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Musings about Insurance, AIG, and Greenberg

Always Running by David Schiff

Hank Greenberg, AIG's chief executive officer, is a careful eater. A couple of years ago I met with him at a club on the East Side. He arrived at precisely 5:30, looking chipper in a blue tie, a crisp white button-down shirt with the initials "MRG" on the pocket, and a navy blue suit that appeared to have been pressed moments earlier. Greenberg, who's nearly seventy-nine but looks much younger, is about average height with markedly good posture, a lean, welterweight's build, and a notoriously pugilistic personality. He drank a Perrier while we talked, but abstained from the smoked salmon placed before us. "I'm working out afterwards," he explained. (When I had lunch with him a year earlier he was equally vigilant. While we chatted in the "living room" on the 63rd floor of the AIG building, a waiter put out an appealing mix of nuts, appetizers, vegetables, and sushi. Greenberg didn't touch them; instead, he sipped a glass of water. When we moved to the formal dining room he ate a meal that could not have challenged the chef's talent: a piece of grilled fish and some vegetables. Desserts were offered; he declined.)

Greenberg, who runs an endangered species—the triple-A rated company—makes a point of keeping himself in triple-A condition. We were on the phone one weekend before noon, discussing audit committees, and he mentioned that he was having a great day: he'd already played three hours of tennis. At AIG's 1989 annual meeting, he began his comments about AIG's international operations by saying, "While I was peddling uphill on my bike this morning, watching what was going on in Beijing…" He recently told me he likes working in Europe because he can get up early, *exercise*, get in a full day of work and then, because it's still early in the U.S., take care of business there. (Greenberg said that he usually sleeps four or five hours a night—less when traveling because he's excited and thinking about things even more.)

His schedule—hopping from country to country on extended trips, meeting world leaders, scrutinizing reports from AIG's vast empire, and calling people in the middle of the night—is often referred to as "grueling." I spoke to him the day he returned from a ten-day trip to Beijing, Hong Kong, Taipei, Bangkok, Singapore, and Tokyo, and remarked, in passing, that he must be exhausted. Not at all, he said. "It was fun—interesting. You know, you only have so much time…"

I first came across AIG in 1977, when I was twenty-one and went to work for Schiff Terhune, then one of the twenty largest insurance brokerages in the country. The firm, which employed about 225 people, was run by my uncle, Frank Schiff, and had a sterling reputation because of his great concern with servicing clients; he *lived* the insurance-brokerage business. My uncle met Greenberg around 1961, at a party given for Greenberg by John Mosler, head of the Mosler Safe Company. Greenberg—then in his mid thirties—had just left Continental Assurance, where he'd been the youngest vice president in the company's history, and moved back to New York from Chicago to become a vice president at C.V. Starr & Co. My uncle, of course, did not know that Greenberg, five years his junior, would soon take control of some third-rate insurance companies and create a great insurance organization out of them—one that resembled no other. AIG's success would be so spectacular

Hank Greenberg in the 1960s

that once it was recognized it spawned a host of imitators, many of which would achieve insolvency in their quest to emulate AIG.

C.V. Starr & Co. was a loosely knit amalgam of international life insurance, reinsurance, underwriting, and brokerage operations. (The corporation that is now AIG didn't come into existence until 1967.) Its founder, Cornelius Vander Starr, was born in California in 1892 and made his way to Shanghai in 1919, where he started an insurance agency, American Asiatic Underwriters (AAU), which grew rapidly as a foreign underwriting manager for American and European insurance companies. Starr soon formed a life insurance company in China and went about business in a unique way—giving Chinese nationals important positions in his companies. Starr's operations expanded in China, and he later formed companies in Latin America and Europe, and, after World War II, in Japan and the Philippines. He started an English-language newspaper in China, built a ski resort in Vermont, put on a production of *Madame Butterfly* at the Metropolitan Opera, and, upon his death, left his estate to charity.

A 1969 tribute to Starr, written the year after his death by Artemis Joukowsky, who worked with Starr from 1924 until his retirement as vice chairman of AAU in 1960, notes that "Mr. Starr never tried to cover the entire field of the American International enterprises himself. His way of working with his associates was the opposite of centralization…It was common for him to say, 'Don't ask me—you know just as well what to do.'"

A 1954 article in the *Saturday Evening Post* describes Starr as a "lavish millionaire" who "does not own a majority interest in any of the companies he founded, preferring instead to let these holdings be acquired by associates and employees who have come up with him to fortune."

