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AIG to pay $1.6B to settle probe

Insurer also agrees to alter its accounting practices to avoid criminal fraud case

By EILEEN ALT POWELL
Associated Press

NEW YORK — American International Group Inc., one of the world's largest insurance companies, has agreed to pay $1.64 billion to resolve allegations that it used deceptive accounting practices to mislead investors and regulatory agencies.

The deal — believed to be the biggest concluded by regulators with a single company — also requires the New York-based firm to adopt changes in its business practices that will ensure proper accounting procedures in the future.

AIG said in a statement that the settlement was approved by its board "in the best interest of the company."

The pact announced yesterday settles a civil lawsuit filed in May by New York Attorney General Eliot Spitzer with backing from the New York State Insurance Department and the U.S. Justice Department. The Securities and Exchange Commission, which also worked with Spitzer on the investigation, filed and settled allegations of accounting fraud with the company simultaneously.

The settlement does not cover Maurice "Hank" Greenberg, the company's former chairman and chief executive, who was named in the suit but who has pledged to fight it in court.

Greenberg

While acknowledging the civil misconduct and facing a huge fine, AIG at the same time escapes the threat that a criminal case could have been brought.

The Justice Department said that AIG's agreement would spare the company criminal prosecution in exchange for its cooperation with the ongoing federal criminal investigation.

Shareholders welcomed the announcement, sending AIG shares up 74 cents, or 1.1%, to close at $67.12.

Nashville-based American General Life and Accident Insurance Co. is a unit of AIG that offers life and accidental death insurance, as well as fixed annuities through employee agents. Last year AGLA had 4,500 agents and an unspecified number of other employees.

AIG said that under the settlement it will pay $800 million for investors who were deceived by AIG's accounting tactics, including a $100 million penalty to the SEC. In addition, it will pay $375 million to AIG policyholders, $344 million to states harmed by AIG's practices from

Please see AIG, 6E

AIG: Deal does not affect ex-CEO Greenberg

FROM PAGE 1E

1986 to 1995 involving state workers' compensation funds and fines of $100 million to the state of New York and $25 million to the U.S. Justice Department.

AIG said it would take a $1.15 billion after-tax charge in its upcoming fourth-quarter earnings report to cover the settlement. It also announced that it would take a $1.1 billion after-tax charge to increase its reserves to reflect the completion of a recently concluded internal risk study.

AIG said that, as part of the deal, it also had agreed "to retain for a period of three years an independent consultant who will conduct a review" of the company's accounting and internal controls.

Donald Light, senior insurance analyst with Celent, a Boston-based research and consulting company, said the settlement "means AIG's board and management is off the hook for anything worse ... such as a criminal case."

He added: "They're paying a lot of money for that, but AIG is huge and this amounts to less than 2% of shareholders' equity."

Spitzer told The Associated Press, "This is a company that didn't have to cheat. But once they began, they found it hard to stop. And like an addict, they grew dependent on financial gamesmanship that could ultimately destroy the company."

SPITZER

He said that the new business practices AIG was adopting would improve the market for property and casualty insurance in the United States by creating "a new level of transparency in the market that all consumers will benefit from."

The SEC's enforcement director, Linda Thomsen, noted that the investigation looked at the entire industry and centered on misuse of specialized insurance vehicles, such as reinsurance.

"While this settlement concludes our investigation of AIG, our investigation continues with respect to others who may have participated in AIG's securities-laws violations," she said.

The settlement with AIG exceeds many of the fines the SEC imposed after a wave of corporate scandals in 2002, including civil fines and restitution of $750 million for WorldCom Inc., $715 million for Adelphia Communications Corp. and $300 million for Time Warner Inc.

It also surpasses the $850 million settlement that Spitzer reached last year with New York-based Marsh & McLennan Companies Inc., the nation's largest property and casualty brokerage, over allegations of bid rigging and price fixing, as well as hidden commissions.

Besides naming AIG, Spitzer's suit alleged that Greenberg and former Chief Financial Officer Howard I. Smith orchestrated the scheme.

Greenberg, who resigned from AIG in March, has repeatedly insisted that he followed proper accounting procedures during his 38 years at the helm of AIG. Smith, too, has denied wrongdoing, and neither of the men was involved in the negotiations with the SEC and Spitzer.

Greenberg was replaced as chief executive by Martin Sullivan, who oversaw the restatement of AIG's earnings back to 2000. The revisions knocked some $2 billion off shareholders' equity and nearly $4 billion off its profits.

Sullivan said yesterday that the settlement marked "a major step forward in resolving the legal and regulatory issues facing AIG." He said the company was "committed to business practices that provide transparency and fairness in the insurance market." ■

AP writers Michael Gormley in Albany and Marcy Gordon in Washington contributed to this story.