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AIG's Secret Connection with Director

\$36.5 Million from Starr

Some of AIG's "independent" directors have had unusual financial relationships with AIG or its affiliates, and may not be as independent as they appear to be. AIG's failure to disclose these relationships to its shareholders raises questions about the company's corporate governance and business practices.

Schiff's has written extensively about AIG, for many reasons: AIG is the largest insurance organization in the world; it's a great company; Hank Greenberg is a brilliant guy; and, as Churchill said of Russia, AIG is a riddle wrapped in a mystery inside an enigma. In our April 7 issue we broke a story, "Inside the AIG Proxy Statement," that discussed, among other things, the undisclosed financial connection that an AIG director, Ellen Futter, had with The Starr Foundation, a charitable foundation affiliated with AIG and controlled by the folks who control AIG.

Futter, president of The American Museum of Natural History, joined AIG's board in March 1999. Between 1999 and 2001, the Starr Foundation gave \$36.5 million to The American Museum of Natural History. AIG's proxy statements *have not disclosed* this, or that Greenberg is a trustee of The American Museum of Natural History.

The Starr Foundation was created by AIG's founder and is controlled by Hank Greenberg and current and former AIG officers. It owns fifty-six million AIG shares (2.1% of AIG) and is located in AIG's headquarters.

The fact that The Starr Foundation provided an enormous amount of funding to the museum *after* Futter joined AIG's board is a matter that AIG's shareholders deserve to be made aware of *by* AIG. Shareholders

have a right to know how indebted their company's directors may be to Greenberg and the other AIG officers who control Starr and AIG. (Futter, who received about \$145,000 in director's fees from AIG last year, was on the company's Compensation Committee until September 18, 2002. She then switched to the Nominating and Corporate Governance Committee.)

If there were doubts whether AIG's undisclosed relationship with Futter was of interest to a broader audience than *Schiff's* readers, those doubts were erased on Friday by an excellent front-page article in *The Wall Street Journal* entitled "Giving at the Office: On Corporate Boards, Officials From Nonprofits Spark Concern / When Directors' Positions

Help Them Raise Funds, Danger of Conflict Follows: Aiding Ms. Futter's Museum." The article, by David Bank and Joann Lublin, noted that Futter was on the boards of four companies (including AIG) that made substantial contributions to her museum, and that these contributions "create[d] a potential conflict of interest: the possibility that money flowing from companies and their executives will make nonprofit officials beholden to the corporate management they are supposed to monitor." The long article, which contained a picture of Futter on the front page, left out a key fact we'd written about earlier—that AIG didn't disclose its unusual relationship with Futter to its shareholders. *continued*

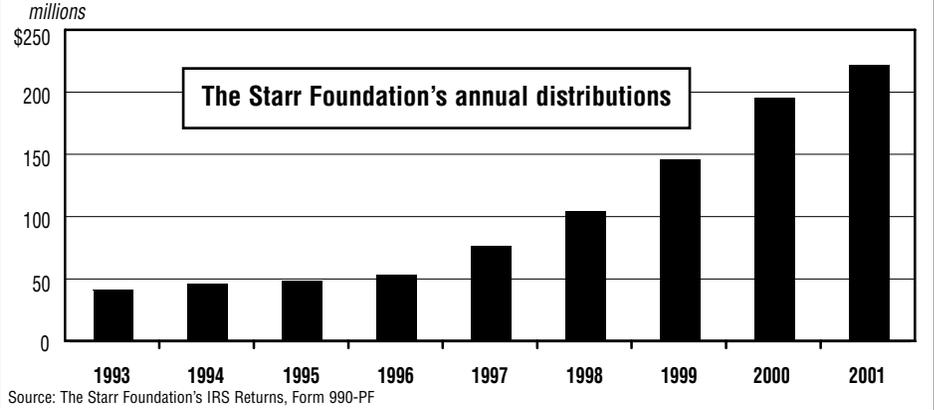
AIG and the Starr Foundation: Secret Connection with AIG Director

When AIG's founder, Cornelius Vander Starr, died in 1968, he left his estate to The Starr Foundation, which now has \$3.2 billion in assets (all of it in AIG stock). The Foundation pays about \$220 million of grants annually to more than 1,000 individuals and almost as many organizations.

Hank Greenberg, AIG's chairman and CEO, is chairman of The Starr Foundation, which operates out of AIG's headquarters. The Foundation's other directors are current or former AIG directors or officers.

Ellen Futter, president of The American Museum of Natural History, joined AIG's board of directors in 1999. Between 1999 and 2001, The American Museum of Natural History was the second largest recipient of funds from The Starr Foundation, receiving \$36.5 million, or 6.6% of all grants paid by Starr.

AIG did not disclose these grants to its shareholders, nor did it disclose that Hank Greenberg was a trustee of The American Museum of Natural History. AIG considers Futter to be an "independent" director.



