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**Are Policyholders At Risk As Insurance Giant, AIG, Struggles To Stay Afloat?**

On September 15, 2008, in an effort to help shore up “the country’s largest commercial and industrial insurance company,” Gov. David A. Paterson announced that the state of New York would allow American International Group to borrow \$20 billion from AIG subsidiaries, which are major insurance companies in the U.S. and internationally. State insurance regulations generally prevent this type of deal because the insurance companies need to have sufficient liquid assets to pay claims. If an insurance company does not have sufficient resources to pay claims, it cannot fulfill its obligations to policyholders, and it is the policyholders and taxpayers who ultimately pay the price. The announcement Monday took a bite out of the regulatory protection for AIG policyholders.

On Monday, A.M. Best Co., the insurance company credit rating organization, downgraded and placed under review AIG and most of its subsidiaries. A.M. Best said in its September 15 press release, “These rating actions are based on the rapid deterioration of the already existing fragile condition of AIG’s financial strength and flexibility. Specifically, AIG’s lack of liquidity at the holding company level and management’s need to secure funding options are not representative of financial stability and not reflective of AIG’s current ratings.”

Gov. Paterson’s Deputy Secretary, Charlotte Hitchcock, told reporters that “there will be no exposure to policy holders” as a result of the collateralization of assets owned by AIG’s insurance company subsidiaries. Later this week, Washington announced that it would make \$85 billion available to the insurance giant. There has been no further ratings actions of AIG by A.M. Best since Monday. Although there is no suggestion that AIG policyholders are at risk today, we should all be watching closely for any further downgrading and any further financial instability.

Further downgrading and financial instability will make it more difficult for the AIG companies to sell their insurance products. Insurance brokers will pay close attention to the ratings and financial news in order to properly advise their clients. In addition, policyholders need to be watching carefully in order to make informed decisions about their insurance coverage. As renewal dates approach in the coming weeks and months, it would be prudent for brokers and insureds to carefully review their AIG coverage in light of the rapidly changing events.

Prudent insurance brokers investigate the financial soundness of an insurance carrier before placing coverage on behalf of their clients to avoid having to step into the shoes of a carrier that is financially unstable and unable to pay a claim. Policyholders who find themselves in the situation where their insurance company becomes insolvent are faced with the choice of either paying the claim themselves or undertaking litigation against the carrier and the insurance broker.

The best protection for policyholders is to be sure, before purchasing insurance coverage, that the insurance company is financially sound and is in a position to pay claims as they arise. For AIG policyholders the best security is to be informed of the rapidly emerging events, the impact on insurance coverage, and the available options. Policyholders who have any concerns about their coverage should contact an insurance professional for advice and direction.

*Nicolson Associates will keep you informed of the news on this topic as it becomes available.*