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AIG's Dubious Relationship with Coral Re *Secret Affiliate?*

In 1996, we published three articles about AIG's relationship with Coral Reinsurance, a nebulous Barbados reinsurance company to which AIG had ceded \$1.6 billion in premiums between 1987 and 1993. Almost everything about the AIG-Coral transactions was strange. Not only did AIG have an "interest" in creating Coral, but it managed the company and appeared to control it. Yet AIG claimed that Coral *was not* an AIG affiliate. (If Coral *was* an affiliate, AIG wouldn't have been able to take credit for the reinsurance ceded because there wouldn't have been a transfer of risk.)

Coral was capitalized through a private placement that looked too good to be true. Coral's shareholders—a small number of companies and corporate bigshots—didn't have to invest their own money or take any risk and were *guaranteed* a profit.

What was the real story behind Coral? Was it a mechanism for AIG to smooth earnings, get around capital requirements, shift assets offshore, puff up its balance sheet, or defer taxes? AIG refused to answer (of course).

We bring up Coral and our old articles because *The Financial Times* reports that regulators have now "reopened an inquiry into AIG's relationship with" Coral. As a result, our articles are—finally—timely. The post-Enron, post-Spitzer environment is vastly different from that of eight or nine years ago. Transactions that regulators used to pay no attention to are now the stuff of investigations, big fines, and criminal charges. Businessmen, not surprisingly, tend to say that the regulators are overdoing it—that they're putting a chill on business activity. On a conference call earlier this month, Hank Greenberg, AIG's chairman and CEO, said "I think there is a recognition



Hank Greenberg, AIG's chairman and CEO, takes a stroll outside AIG's headquarters.

that while the reforms were necessary, it may have gone too far. When you begin to look at foot faults and make them into a murder charge, then you have gone too far."

Greenberg is a great businessman and a brilliant, driven man. But he has not been an advocate of increased disclosure or business "reform" (except for tort reform). Now, his prominence and attitude—combined with AIG's complexity and push-it-to-the-edge aggressiveness—make him a target for attorneys general, regulators, journalists, and prospective plaintiffs. It used to be that Greenberg was big and the regulators and enforcers were small. Greenberg is still big, but so are some of the others, and he has little to gain and much to lose by getting into a battle with a government official who has the power to bring criminal charges.

Avoiding such a battle, however, isn't as easy as it used to be. ■

Please click on the link below to read our March 1996, June 1996, and December 1996 articles about AIG and Coral Re. (*Schiff's Insurance Observer* was known as *Emerson*, *Reid's Insurance Observer* in those days.)

http://www.insuranceobserver.com/Schiffs_Insurance_Observer-AIG_and_Coral_Re.pdf

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