker should give you before you make a decision. Talk to your financial adviser before making any decisions. If you have any insurance policy with an AIG company and someone tells you to replace it because of the troubles at AIG's parent company or supposed trouble at the insurance company, call you state insurance department.

Should I pay the insurance premium bill that I just received from AIG?

Yes, in order for your coverage with AIG to continue, you will need to pay the insurance premiums. Failure to pay your premiums can result in the termination of your insurance policies by the insurance company.

Would my insurance and annuity policies have been protected had AIG been declared insolvent and ordered to be liquidated by a court?

There are guaranty funds in place in all states which act as a safety net in the event an insurer becomes insolvent. You may obtain information about your state's guaranty funds by contacting your state insurance department.

AIG Consumer FAQ (Cont'd)

I heard the government might take over AIG. What are state regulators doing to make sure AIG insurance companies will continue to be able to pay claims?

The agreement between AIG and the Federal Reserve protects the assets of the insurance companies so they will be available to pay claims. Any significant transaction affecting an AIG insurance company will need approval from state regulators.

How can I check on the financial status of a specific AIG insurance subsidiary?

You can search for each individual AIG subsidiary using the NAIC's Consumer Information Source (CIS). Here you will find financial information specific to the company, as well as complaint data and licensing information. [www.naic.org/cis/index.do]

Who do I call if I have questions about my AIG policy?

Contact your state insurance regulator by clicking on your state on the NAIC's map of state insurance department Web sites. [www.naic.org/state_web_map.htm]

What can I do if I am having difficulty getting through to AIG on the telephone?

You may obtain information about filing a complaint through your state insurance department or through the NAIC Consumer Information Source (CIS).

[www.naic.org/state_web_map.htm] or [www.naic.org/cis/index.do]

AIG Solvency FAQ

U.S. Solvency Regulation of Insurers: An Overview

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. insurance entities 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.

Recognizing the need for insurers to be able to weather difficult times, insurance regulators have a variety of tools in place to protect the financial solvency of companies, and thus protect consumers, including:

- ♣ Accounting rules that are conservative to minimize risk to consumers because they:
 - Restrict balance sheet recognition of assets that do not meet a conservative definition or exception; and
 - Include reserving (liability) requirements that typically require more monies to be set aside for life policyholder claims than are actually expected to be paid.
- ♣ Annual audits from an independent certified public accountant of the insurer's financials.
- ♣ Annual actuarial opinion from a qualified actuary on reasonableness/adequacy of reserves.
- ♣ Investment regulations that limit investment risk exposure per issuer and by category.
- ♣ Minimum capital and surplus requirements that include a "cushion" for stress situations.
- ♣ Regular, periodic review of insurer financials and other analytical tools to screen for trouble.
- ♣ On-site examination of insurers at least once every five years; more frequently as needed.

Insurers hold capital in much greater amounts than the minimum solvency requirements for regulatory purposes to meet their own business purposes and needs.

Due to the solvency standards enforced by state regulators, insurers are able to handle greater losses than other parts of the financial sector in down market cycles.

- ♣ Large dollar amounts of losses for insurers of significant size can sometimes be difficult for consumers to witness without concern.
- ♣ However, no insurer is able to withstand "the perfect storm" of investment, liquidity, operational, underwriting and other risks triggering against the company at the same time.

AIG Solvency FAQ (Cont'd)

U.S. Solvency Regulation of Insurers: The Result

The state regulatory system is sometimes criticized for its conservative accounting and capital requirements today; requiring an insurer to hold even more capital to withstand the perfect storm would make it impossible for most insurers to be in the insurance business.

AIG insurers are currently solvent.

- ♣ The stressors impacting the AIG financial holding company were primarily generated by the positions in credit derivative swaps on mortgage backed securities taken by the financial services sector (investment banks, etc.).
- ♣ Selling the solid quality books of business and the assets of the insurance subsidiaries will be the means by which money will be raised in an attempt to return the ultimate AIG parent company to a sound financial position.

Share price is a significant indicator for financial markets and rating agency ratings of insurers.

- ♣ However, a declining share price does not mean that a policyholder's coverage has suddenly deteriorated or that an insurer is no longer solvent and able to pay claims.

Rating agency actions do not directly impact the solvency of an insurer.

- ♣ The rating agency looks at the company and says that the amount held in capital today is no longer enough given the market impacts (e.g., share price drop and losses taken).
- ♣ The change in rating does lessen the funds available to the insurer for ongoing operations; and the funds that are available will be at a significantly higher cost to the insurer.
- ♣ For some types of P&C business, a low rating can impact the ability to renew business, as well.
- ♣ If the rating change is drastic, the duration of these problems persists for a long period of time, etc., an insurer might need to be considered for various intervention and/or delinquency proceedings by the state insurance regulator, such as conservation, rehabilitation and/or liquidation.

