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Thoughts on American International Group

The Bigger They Come

The boast of heraldry, the pomp of power,
And all that beauty, all that wealth e'er gave,
Awaits alike the inevitable hour.
The paths of glory lead but to the grave.
—Thomas Gray, "Elegy Written in a Country Churchyard"

In our March 15 issue we wrote that Hank Greenberg's ouster from AIG was a tragedy in the classic sense—that is, it was the downfall of a great man. One reader called to provide clarification. She reminded us that in the classic (Aristotelian) sense the great man's downfall is brought on by a tragic flaw in his character. In Greek tragedies the tragic flaw is usually hubris.

In a *Wall Street Journal* op-ed yesterday entitled "The Imperial CEO Is No More," former SEC chairman Arthur Levitt, Jr. says that the catalyst for Greenberg's removal (and that of many other CEOs in the past month), is "nothing less than hubris." He writes: "While the particulars of each of the recent CEO departures are unique, just about all post-Enron CEO firings involved talented, powerful individuals who conflated their positions with their personalities. Like modern-day sun kings, they thought the company was them; there was no distinction between the company and the CEO."

It is too neat to attribute Greenberg's fall to just one thing. Real life isn't a well-constructed drama: it is messy and the pieces don't fit together; it just happens. Levitt's op-ed, however, seems to be saying that real life is bound by dramatic conventions: "It would be a foolish misreading of the fates of CEOs, like AIG's Mr. Greenberg, if other executives thought that their deposal was the result of merely falling into a regulatory problem... Shareholders had long complained about [AIG's] governance."

Was failure to heed the corporate-governance vigilantes the cause of Greenberg's downfall? Or was it his bullying, overbearing personality that came back to haunt him? It's easy to attribute his fall to some tragic flaw—but it's just as misplaced as attributing it to bad karma.

Greenberg is a complex public figure. He is a leader gifted with an incisive mind and possessed by a work ethic that, depending upon your perspective, is either magnificent or mad. He built up an insurance organization that dwarfed all others, a company that ranks among the largest and most profitable in the world. AIG also has a darker side. It entered into transactions with nebulous offshore reinsurers, "smoothed" earnings, and issued deceptive earnings' releases that gave the impression of results that were better than they really were. When things didn't go its way, AIG, or Greenberg, had a tendency to blame trial lawyers, the legal system, shortsellers, NYSE specialists, and the press (including this publication).

"Then it's moved and seconded that the compulsory retirement age be advanced to ninety-five."

We don't view this behavior as symptomatic of a tragic flaw that led to Greenberg's amputation from the company he built and loves. Let's face it—business is a nasty sport. Corporations aren't concerned with morality *per se*; their mission is profit. The qualities that we seek in individuals—kindness, friendship, loyalty—are not necessarily those that make successful corporations (or businessmen). Ruthlessness, intimidation, the bottom line, lack of sentiment, and amorality are often successful qualities for business. Shareholders will not look at the CEO of a company whose intrinsic value has shrunk over a decade and remark, "What a lovely man, so good to the employees and community." Instead, they will see an incompetent who is bleeding their company.

Certainly, hubris clouds people's judgment. (All of us would do well to remember Montaigne's famous remark in his essay *Of Experience*: "When seated upon the most elevated throne in the world, we are but seated upon our arse." While it may be comforting to believe that hubris (or worse) is inevitably punished, there's no proof of this, just as there's no proof that goodness is rewarded.

Some CEOs may sleep better at night if they ascribe Greenberg's decline to a tragic flaw. But the pleasant dreams will come at the expense of the reality that we're all vulnerable. All big businesses do things that they shouldn't; all cross the line between right and wrong, and 99.99% of the time they get away with it. But when they get caught it makes a good story—the bigger they come, the harder they fall. *continued*

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9:00 a.m. **David Schiff,** editor of ***Schiff's Insurance Observer,*** will tell you what he's riled up about these days. Throughout the conference he will, as always, interrogate the speakers and force them to answer brazen questions.

9:30 a.m. In June 1994, *Schiff's* wrote an admiring profile of **Christopher Davis,** portfolio manager of the ***Davis Funds***, which had $300 million under management. (Chris is the only money manager we've ever profiled.) We picked a winner. The Davis Funds now manage $40 billion, and the firm's primary fund has outperformed the S&P 500 during every meaningful period since its inception in 1969. Chris will tell us about the Davis's sixty-year history of investing in the insurance business, and share his thoughts on the mutual-fund industry, shareholder activism, and more.

10:40 a.m. Two years after receiving his Ph.D. in economics from Harvard, 27-year-old **James Stone** became the youngest insurance commissioner (Massachusetts) in history. Four years later, in 1979, Jimmy Carter appointed him as chairman of the Commodity Futures Trading Commission. When his term ended in 1983, he moved back to Boston and founded ***The Plymouth Rock Company,*** a privately-held insurance holding company that now writes well over $1 billion in premiums—quite profitably. Jim will share his perspective on auto insurance, regulation, public policy, and being an entrepreneur in the insurance business.

11:20 a.m. **William Koenig** is Senior Vice President and Chief Actuary of "the quiet company," ***Northwestern Mutual***. Bill will give us his perspective about reserving—especially when it involves universal-life products with secondary guarantees. His comments, which will not be quiet, should leave some members of the insurance industry feeling worried.

Noon Lunch: Decent food; fine conversation.

1:00 p.m. **Andrew Kaufman,** a founding partner of ***Kaufman Borgeest & Ryan LLP,*** is one of the leading attorneys specializing in the defense of health-care providers and hospitals. He's tried more than sixty cases to verdict, and is the past president of the New York State Medical Malpractice Defense Bar, and past Vice Chairman of the American Bar Association Section on Law and Medicine. Andy will give you a view from the battlefield, tell you his thoughts on tort reform, and explain why he's not for caps on pain and suffering. *continued*

AIG's catchy slogan, "We Know Risk," is a good one for an insurance business. Certainly, Hank Greenberg was acutely aware of risk and an expert in profiting from its transfer. Risk may be defined as the uncertainty of loss. A considerable amount of uncertainty can be quantified—that's what the insurance business is all about. But odds and probabilities aren't the whole game because there's always one risk that's extremely hard to plan for or price: the risk you never even thought of.

To be continued. We expect to publish several articles about AIG quite soon.