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AIG Replaces Hank Greenberg as CEO

The Inevitable Hour by David Schiff

In America, nothing fails like success, wrote novelist Budd Schulberg. That thought, among others, was on my mind yesterday as reports swirled around that Hank Greenberg, AIG's chairman and CEO, would soon be relinquishing the CEO title. The idea of AIG without Hank—and Hank without AIG—is hard to conceive. Although it was always a given that the time would come for him to step down, most people naturally assumed that his exit would be a graceful farewell befitting his outsized accomplishments. Few would have dreamed that the denouement to the greatest insurance career of all time would be a forced exit while AIG was at the top of its game and achieving record earnings.

Hank's ouster from AIG is a tragedy in the classic sense. A tragedy is a story about the downfall of a great man, and in the insurance industry there has been no greater man than Hank Greenberg, nor has anyone attained a loftier position.

There are many who will feel *schadenfreude* in Hank's fall. He has been feared and disliked by many. They will say, privately, that he's had it coming for a long, long time—that he is manipulative, abrasive, intolerant, and short-tempered. I won't quibble with these adjectives. But it's the other side of his personality that is most noteworthy. He's a man of drive and energy who has an enormous passion for his work and his company. He's a leader who transformed an amalgam of underwriting agencies and foreign companies into one of the world's greatest insurance and financial organizations. Hank's passion, energy, intellect, and brilliance are evident when you talk with him for a little while—but even if they weren't, his record of accomplishment in a slow-grow-

ing industry is a testament to many of these traits.

Hank's self-confidence has been one of his great strengths—and, in the end, perhaps a weakness, too. He is opinionated but not inflexible. He's almost eighty years old, but has a long-term view. "I'm trying to inculcate the idea that change is constant," he said during a conversation last year. "A company cannot stay the same forever. You have to have the vision and the guts to change otherwise your company won't be any good in twenty or thirty years. The biggest contribution I can make is to create a culture that will last way beyond me."

C.V. Starr, the founder of what is now AIG, was known for his intellect and remarkable memory. He was constantly traveling and asking questions. He was intensely loyal to his employees, but he expected them to know their businesses down to the finest detail.



AIG's Hank Greenberg

Hank may not have emulated Starr, but he seems to be similar.

"I was absolutely mesmerized by Hank the first time I met him," says a man who joined AIG in the late 1960s. "I was too young to be intimidated, and now, with the benefit of hindsight, I think he must have thought I had a lot of strength. He was willing to give young people a chance. I later saw a pattern: he always wanted something that couldn't be done to be done." And somehow, his people did it.

AIG has been an extremely complex company for a long time. In 1974, it was trying to take over American Re, which was resisting. At a New York insurance department hearing, a lawyer for American Re who was cross-examining Hank said that it looked like AIG was already too complicated, and that it would be impossible to understand if it acquired American Re.

"You may find it that way," said Hank, "But we don't."

The following appeared in *The New York Times* on December 16, 1960, under the headline "C.V. Starr Names Officer"

Maurice R. Greenberg has joined C.V. Starr & Co. as vice president, effective Jan. 1, it was announced yesterday by William S. Youngman, president. Mr. Greenberg is now vice president of the Continental Casualty Company, Chicago. C.V. Starr & Co. is the senior company in the American International Insurance group.

Hank says that one of the reasons he left Continental was that he was Jewish. He couldn't imagine that they'd ever make a Jew president. After joining Starr, he worked to build up the international accident and health business. By

1963, he was president of American Home, which had been acquired a decade earlier. Hank got rid of the agency force and made American Home a brokerage company. He didn't want agents to be in control of the underwriting. He wanted his underwriters to use judgment rather than rely on rate manuals.

C.V. Starr & Co. was primarily an underwriting manager. Because it didn't own the insurance companies that it wrote business through, it was dependent upon these companies—it needed their paper.

According to a short corporate history, AIG bought the New Hampshire Insurance Company after it was "threatened [with an] unfriendly takeover by a major shareholder who wanted to move the company to New Orleans. New Hampshire's management appealed to American International, and Greenberg negotiated the purchase of a significant block of the company's stock in 1966."

The "shareholder" referred to was Louis J. Roussel, Jr. of New Orleans. He began as a bus driver in the 1930s and later made fortunes in oil and banking. Roussel was a crusty, tough, politically-connected man who died at 95 four years ago. He was also a friend of one of our subscribers, who told us the following story: "Louis J. Roussel, Jr., bought a big block of the New Hampshire for below book value. This was before the Williams Act went into effect and you didn't have to file a 13D when you acquired a large block of stock. He kept the stock in street name and nobody knew anything.

