

AIG Consumers urged to be cautious about liquidating or replacing insurance policies

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State regulation of insurance works - despite AIG holding company woes, insurance company reserves are more than adequate to cover claims.

FAQs below

(St. Paul, MN...) Minnesota Commissioner of Commerce Glenn Wilson cautioned insurance consumers today about replacing or liquidating their insurance policies, particularly those that may be underwritten by the AIG insurance companies, despite the current volatility in financial markets.

Wilson explained that the trouble with AIG is largely with their non-insurance parent company, which is not regulated by the states and therefore not held to the same investment, accounting and capital adequacy standards as its state-regulated insurance subsidiaries. The insurance subsidiaries are solvent and able to pay their obligations.

"The AIG insurance companies are separately regulated by state insurance regulators and do not have the financial stress that AIG Holdings, Inc is experiencing," said Wilson. "They are meeting all their financial obligations to their policyholders. Consumers who feel pressured to replace annuities or property/casualty insurance policies because of claims that AIG is under financial stress are encouraged to contact the Minnesota Department of Commerce."

If consumers liquidate or replace a policy they currently own, they may be incurring significant surrender charges or experience adverse tax consequences. The Department of Commerce is monitoring the suitability of annuity sales in Minnesota for activity that would appear to take advantage of the recent turmoil in financial markets and has already made several investigative inquiries.

"Consumers should understand the full impact of any decisions they may make to liquidate or replace insurance policies or annuities they already hold," said Wilson. "If someone tells you to replace any policy because an AIG insurance company is in trouble and may not be able to pay your claim, that is not only untrue, it could be against the law."

Annuities are insurance products regulated by the Minnesota Department of Commerce. The department licenses both companies and agents and monitors their activities. There are also guaranty funds in place in all states which act as a safety net in the event an insurer becomes insolvent.

Wilson reminded consumers that state law requires an insurer must have reasonable grounds for believing that the recommendation is suitable for the customer before the sale or replacement of any annuity or insurance product. A suitability analysis should include a complete evaluation of a consumer's financial position, including, but not limited to their income needs and the cost of liquidating any assets. Consumers should also understand that if they replace an annuity, a new surrender period will start with the replacing annuity.

According to Wilson, the story behind the failure of AIG provides a perfect case study for the success of state based insurance regulation and the repeated failure of federal oversight.

"When the dust settled after the fall of this international financial holding company with over 200 subsidiaries, the 71 insurance companies were not the ones in need of a bailout from the federal government. They stood apart as strong, solvent and fully capitalized, ready to meet any and all obligations to their consumers."

"The reason AIG's insurance companies are solvent is due to the strong oversight and regulation they received at the hands of the 20 state insurance regulators in the states where they are headquartered, including Minnesota," added Wilson.

AIG Frequently Asked Questions and Answers

Is AIG going bankrupt?

AIG is an international financial holding company with numerous businesses.

Your insurance and annuity policies are written by AIG's insurance companies. Those companies are financially strong and their assets are protected by state regulators.

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. The Minnesota Department of Commerce will continue to closely monitor the situation to ensure policyholders are protected and that there will continue to be sufficient assets to pay claims.

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 the Minnesota Department of Commerce toll-free at 1-800-657-3602 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 the Minnesota Department of Commerce toll-free at 1-800-657-3602.

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.

I heard the government may 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.

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

You may obtain information about filing a complaint with the Minnesota Department of Commerce toll-free at 1-800-657-3602 or by visiting www.insurance.mn.gov.