John Roberts, who joined Starr's organization in 1947 and later became CEO of American International Underwriters (aka AAU) and vice chairman of AIG, has fond memories of Starr:

> He was a renaissance person. A leader of great and extraordinary depth. He had a feeling for writing, for architectural design, floral design, all wrapped up in this desire to expand the company around the world.
>
> Being the visionary chap that he was, he gave you an awful lot of responsibility, and you lived by your wits. Many of us had come out of the army or the marine corps. None of us ever thought we'd get back, and there was a great spirit of camaraderie.
>
> We were very careful about expenses—always bootstrapping things. When we formed an office in Italy, I think we did it on $75,000, and Starr went through every dollar of that with me.
>
> We didn't have any interaction with the domestic companies in the AIU pool except to report to them on a quarterly basis. They simply gave us an agency contract. We were simply underwriters. That was about as far as we got except for managing our own funds. We *had* to live on our underwriting. Our loss ratios, generally speaking, were under 50%, and expenses were 25% to 28%."

Although Starr's operations were primarily overseas, he had some domestic companies as well. In 1952 he and his associates sold control of U.S. Life to Continental Casualty for about four million dollars. A few months later, Starr's Bermuda-based American International Reinsurance Company bought control of the Globe & Rutgers Fire Insurance Company from Tri-Continental, an investment company run by J. & W. Seligman & Co. (At least one Seligman employee was on AIG's board until 1973.)

In the 1920s, the Globe & Rutgers was one of the largest fire insurance companies in America, and it was the first American company that AAU represented in China. Its underwriting practices in the U.S. were unorthodox: it wrote big, messy risks produced by brokers rather than agents. As the *National Underwriter* noted, the Globe & Rutgers, "assumed almost unlimited amounts of liability," It was also a heavy investor in stocks, and when its portfolio collapsed during the Depression, management had the company borrow money to buy more stocks. The Globe & Rutgers was put into rehabilitation in 1933, received a loan from the Reconstruction Finance Company, and eventually returned to solvency—but not prosperity. Its name disappeared in 1955 after the company was merged into the American Home Assurance Company, which it controlled. AIG's present-day domestic property/casualty business is a descendant of the Globe & Rutgers, as is AIG itself.

Between 1963 and 1977, the company that became known as AIG grew internally—through savvy, creative underwriting and good investments—and through acquisitions. Here are some figures: in 1963, shortly after Greenberg began running American Home, its earned premiums were $21 million, a bit more than its reported surplus. AIG's 1969 annual report—its first as a public company—showed $120 million in shareholders equity and $13 million in net income. In the year I entered the insurance business, 1977, AIG's "domestic general insurance" business wrote $1.5 billion in premiums, and AIG earned $122 million—a large figure in those days. (In 2003, AIG earned $10 *billion*.)

A culture of growth pervaded AIG, but Greenberg was—and still is—obsessed with producing an underwriting profit. "We're in a risk business," he often says. He laid down his terms in AIG's 1972 annual report. "Favorable results were generally enjoyed throughout the property/liability industry," he noted, "leading to some reduction in rates for several classes of business—a normal reaction. Where rates continue to be adequate, we will compete for business. We will not acquire business, however, at rates or terms that we know from experience are inadequate, regardless of what others may do."

Around the time of Starr's death in 1968, there was tension among the eight senior officers over what path the C. V. Starr companies would take. An outright sale was a possibility. The direction advocated by Greenberg and several others ultimately prevailed, however, and AIG went public in April 1969 through an exchange offer in which it issued common stock, convertible preferred stock, and convertible debentures to acquire the American Home, National Union, and New Hampshire insurance companies. (AIG already controlled American Home and National Union.) The company subsequently acquired the bulk of Starr's international operations for stock: American International Underwriters in 1970, and American International Reinsurance in 1978.

