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## Injunction Sought to Keep A.I.G. Assets in State

By [MARY WILLIAMS WALSH](#)

Lawyers in California asked a judge on Thursday to bar the [American International Group](#) from transferring money out of the state for 90 days, out of concern that the company may not have enough readily available assets to back its policies, as required by law.

The [request for an injunction](#) came from a policyholder, Linda M. Harris, who is also a financial planner and who recommended A.I.G.'s annuities to her clients long before the insurance company's government rescue last fall. She filed suit earlier this year, saying she had unintentionally put people into long-term investments that had proved riskier than she understood. Now she wants to make sure A.I.G. can pay in the long run.

A spokesman for A.I.G., Mark Herr, said the company would fight the motion, adding that Ms. Harris had no standing to bring such a lawsuit and that its subsidiaries doing business in California had enough assets.

"We believe that there is no merit to the motion, and we will continue to defend ourselves against these spurious assertions," Mr. Herr said.

Judge Yvette M. Palazuelos of the California Superior Court for Los Angeles County is not expected to rule on the motion until after a hearing scheduled for December.

But if she does grant an injunction in California, it could affect A.I.G.'s customers in other states as well. The companies that make up A.I.G. often participate in internal pools and other group transactions that cross state lines. An injunction barring the participation of insurers in California from some transactions could disrupt flows of money throughout the giant insurance group.

State laws in California and elsewhere require all insurers to estimate their future claims and set aside enough assets to honor them. If they do not, state commissioners have the authority to step in and correct the breach.

But Michael J. Aguirre, one of the lawyers for Ms. Harris, said the state legal framework alone was not enough to protect policyholders because no one — at either the state or the federal level — was regulating A.I.G., the holding company.

And it is the holding company that has been orchestrating the movement of money among the individual insurance units, Mr. Aguirre said.

The motion cited a number of those activities, including off-balance-sheet investment pools, unsecured promises by related entities to backstop one another's claims, and reinsurance agreements meant "to portray

a sound financial picture.”

If granted, the motion would bar A.I.G.’s subsidiaries operating in California from participating in those activities, and give them 90 days to show compliance. There are 34 such insurers. Ms. Harris also asked the court to stop those units from issuing inaccurate financial statements.

Mr. Herr, the A.I.G. spokesman, said Ms. Harris had no standing to file a complaint against A.I.G. under California law, which required her to take it to the state insurance commissioner. Adjudication “would embroil the court in a complex regulatory and legislative analysis in which regulatory agencies and legislative bodies throughout the country are already engaged,” A.I.G. said in a court filing.

In the past, the regulator of A.I.G., the holding company, was the Office of Thrift Supervision — a situation that has been widely recognized as inadequate since the company nearly toppled last year. After the [Federal Reserve](#) rescued A.I.G. in September 2008, the thrift office withdrew as the holding company’s regulator. But the Fed did not replace it. The Fed describes itself as a creditor, not a regulator.

Mr. Aguirre said the holding company was left to operate in “a regulatory vacuum.”

To support Ms. Harris’s request for a court order, he filed two sworn declarations by Thomas D. Gober, a financial fraud examiner with experience identifying improper transactions among affiliated insurance companies.

“It is my professional experience that most ‘sleight-of-hand’ accounting schemes are perpetrated through complex and well-hidden transactions among affiliates and with the holding company,” Mr. Gober wrote.

He went on to describe activities that he said fit a pattern of “pervasive wrongdoing” at the company, dating back to the 1980s. He cited a number of lawsuits and enforcement actions by the New York State attorney general, the [Securities and Exchange Commission](#) and the Department of Justice.

Mr. Gober also pointed out that A.I.G.’s longtime head of reinsurance was convicted of several business felonies in 2008, and that a vice chancellor of the Delaware chancery court had described the company’s “inner circle” of executives as a “criminal organization” in an opinion last February.

In his second declaration, Mr. Gober described specific transactions that he said put California policyholders at risk.

Much of the declaration dealt with A.I.G.’s life insurance companies, although many other types of insurance are sold under the corporate umbrella in California. The declaration emphasized one A.I.G. unit, SunAmerica Annuity and Life Assurance, whose annuities Ms. Harris had recommended to her customers.

SunAmerica was one of about a dozen life insurers within A.I.G. whose assets were partly removed from their portfolios over a period of several years and pooled for use in a [risky lending venture](#), according to documents filed with the lawsuit. By 2008, about \$80 billion of the life insurers’ portfolio assets had been lent to banks and traders, and A.I.G.’s insurers no longer had control of them.

But the insurers’ filings with their state regulators made it look as if those assets remained in their individual portfolios, the suit contends.

Instead, the collateral that A.I.G. received from the banks and traders in the lending program was invested in mortgage-backed securities, which proved disastrous. In 2008, the Fed ended up bailing out the entire venture.

Mr. Gober said that the securities-lending program had violated California laws, because insurance companies were not supposed to give their assets to unrelated companies without adjusting their balance sheets accordingly.

Mr. Herr of A.I.G. said, "Ms. Harris' claims border on the frivolous, and A.I.G. will be seeking to recover its attorneys fees for having to defend such an baseless lawsuit."

