

AIG: MORE THAN A HOUSEHOLD NAME FOR INSURANCE

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Considering the fact that corporate scandals have increasingly been front-page news items for several years now, some may see AIG as just another name added to a growing list of offenders. However, the case against AIG is unique in several respects.

The numbers are astounding

AIG is a worldwide financial empire with more than 90,000 employees in 130 countries with a market capitalization of *more than \$155 billion*. The disclosure of the fraud at AIG resulted in a series of stock drops that wiped out *more than \$40 billion*, resulting in compensable damages to class members that may enter into the *tens of billions of dollars*. In fact, the Ohio Funds, which serve as the Lead Plaintiff for the class of AIG investors, lost *more than \$150 million*.

After the New York Attorney General, Eliot Spitzer, started reviewing AIG's records during his investigation into bid-rigging within the insurance industry, he discovered a mountain of incriminating evidence against AIG concerning its finances and accounting. Subsequently, AIG was forced to restate its earnings for nearly five full years, resulting in the Company shaving off *more than \$3.9 billion in profits* and reducing the value of its shareholders' equity by *\$2.26 billion*. In its restatement, the Company also admitted that these accounting problems involved significant fraudulent activity by its top management.

The regulators are swarming

For decades, AIG has evaded governmental inquiries and deftly avoided major crackdowns by regulators. The current regulatory landscape is, to say the least, quite different. Since the initial discovery of major improprieties by the New York Attorney General, additional investigations have been opened by the Securities and Exchange Commission, the

Department of Justice, the U.S. Attorney's Office for the Southern District of New York, the New York State Department of Insurance and insurance regulators of several other states as well.

The ousted CEO

AIG was run by Maurice "Hank" Greenberg, a man whose determination to succeed and dominate the competition launched him to the top and kept him there as CEO for 37 years. As CEO, Greenberg has been credited with almost single-handedly transforming AIG from a relatively obscure private enterprise into the world's largest insurance company. But in March 2005, Greenberg was forced out by his Board in an ignominious finish to his long reign and has been pinned with masterminding a fraud of epic proportions. His personal involvement in the running of AIG—easily characterized as micro-managing—was a large part of his downfall and with his legacy now tarnished, he will be remembered most as being the catalyst to this denouement. He has been directly implicated in the Company's manipulation of its financials through improper reinsurance deals, mischaracterizing certain income, and other improper accounting techniques.

In addition, Greenberg is also being investigated for manipulating the market for AIG's stock by ordering traders to buy hundreds of thousands of AIG shares in an effort to illegally inflate its price.

It's time to clean house

AIG's Board of Directors has been rated among the weakest in the country in terms of corporate governance. In fact, the Corporate Library most recently awarded AIG's Board an "F" for its board effectiveness, and awarded it a "high" for its board risk assessment. This profile makes AIG a candidate for implementation of corporate governance reforms, which are not only encouraged by class actions like the one filed against AIG, but are supported by the country's institutional investor leadership and legislation like the Sarbanes-Oxley Act.

Along these lines, AIG itself – which in years past had condemned "the gross misdeeds" of company executives who were accused of engaging in fraud – was exposed as living in a proverbial glass house. A longtime darling on Wall Street, AIG had consistently delivered smooth and growing earnings in an otherwise tumultuous industry. We now know that improper accounting techniques were at least partly responsible for AIG's astounding success in recent years.

The case against AIG is important because it illustrates why the securities laws are in place: to prevent these types of abuses that cause so much damage and to compensate victims of these abuses. And since there is no threat that AIG will go bankrupt, it likely will continue to be a successful, viable Company far into the future. Its past wrongs, however, cannot be ignored. Through this case, the Ohio Funds will attempt to obtain a significant recovery on behalf of AIG investors during the class period and improve corporate governance for the benefit of all current and future AIG investors.