"His lawyer went to Keene, New Hampshire and introduced himself as the new owner of the company. The president got all upset and called Greenberg (New Hampshire was part of the AIU pool). Greenberg subsequently threatened Roussel and said he could either take a gain or he'd fight him and take the company away from him.

"Eventually, Greenberg went down to New Orleans and wrapped up a deal with Roussel.

"Roussel later called me and said of Greenberg, 'You know, I like that little guy.'"

When I asked Hank about buying New Hampshire, he told the story this way: "I knew Louis Roussel. He had come to New

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York a few years before. He was a small New Orleans banker. We did some credit life through his bank in New York. I treated him nicely (like I treat anyone who comes to see me). Next thing I knew he'd acquired a block of the New Hampshire and was threatening to strip it—take out the assets and shut it down. Starr asked me to go

down to New Orleans.

"Because I'd treated Roussel nicely in New York (we had dinner), he and I talked some more and we eventually bought him out at a nice profit."

When I asked Hank about the other version of the story he laughed, but didn't disagree with it. *continued*

Once asked Hank about some of the apparent similarities between him and C.V. Starr. They both like skiing and tennis. They both had houses in Brewster. Hank's apartment on Fifth Avenue is about eight blocks from Starr's old apartment. They both used initials rather than their names—Starr went by "C.V. Starr" and Hank goes by "M.R. Greenberg."

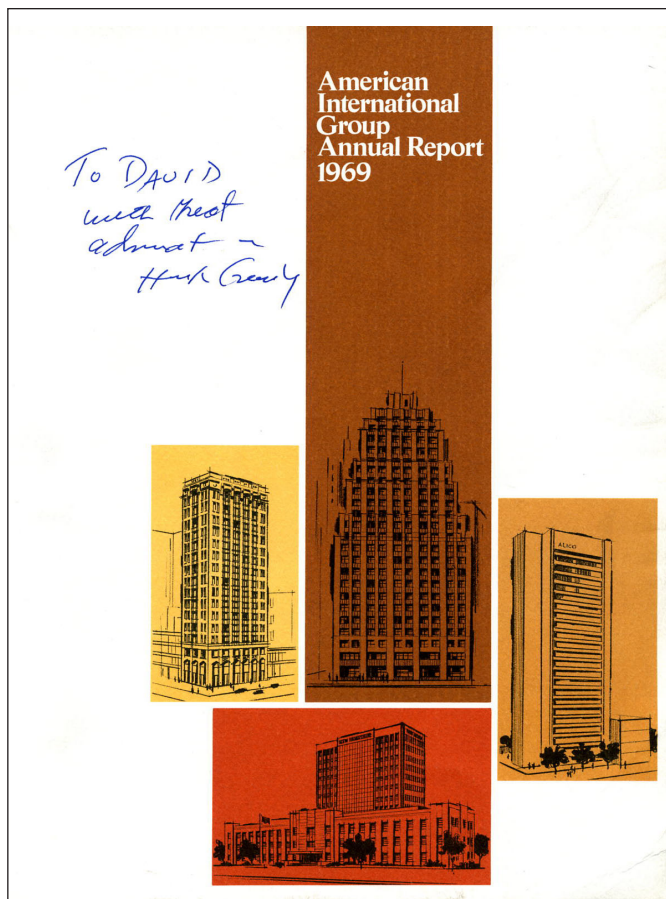
"I hated the name 'Maurice,'" Hank said. "Starr probably didn't like 'Cornelius.'"

AIG went public in 1969 via an exchange offer. Before the offer, AIG was a holding company with virtually no employees. It owned 51.4% of American Home, 57.8% of National Union, and 12.4% of New Hampshire. In exchange for the shares of these three insurance companies, AIG offered its common stock, convertible debentures, and convertible preferred shares. Upon completion of the exchange offer, AIG became an operating company. In 1969, it had revenues of \$232 million and earned \$13 million. Book value was \$120 million. AIG earned \$11 billion in 2004.

Hank Greenberg's accomplishments are significant. He reinvented the commercial insurance business and built up the greatest international insurance franchise in the world. AIG's shareholders have earned spectacular returns during his long tenure.

AIG's board has now "implemented its management succession plan" and replaced Hank as CEO. He will serve as non-executive chairman. This is a sad day and the end of an era. ■

Please go to the next page.



AIG's first annual report. Hank Greenberg wrote the kind inscription to David Schiff in 2002.

Schiff's Insurance Observer's 1989-2004 Index of Articles on AIG

Schiff's has been in the process of creating a detailed index of everything we've ever published. The final version of the index is not yet complete. However, because we have received so many inquiries about articles that we've written about AIG, we're publishing the sections of the index that deal with it.

Back issues of *Schiff's* are available from our publishing offices. The phone number is (434) 977-5877. The email address is Subscriptions@InsuranceObserver.com.

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