AIG Solvency FAQ (Cont'd)

U.S. Solvency Regulation of Insurers: The Result

State insurance regulators have numerous actions they can take to prevent an insurer from failing:

- ♣ Conservation
 - Conservation is when the insurance regulator takes over the operations of an insurance company to conserve assets for the benefit of policyholders, creditors, and other persons interested in the assets of the company.
 - One of the regulator's main duties is to conduct a thorough examination of the insurance company's books and records to determine whether the company can be rehabilitated.
- ♣ Rehabilitation
 - Rehabilitation generally involves the regulator initiating a plan to return the company to a sound financial and operational condition.
 - If efforts are not successful, then the state would place the insurer in liquidation.
- ♣ Liquidation
 - The liquidation process ordinarily includes the seizure, marshalling and liquidation of the company's assets and distribution of those assets to claimants with approved claims.
 - If assets are not adequate to fully satisfy approved claims, the guaranty associations provide additional claims payments up to specific state coverage and limitation statutes — similar to FDIC coverage for bank accounts.
 - In liquidation, claims from individual policyholders are given the utmost priority over other creditors.

In the unlikely event that assets are not enough to cover 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.
- ♣ Property/Casualty: National Conference of Insurance Guaranty Funds [www.ncigf.org]
- ♣ Life/Health: National Organization of Life and Health Insurance Guaranty Associations [www.nolhga.com]

AIG Regulatory FAQ

State Regulatory Response: Quick, Coordinated, Decisive

It is a state insurance regulator's responsibility to protect policyholders and ensure a healthy, competitive market for insurance products.

- ♣ Strict solvency standards and keen financial oversight — based on conservative investment and accounting rules — continue to be the bedrock of state-based insurance regulation

As always, the primary concern of state regulators is the continuing ability of insurance companies to meet consumer expectations and pay claims.

- ♣ The 71 state-regulated insurance companies within AIG did not receive a bailout; they are financially solvent.
- ♣ The federal bailout of the non-insurance portions of AIG does not negatively change the solvency strength of its insurance subsidiaries.

State insurance regulators have done what we do best.

- ♣ We worked together — under the leadership of New York State Insurance Superintendent Eric Dinallo and Pennsylvania Insurance Commissioner Joel Ario.
- ♣ No. 1 priority: To ensure that the AIG insurance companies, and the consumers they serve, were not harmed by the financial troubles of the parent company.

In discussions with AIG and the federal government:

- ♣ Our top priority was to take whatever steps necessary to protect the ability of the AIG insurance company subsidiaries to pay claims; and
- ♣ To assist the federal government in their efforts to stabilize the broader market.

State insurance regulators are committed to continuing to work cooperatively and collaboratively.

- ♣ We will work with each other — as well as with AIG, its insurance company affiliates and the federal government — as any necessary sales of AIG insurance assets proceed.
- ♣ We will evaluate any potential transactions made during this process, with the ultimate goal of ensuring that policyholders remain protected.

AIG Regulatory FAQ (Cont'd)

State Regulatory Response: Quick, Coordinated, Decisive

In the wake of news that the non-insurance parent company of American International Group (AIG) was 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 \$85 billion credit facility offered by the Federal Reserve.

The NAIC has established a task force and two working group to oversee AIG insurance interests in this financial situation and to coordinate with federal regulators as needed.

- ♣ AIG Special (EX) Task Force
 - Chair: New York State Insurance Superintendent Eric Dinallo
 - Vice Chair: Pennsylvania Insurance Commissioner Joel Ario
- ♣ AIG Life Working Group
- ♣ Form A Working Group

AIG Political FAQ

Does This Situation Call for a Federal Insurance Regulator?

Capitol Hill proponents of a national insurance regulator aren't losing any time in exploiting American International Group's federal bailout to justify stripping states of their regulatory authority over the business of insurance.

This argument is fundamentally flawed because it is based on a totally inaccurate assumption of facts. First and foremost, AIG is not an insurance company; it is a federally-regulated holding company under the jurisdiction of a federal regulator. It is AIG's holding company — more specifically, its financial products division — that lies at the heart of AIG's financial difficulties. And, its problems arose under the watch of a federal regulator.

AIG's 71 state-regulated insurance companies are financially sound. They have the capital to honor the promises they've made to policyholders and, as the "crown jewels" of the holding company, their assets are the basis for the Federal Reserve's extension of credit. These entities are all regulated by individual state insurance regulators.

This regulatory success reflects fiscally conservative state solvency regulation and state consumer-protection laws — laws that place the interests of policyholders before those of stockholders and company management. As state officials, we intend to keep protecting consumers and ensure that the financial troubles of the parent company do not adversely affect AIG's insurance subsidiaries.

On Capitol Hill, proponents of federal insurance regulation are supported by large insurers who seek the same level of oversight as the investment and commercial banks that are at the heart of most of the broader market turmoil. Unfortunately, these special interest groups seem intent on reducing insurance regulatory oversight — which has, time and again, proved to provide appropriate consumer protections — for their own economic ends. That's how we got into this mess.

They easily forget that for more than a century, the conservative accounting treatment, restrictions on derivatives activities, and limits on investment concentrations employed by state insurance regulators have proved their value — especially in regard to AIG's insurance subsidiaries.

The proposal to create a federal insurance regulator is a solution in search of a problem. Let's let state insurance regulators continue delivering excellent oversight, with the protection of policyholders and the nation's financial system remaining our top priority.

AIG Regulatory FAQ

What are The Facts?

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. Here 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.

AIG Regulatory FAQ (Cont'd)

What Are the Facts?

- ♣ 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 are available for the protection of policyholders and claimants.

AIG Regulatory FAQ (Cont'd)

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.