Not surprisingly, spokesmen for Futter, Starr, and AIG said, respectively, that Futter's role as an AIG director is independent of her job as president of the museum, that the donations Starr gave to the museum had nothing to do with Futter being on AIG's board, and that The Starr Foundation is independent of AIG.

We'll throw out a rhetorical question: Might the fact that The Starr Foundation gave \$36.5 million to Futter's museum make her, as an AIG director, disinclined to differ with Hank Greenberg? According to an IRS filing, Greenberg is quite involved with The Starr Foundation; he devoted 200 hours to it in 2001. Does this, plus \$36.5 million—a huge sum for the museum—have the *potential* to color Futter's decisions in any way?

Definitive answers to these questions are probably unknowable. But AIG's shareholders have a right to know about potential conflicts of interest their directors have. They have a right to know about information that might affect a director's independence. They have a right to know what other financial or "charitable" connections AIG may have with its directors.

We've often been amazed by Hank Greenberg's tin ear on the subject of disclosure. Although he wasn't available to talk to us when we called today, we suspect that he would have said that AIG is a great company that has done nothing wrong; that Starr and AIG are generous, and that this *whole matter* is being blown out of proportion. He might also say that when you're as big as AIG it's impossible to disclose every little thing. And, oh yes, the New York Stock Exchange doesn't require disclosures about grants that AIG—or an AIG affiliate—gives to nonprofit organizations that AIG's directors are involved with.

Greenberg has done things his own way for a long time, and has been extraordinarily successful. When AIG was reporting rapidly growing earnings every year and the markets were going up, few seemed bothered by little things such as disclosure, corporate governance, and accounting transparency. Investors had faith in AIG because it was, after all, *AIG*, and it was run by Hank Greenberg, who *always* hit his numbers.

The Journal's article reported that the NYSE and Nasdaq are considering rules under which a director would not be considered "independent" if his corporation received more than a certain percentage of its revenues from the company whose board he's on. It isn't clear if these proposals, or others that might be adopted, would affect AIG. Ultimately, having independent directors will not create good corporate governance; good directors will. As for "independence," almost everyone on a corporate board got there because the people running the company wanted that person there. People who might shake things up—even if that's what's needed—don't get asked to be on corporate boards.

Whether Ellen Futter serves AIG's shareholders well is not the issue. The issue is AIG's lack of disclosure about the material financial connections between AIG, Starr, The American Museum of Natural History, and Futter. This absence of dis-

closure is troubling and raises many questions, including, "What is AIG hiding?"

AIG's proxy statement also lacks disclosure about directors' compensation: "Certain directors who are not employees of AIG also serve as directors of various subsidiaries of AIG and receive fees for their service in that capacity." The proxy doesn't say which directors serve on which subsidiaries, or how much they get paid.

AIG's shareholders deserve better disclosure. Then they can make an informed decision about whether they want to vote for a director whose organization received \$36.5 million from a foundation affiliated with AIG. ■

Please go to the next page to read "No Degrees of Separation: Hank Greenberg's Connections with American International Group's Directors."

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No Degrees of Separation: Hank Greenberg's Connections with American International Group's Directors

AIG's proxy statement provides little information about AIG's directors. The chart below—which does not purport to be complete—shows some of the connections between Hank Greenberg and AIG's directors.

These connections are not disclosed in AIG's proxy statement. The chart does not show connections between other directors, or between directors, advisory board members, honorary directors, and AIG employees.

	American Museum of Natural History	Business Council For Int'l Understanding	Center for Strategic and Int'l Studies	Coral Reinsurance	Council on Foreign Relations	Federal Reserve Bank of New York	Institute for Int'l Economics	NYSE	Project Hope	The Asia Society	The Starr Foundation ³	Trilateral Commission	US-ASEAN Business Council	US-China Business Council
Hank Greenberg¹	Trustee	Honorary Trustee	Former Vice Chairman	Secret Affiliate?	Former Vice Chairman	Former Chairman	Director	Director	Director	Trustee	Chairman	Member	Vice Chairman	Director
Aidinoff^{1,2}					Member									
Chia										Trustee				
Cohen				Shareholder										
Conable²					Member			Director						
Feldstein					Director	Board of Advisors						Member		
Futter	President				Member	Former Chairman								
Hills^{1,2}			Member		Vice Chairman		Director			Trustee		Member	Husband is Vice Chairman	Director
Hoene Meyer^{1,2}														
Holbrooke					Director					Trustee		Member		
Smith											Director			
Sullivan														
Tse									Advisory Board		Director			
Wintrob														
Wisner		Vice Chairman			Member									
Zarb^{1,2}					Member			Former Director						

Sources: Various, including www.elitewatch.net/firms.com

1. Executive Committee

2. Audit Committee

3. Some disclosure in AIG's proxy