



Reduce risk while processing more applications
Download the white paper



National News

A.M. Best: AIG Ratings Remain Downgraded to 'A' and Under Review

September 18, 2008

A.M. Best Co. has reported that all financial strength ratings (FSR) and issuer credit ratings (ICR) of American International Group, Inc. (AIG) and its subsidiaries are unchanged from the downgrades it issued earlier this week.

The "under review with negative implications status" also is unchanged, the agency said.

The majority of AIG's subsidiaries were downgraded to 'A' by A.M. Best on Sept. 15, 2008 based on the potential repercussions of the immediate liquidity crisis facing AIG earlier this week, as well as the long-term outlook for the financial and operational structure subsequent to the sale of certain of AIG's assets and business segments.

(On Sept. 15, A.M. Best issued the following ratings:

- AIG's domestic life and retirement services subsidiaries - FSRs downgraded to 'A' (Excellent) from 'A+' (Superior); ICRs downgraded to "a" from "aa."
- AIG's domestic property/casualty subsidiaries - FSRs downgraded to 'A' (Excellent) from 'A+' (Superior) and ICRs to "a" from "aa-."
- AIG's 60 percent majority owned company, Transatlantic Holdings - FSRs downgraded to 'A' (Excellent) from 'A+' (Superior); ICRs to "a" from "aa-."
- American International Group, Inc. - downgraded the ICR to "bbb" from "a+."
- Connecticut-based Hartford Steam Boiler Group - downgraded the FSR to 'A' (Excellent) from 'A+' (Superior) and ICRs to "a" from "aa."
- Personal Lines Pool and operating subsidiaries of 21st Century Insurance Group - downgraded the FSRs to 'A' (Excellent) from 'A+' (Superior) and ICRs to "a" from "aa-;" also downgraded the ICR to "bbb" from "a-" and debt ratings of 21st Century Insurance Group.)

A.M. Best says the extension of a two year \$85 billion secured loan from the Federal Reserve has removed the imminent threat of bankruptcy and staved off the concern of a disorderly unraveling of AIG's businesses. In addition, A.M. Best said it recognizes the potential for AIG's newly appointed chief executive officer to "utilize his outside perspective to make objective decisions toward the future direction of AIG."

But A.M. Best said believes it is premature to declare financial stability to such an extent that it would change its outlook or ratings. The agency said its ratings of AIG's major property/casualty and life and retirement services subsidiaries—which are within the Excellent rating category— were downgraded on Sept. 15 "as a result of the removal of financial lift afforded to the subsidiaries by the perceived financial flexibility, capital levels, business diversification and stable balance sheet of AIG on a consolidated basis." It said AIG's ability to provide rating enhancement based on these factors is not viable.

A.M. Best said that while it remains optimistic for the insurance businesses of AIG based on its knowledge of the subsidiaries' "sufficient capital levels, quality management and enviable franchise value, the long-term corporate structure within which the remaining businesses will operate is not clear."

Despite notable relief with regard to liquidity, A.M. Best said it still harbors short-term concerns including the potential for policyholder departures and surrenders and continued erosion of confidence from consumers, policyholders, counterparties, credit facility banks and employees.

In addition, A.M. Best said it needs to monitor potential erosion of franchise value and whether AIG has the ability to realize the true economic value of its franchises upon sale. Potential suitors for AIG's assets may require certain undesirable investments to remain with AIG, clouding the balance sheet quality assessment, according to A.M. Best. Cash requirements in the orderly run off of the securities lending program and matched investment programs will require AIG cash intervention.

With regard to a streamlined AIG, A.M. Best noted that the "financial flexibility, balance sheet strength, beneficial funding costs and investor and creditor confidence previously sustaining AIG do not exist at this time."

The events leading to the current crisis stemmed from company-wide excessive exposure concentrations to the mortgage industry, which remained unchecked by AIG's risk management efforts. The rating agents said AIG management's improvements of its enterprise risk management capabilities "will need to be more transparent ... in order to provide comfort that in times of insurance or capital market disruptions exposure is manageable."

In addition, given the current fragility of the capital markets, A.M. Best said it remains concerned regarding the efforts to de-risk AIG Financial Products. It said the ability to tap the \$85 billion of federally funded cash should be sufficient to support this effort; however, the cost of drawing this facility is exorbitant and could impede profitability going forward.

A.M. Best said it believes that AIG's financial leverage is considerably higher than the company's debt-to-capital calculation as A.M. Best incorporates a higher level of debt and lower level of capital in the deconsolidation of non-insurance operations. The current liquidity crisis clarifies the pitfalls of excluding non-guaranteed debt, the agency said, adding that financial leverage is expected to be variable as an orderly sale of assets is achieved and proceeds applied.

"A.M. Best will require more time for clarity regarding AIG's ability to repay proceeds from any borrowings from the Federal Reserve as well as existing debt. Also, the level of debt remaining subsequent to asset sales and the burden the debt places on the remaining businesses and balance sheet is a basic factor in rating decisions," the rating agency said..

A.M. Best said it will revise AIG's ratings and outlooks when "definitive information regarding sale of assets and assessment of potential buyers is made in the next few weeks, as well as response to information emerging from de-risking initiatives and strategic business decisions and potential usage of the Federal Reserve facility."

Source: A.M. Best Co.
www.ambest.com

Find this article at:

<http://www.insurancejournal.com/news/national/2008/09/18/93844.htm>

© 2009 Wells Publishing, Inc. [Reprint Information](#) | [Home Search](#) | [Contact Us](#)