



NY Insurance Superintendent: AIG Shows State Regulatory System Works

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By Dinah Wisenberg Brin and Lavonne Kuykendall Of DOW JONES NEWSWIRES New York's Superintendent of Insurance, the top regulator for many of the country's biggest companies, argued Wednesday that state-level insurance regulation helped catch financial problems far earlier than if the federal government had been in charge.

The U.S. government rescue of American International Group Inc. (AIG) is "Exhibit A" for how well the state insurance regulatory system works, New York State Insurance Superintendent Eric Dinallo said. Dinallo, speaking in Philadelphia at the annual meeting of the National Association of Mutual Insurance Companies, also blamed the lack of regulation of credit default swaps for rocking AIG and the U.S. economy.

AIG ran into trouble in recent months as losses mounted on its exposure to mortgage-backed securities. AIG's financial products business holds more than \$80 billion in credit default swap contracts on exotic securities called collateralized debt obligations or CDOs, which have racked up losses over the last three quarters.

Last month, Dinallo helped broker a Federal Reserve Board-backed \$85 billion line of credit to help AIG meet collateral calls on its credit default swaps contracts.

AIG has two years to sell enough assets to retire the credit line, and speculation has grown over what businesses the company will sell. AIG plans to hold an investor conference call Friday to provide more details on its progress.

"AIG is Exhibit A for how well the system worked, not how poorly it worked," said Dinallo, whose agency regulated the New York-based AIG and is a member of the committee that will oversee any sales of the company's insurance property.

The AIG rescue, in fact, presents a case against an optional federal charter for insurance regulation, he said. The federal government could engage in the transaction because of the solvency of the underlying insurance companies, and the distressed holding company couldn't reach in and get that capital, which would have been policyholder money, Dinallo explained.

The state regulatory system "works extremely well," Dinallo said. That system made sure the underlying companies were solvent, he said.

The insurance industry is split over a proposal to give insurance companies the option of reporting to one federal insurance regulator rather than the current 50-state regulatory system. Larger insurers tend to favor the federal option, with the argument that it would simplify operations. Some regional insurers who operate in only a few states favor the current state system.

AIG, he said, is not an insurance company, as more than half of its activities are on the financial side. While the holding company is regulated by the Office of Thrift Supervision, the financial products division engaged in unregulated credit default swaps and guaranteed investment contracts, Dinallo said.

AIG shares recently rose 37 cents, or 11%, to \$3.70.

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