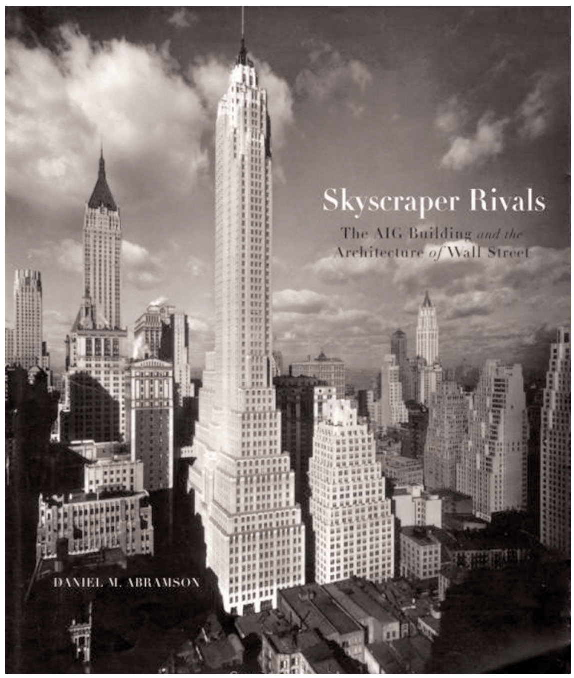
By the late 1970s, the remarkable transformation that had occurred under Greenberg's leadership was obvious to anyone who was paying attention. Greenberg was legendary, known for his hard-driving ways, knowledge and command of the business, and ferocious temper. It's not surprising that my uncle Frank described Greenberg as "brilliant." He respected Greenberg's accomplishments but was somewhat puzzled by the man. He recounted a story that took place in the early 1970s: he was on one of his infrequent vacations, in Nassau, playing tennis, when he was given an urgent message—Mr. Greenberg was calling from New York and had to speak to him right away. He rushed to the phone and was confronted by an irate Greenberg who began berating him because one of Schiff Terhune's clients that was insured with AIG had a couple hundred-thousand-dollar fire loss. As my uncle said to me, "I really don't know what he expected *me* to do about that." (Schiff Terhune, after all, was an insurance broker; AIG was in the business of assuming risk.)

I couldn't imagine what any rational person would have expected my uncle to do, either, but Greenberg's effrontery stuck in my mind. It also amused me because my uncle—whom I loved—was a martinet who called me into his office many times to berate me for arriving at work a few minutes after 9:00 a.m. (That I often stayed hours after most employees had gone home was irrelevant, he said. "It looks bad to come in late." He was right.)

I disliked almost everything about the insurance business in those days. Insurance companies were dreary, paper-pushing sweatshops, and brokerages weren't much better. There was an endless stream of applications to be completed, letters to be typed, and six-part carbon-copy forms to be filed. The esprit where I worked was so high that when the clock on the bare walls hit 4:45, a floor filled with 125 people emptied out in a minute. Mind you, Schiff Terhune was one of the *nicer* places to work, but the firm was extremely frugal. It was reluctant to spend money to increase productivity (replacing adding machines with electronic calculators, for example). I remember a showdown when I came up with a solution to the bottleneck that caused long delays in getting letters typed: the creation of a typing pool that used word-processing equipment. This turned out to be an incendiary idea. The secretaries, who each worked for several account executives and spent much of their time on electric typewriters, threatened to *strike* if their typing was farmed out. The Luddites prevailed, and the secretaries continued to function as typists rather than assistants.

The insurance industry was a bureaucracy filled with penny pinchers reluctant to try new things. From my vantage point as an impatient twenty-three-year-old, it was a terrible place to work. One company we did business with, AIG, seemed different. Its headquarters were a couple of blocks from our office, and I went there often. Sometimes I had business, and sometimes I went just because I liked going to 70 Pine Street, the most glorious building in the Financial District. Completed in 1932, the 952-foot tall art deco skyscraper was the last of an era. (It would be twenty-nine years before another skyscraper was built in the Financial District). In 1976, near the bottom of the New York real-estate market, AIG bought the recently renovated, 66-story, 800,000 square-foot building for $15 million. (A great *apartment* in New York goes for more than that these days.)

Despite its glamorous building (which has appeared several times on the cover of AIG's annual reports), AIG wasn't a "white shoe" company. It was an



A history of 70 Pine Street: "Skyscraper Rivals—The AIG Building and the Architecture of Wall Street" by Daniel M. Abramson.

egalitarian place, and it seemed more entrepreneurial than the insurance companies that lined John Street, William Street, and Maiden Lane. AIG's advertising was clever, and the company was constantly coming out with new products that were marketed like... *products*. I worked fairly closely with a fellow from AIG on one of these, which Schiff Terhune helped create: a policy that provided coverage for breakdown or malfunction to high-tech medical equipment. We sent out mailings, made phone calls, called on prospects, and traveled to medical conventions—but didn't sell many policies (at least not while I was involved). But I enjoyed the experience, and it seemed sensible that an insurance business might be better off getting business by selling a special product rather than by cutting rates.

I went to work on Wall Street in 1982, and didn't expect to have anything to do with the insurance industry again.

