

A.I.G. Is Expected to Offer \$1.6 Billion to Settle With Regulators

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[American International Group](#), the insurance giant, is expected to announce a settlement with federal and state regulators later this week that will require the company to pay about \$1.6 billion to settle charges covering a wide range of regulatory issues, according to two people briefed on the negotiations.

The regulators have been looking into violations at A.I.G. that they say included improper accounting, bid-rigging and skipped payments to state workers' compensation funds.

The settlement, which has been widely anticipated, would close a chapter in the recent troubled history of A.I.G., which has been under scrutiny by the Securities and Exchange Commission for more than four years and the New York attorney general since early 2004. The company still faces shareholder lawsuits.

The settlement is not expected to ban contingent commissions, which are payments for steering insurance contracts to certain companies. This industry practice was highlighted in an investigation of bid-rigging by [Eliot Spitzer](#), the New York attorney general. But it is likely to require A.I.G. to make more complete disclosures about such payments in the future.

The deal is still subject to approval by the S.E.C., one of the people briefed on the investigation said. The \$1.6 billion is expected to be divided between the two regulators, who may then pass much of it on to aggrieved investors, A.I.G. clients who were harmed and state workers' compensation funds.

Many of the problems cited by regulators occurred during the watch of [Maurice R. Greenberg](#), who was ousted as A.I.G.'s chairman and chief executive last March and who has denied all wrongdoing.

"Shareholders lose when companies choose to settle investigations motivated by political ambition, fueled by threats and settled out of fear," said Howard Opinsky, a spokesman for Mr. Greenberg, in response to questions about the tentative settlement.

"Even if all the allegations were to be believed," Mr. Opinsky said, "a settlement of this magnitude is merely a political trophy for the attorney general and totally disproportionate to the impact of the alleged misconduct."

Chris Winans, a spokesman for A.I.G., declined to comment on a possible settlement. Darren Dopp, a spokesman for Mr. Spitzer's office, declined to comment, and a spokesman for the S.E.C. could not be reached for comment.

A.I.G. has already accounted for many of the problems addressed in the settlement. Last May, it restated five years of earnings, reducing its net income by \$4 billion, or 10 percent. It has cooperated with all of the many investigations surrounding it.

The settlement is expected to cover a range of issues that arose in the federal and state inquiries, from bid-rigging, which Mr. Spitzer started investigating in 2004, to finite insurance, a way of smoothing corporate earnings that the S.E.C. began studying in 2001.

In October 2004, Mr. Spitzer sued Marsh & McLennan, an insurance brokerage company then run by Jeffrey Greenberg, one of Maurice Greenberg's two sons, for its use of contingent commissions and for soliciting rigged bids for insurance contracts.

At the same time, Mr. Spitzer said he would investigate major insurance companies, including A.I.G., the Hartford and [ACE Ltd.](#), run by Evan Greenberg, Maurice Greenberg's other son.

By the end of January 2005, the board of Marsh & McLennan had ousted Jeffrey Greenberg — a move that Mr. Spitzer had required before he would negotiate with the company — and the company paid \$850 million to policyholders to settle all civil charges. As part of that settlement, Marsh apologized for its actions, and the company banned the use of contingent commissions.

During Mr. Spitzer's bid-rigging investigation, which included A.I.G., his office learned about the use of finite insurance. He began to work with the S.E.C., which had been examining the issue since early 2001.

Already, A.I.G. had battled regulators over such policies. The S.E.C. sued A.I.G. in late 2002 for selling a product to BrightPoint Inc., an Indiana cellphone distributor, that investigators said had helped it conceal \$11.9 million in losses.

Two years later, the S.E.C. warned A.I.G. that it was prepared to sue it for helping [PNC Financial Services Group](#) mask financial problems. The United States attorney's office in Indiana announced that it too was investigating the BrightPoint deal. In November 2004, A.I.G. paid \$126 million to resolve all liabilities related to BrightPoint and PNC.

Rather than closing the books on finite insurance, however, A.I.G. was about to run into more trouble.

By early 2005, Mr. Spitzer had teamed up with the S.E.C., officials from the United States attorney's office for the Southern District of Virginia and the fraud division of the Justice Department, all examining a deal between A.I.G. and General Re, a unit of [Berkshire Hathaway](#).

A two-part deal between A.I.G. and General Re had allowed A.I.G. to book \$500 million in reserves in a way that appeared not to transfer any risk and that involved a coverup of

payments for the transaction. Federal and state regulators would later say the deal had allowed A.I.G. to bolster its reserves artificially.

E-mail correspondence among General Re senior executives indicated that Mr. Greenberg had initiated the transaction.

In March, A.I.G.'s board, led by its independent board members, ousted Mr. Greenberg, who soon severed all ties with A.I.G. (He retained control of two private companies that collectively own almost \$22 billion in A.I.G. stock.)

Mr. Spitzer's investigation continued beyond General Re. In a civil complaint filed in May against A.I.G., Mr. Greenberg and Howard I. Smith, the company's former chief financial officer, Mr. Spitzer outlined a pattern of accounting maneuvers, including the creation of shell companies to hide insurance losses.

Mr. Greenberg's lawyers have released an extensive white paper rebutting many of the attorney general's allegations. The paper noted that finite insurance is a murky area where risk parameters are not well defined. It also noted that at the time of the General Re deal, worth a total of \$500 million in reserves, A.I.G. had more than \$25 billion in general insurance reserves.