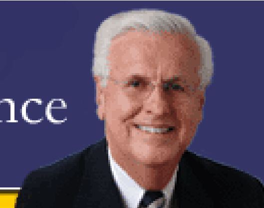
Louisiana Department of Insurance



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## Commissioner Donelon Says AIG Insurers Solvent Despite Parent Company's Problems

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Commissioner of Insurance Jim Donelon wants policyholders to know while the non-insurance parent company of American International Group (AIG) is facing a financial crisis, the company's insurance subsidiaries remain protected due to the stringent solvency standards of state regulation. The Federal Reserve announced yesterday it would loan AIG $85 billion, to be repaid in two years by a sale of the company's assets.

Donelon has participated in daily conference calls this week with the nation's insurance commissioners and says the National Association of Insurance Commissioners (NAIC) has established a working group, of which Commissioner Donelon is a member, to oversee the insurance interests of AIG and to work with federal regulators as needed.

NAIC President Sandy Praeger says AIG's federally regulated non-insurance parent company is not held to the same investment, accounting and capital adequacy standards as the state regulated insurance subsidiaries of AIG, which are solvent and able to pay their obligations. "In fact, it will likely be the insurance subsidiaries – or their valuable blocks of business and high-quality assets – that will be sold in an attempt to return the AIG parent company to a more stable financial position," Praeger adds.

AIG has 45 U.S. domiciled insurance companies authorized to do business in Louisiana. Of those companies, 28 are property and casualty insurers with two being Louisiana domestic insurers: Audubon Insurance Company and National Union Fire Insurance Company of Louisiana; 13 are life and health insurers; and four are surplus lines property and casualty companies: American International Specialty Lines Insurance Company, Audubon Indemnity Company, Landmark Insurance Company and Lexington Insurance Company.

**The following are common questions about AIG:**

**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 policyholders protected in the unlikely event that the insurer fails?** Claims from individual policyholders are given the highest 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's guaranty funds – the Louisiana Insurance Guaranty Association (LIGA) and the Louisiana Life and Health Insurance Guaranty Association (LLHIGA). These guaranty 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. However, guaranty fund protection does not apply to surplus lines insurers. 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," Praeger added. "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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