In the 1990s I wrote about AIG many times. By then I'd long thought of it as a great company—which was about as controversial as thinking of Wilt Chamberlain as a tall man. In the late 1990s, when the market shifted into high gear, AIG's stock shifted into overdrive. It rose from $25.48 at the beginning of 1997 to $86 in August 2000, at which time I wrote an article examining its extreme valuation—38 times earnings and 580% of book value. (From 1975 to 1996, a period of great growth for AIG, its average annual p/e and price-to-book ratios were 12.3 and 180%, respectively, according to Value Line.) The only other time that AIG had traded at such lofty multiples had been in 1972, and what happened after that was instructive: its stock declined 66% during the next two years, even though the company's earnings increased. I concluded my article by writing that "the risk of buying AIG outweighs the reward." Three months later AIG's stock hit $103.75. It then declined 59% during the following twenty-eight months, to $42.92 on March 12, 2003.

AIG's valuation was so rich that, on April 5, 2001, I couldn't resist discussing it in another article. "There's considerable risk in owning a financial-services company trading at 32 times earnings," I wrote. "AIG's high valuation leaves little room for error or disappointment." The article was emailed in the evening, so most subscribers got it the next day—Friday.

My phone rang the following Monday morning. "Is Mr. Schiff there?" a woman asked.

"Yes," I said.

"It's Mr. Greenberg calling." Hank Greenberg then got on the line.

I was aware of his reputation. The stories were numerous, colorful, funny—and maybe even true. I'd heard about employees he'd cursed at, securities analysts who had been forced to withdraw their opinions, journalists he'd raked over for writing something he disliked, analysts who were afraid to lower AIG from a "buy" because it might cost them their jobs, brokers who were certain he could "put them out of business," and so on. Major insurance-company CEOs told me amazing stories: how Greenberg prevented them from gaining licenses; how he controlled state insurance departments. One thing was certain: I knew a lot of people who were terrified of Hank Greenberg.

"Hello. I'm calling to introduce myself," Greenberg said, or something along those lines. After hearing so many stories, I was surprised by his friendliness. In fact, he was charming and witty, and after about ten minutes invited me to come down to AIG for lunch. I got the sense that he was amused by my article, although he did not agree with my opinions about AIG's stock price. "You could never replicate this company," he said.

He's said that often—and it's true. (You couldn't replicate State Farm, either, but that doesn't make it priceless.) Years ago, someone asked Greenberg if he thought AIG's stock price was too high, and he replied, humorously, that he always thinks it's too low. Over the long term that has been an extremely profitable belief.

It's intriguing that my comments about AIG's stock price prompted a call from Greenberg. Why, one wonders, is he so concerned about his stock price? I've thought about that a lot and don't have a simple answer. Certainly, it's not money. He's been enormously wealthy for a long time, and besides, he's not especially materialistic. Nor is his concern due to a lack of understanding about markets. He's a sophisticated financial thinker who knows that markets tend to go to extremes. (In 1986 a shareholder asked if there was "any reason for the [20%] drop in the share price in the last month or so." Greenberg replied, "More people sold than bought." When the audience stopped laughing, he continued: "I have no idea…The expectation, many times, exceeds the ability to perform to that expectation. We thought we had a very good first quarter—up fifty-four percent. There's not much more you can do. But the market, you know, sometimes is a bit fickle.") Perhaps the answer is pride—that Greenberg views his stock price as a scorecard, and simply hates it when he gets a bad score. Even though he knows that markets are fickle, he's been such a great success story for so long that perhaps he just *believes* that he can accomplish whatever he puts his mind and energy into. He's so hypercompetitive and persistent—AIG worked for seventeen years to get a license in China—that perhaps, on some unconscious level, he *believes* that by sheer will he can control most situations, including the fluctuations of AIG's stock.

continued on next page

Greenberg is an excellent public speaker, raconteur, and conversationalist. He's intense and exceptionally persuasive. He speaks frankly and openly about many things, and instantly recalls old names, places, details, and figures. But ask him about something he doesn’t feel like discussing and he may just deflect it. Coral Re, for example, was a nebulous offshore reinsurer (see *Schiff’s*, March 1996, June 1996, and December 1996) that appeared to be an off-balance-sheet affiliate of AIG. In the 1980s AIG ceded $1.6 billion in premiums to Coral Re and took credit for the reinsurance, something it couldn’t do if Coral Re was, indeed, part of AIG. I once asked Greenberg about AIG’s transactions with Coral Re. “I was barely Bar Mitzvahed when that took place,” he said.

Maurice “Hank” Greenberg was born on May 4, 1925, and grew up in Swan Lake, New York, a small town south of the Catskills. His father died in an accident when he was five. His grandmother lived to be 108, and his mother lived into her late nineties. He played football in high school.

On October 30, 1942, eleven months after the attack on Pearl Harbor, Greenberg, then 17, enlisted in the Army. His girlfriend worked at a government agency, and he’d asked her to make a fake birth certificate for him, and stamp it with an official seal. He then went to the Army recruiting office. “The recruiter didn’t believe I was old enough,” he said. “I wasn’t even shaving at the time. He told me I needed my mother’s signature. So I said my mother was waiting outside, left the building, signed her name, and came back in.”

Greenberg trained in the Signal Corps, and was attached to the 5th Ranger Battalion, which landed at Omaha Beach on D-Day about an hour after the first landing. The 5th Rangers were scheduled to come ashore at the Dog Green Sector, the site of the worst Allied casualties, but their commander changed his course and landed about 1,000 yards away, in the Dog White Sector. “We were relatively out of harm’s way,” Greenberg said. “All the plans don’t necessarily mean a thing; you need people who can think on their feet.”

After the war, Greenberg, who left the Army as a technical sergeant, moved to New York City and got his high-school diploma from the Rhodes School. He graduated from the University of Miami (where he met his wife, Corinne Zuckerman) in 1948, and received his law degree from New York Law School in 1950.

On May 9, 1951, Greenberg, who was in the reserves, was recalled to active duty, and went to Korea at the end of the year. When I asked him about his “Medal of Honor” he corrected me: “*Bronze Star Medal*. You’re usually dead when you get a Medal of Honor.”

The citation for his Bronze Star Medal reads as follows:

> First Lieutenant Maurice R. Greenberg, Signal Corps, United States Army, performed meritorious service in connection with military operations against an armed enemy in Korea during the period from 2 February 1952 to 7 July 1952.
>
> Lieutenant Greenberg, as Radio Relay Officer in the 4th Signal Battalion, supervised the installation and operation of radio relay telephone circuits essential to the successful operation and coordination of activities in the X United States Corps sector. Despite the adverse condition of terrain and weather, he developed a highly efficient platoon which many times performed beyond the expected limit of endurance and ability.
>
> Lieutenant Greenberg’s initiative, knowledge, leadership and dependability were major factors in the success of his unit and reflect great credit on himself and the military service.

Before Greenberg left the army his commanding officer asked him if he wanted to make a career out of the military—something he was already considering. He said he’d have to talk it over with his wife. The officer told him to decide immediately, and if he said “no” he’d make his remaining time in the service miserable. “I knew then that I didn’t want to stay in the military,” he recalled.

Greenberg was twenty-seven when he came home looking for a job. He thought about the CIA, but decided against it. His options were not what they would be now. He had a law degree, but the biggest law firms discriminated against Jews.

While job hunting on William Street, he passed Continental Casualty’s offices. He went in and had a particularly unpleasant experience with the personnel director, who was “very rude” to him. One can imagine Greenberg's anger. He had a wife and a young son, he'd been in two wars, commanded a platoon, and was ready for big things.

"I went to the directory and looked up the name of the resident VP on the ground floor," he said, "and then just barged into his office. I told him, 'You have an asshole of a personnel director.' I had a job when I came out of his office—as a junior trainee underwriter." He paused a moment. "How about that for career planning?"

To be continued.

The next installment of this article will be published after the annual Schiff's Insurance Conference *on Thursday, April 15.*

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In Memoriam

AT 11:55 LAST NIGHT, my uncle, Frank Schiff, died at the Maurice R. and Corinne P. Greenberg Pavilion at New York Hospital.

People who knew my uncle couldn't help commenting on his appearance. He was tall, handsome, remarkably elegant, and he moved through life with grace and seeming ease. He was modest, and had an exquisite, self-deprecating manner that charmed men and women.

Those who worked for him as he built up one of the largest privately owned insurance brokerages in the country knew him to be fair, diligent, meticulous, intelligent—and a gentleman. He was admired and respected by those who worked for him, and with him. His clients—many of the major businesses of his day—were particularly loyal to him.

Frank Schiff didn't think much of his business success—he attributed it to others. The fact is, he was much more than he ever gave himself credit for. His social persona notwithstanding, he was, by nature, a private and introspective man who was far more complex than he appeared to be. I reminded him of his younger brother—my father, who died at the age of thirty-three—and we had a bond that didn't always require words.

When he looked at himself he didn't see the articulate, amusing, debonair fellow that everyone else saw; he seemed surprised that so many people took an interest in him. Deep down, he was shy.

My uncle didn't want a funeral or memorial service. But I think he'd enjoy being remembered at his finest—on the tennis court in the long white ducks he always wore, moving swiftly to ball and then unleashing his big-time, cross-court topspin forehand. He'd be happy if no one remembered his backhand.

I'll miss you, Uncle Frank.

Love,

David