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EDITORIAL – September 25, 2008

Colorado's Insurance Commissioner Marcy Morrison:
State Regulators "Got it Right" for Consumers on AIG Crisis

By Marcy Morrison, Colorado Commissioner of Insurance

While evaluation and finger-pointing continues in the financial crisis of investment conglomerate American International Group (AIG), one fact emerges as certain: The states regulating AIG's insurance subsidiaries can, and should, take credit for preventing a run on insurance company assets by AIG that could have affected the ability to fully pay claims presented by policyholders.

Quite simply, the states are not responsible for the crisis at financial giant AIG. However, the states' regulatory system for insurance, with its system of checks and balances, and constant monitoring of the financial condition of all state-regulated insurance companies, is clearly the safeguard that prevented AIG from using subsidiaries' assets to bail out the troubled parent company.

Insurance consumers remain protected by state statutes and regulations preventing the parent company from raiding capital from its profitable and well-capitalized insurance subsidiaries. A coordinated effort by the insurance regulators throughout the states ensured that no policyholder assets were used to bail out AIG.

In addition to other assets, such as banks, securities firms and non-U.S. insurers, AIG owns 71 state-regulated insurance entities. These companies, of which 44 do business in Colorado, are all financially sound — or, in insurance regulatory terms, "solvent" — and continue to be fully able to pay claims presented by policyholders and claimants.

Although just one AIG subsidiary is domiciled in Colorado, many of our state's citizens may have policies purchased from AIG subsidiaries based in other states. And regardless of which company holds the policy, any insurance carrier offering policies in Colorado must adhere to our state's laws and regulations. The state insurance regulators in each state are responsible for monitoring the financial health and solvency of all insurance companies regulated within each state.



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Constant communication between the states keeps all regulators aware of developments and ready to take any action necessary to protect consumers, regardless of the state in which they live, where the insurance policy was purchased, or where a company is based. State insurance regulators are proud of the quiet work they do every day to protect America's insurance consumers — by requiring conservative accounting and investment rules. It is this conservative approach to investments that keeps insurers from investing inordinate sums in risky ventures, which is what caused the eventual downfall of the financial (non-insurance) side of the AIG holding company.

The AIG financial companies took on more risk than they could handle. But AIG's ownership of state-regulated insurance companies was not part of the risk: Proposed transactions involving the assets of insurance carriers, protected by state regulators, are closely monitored to ensure they will not threaten the ability of the insurers to pay policyholder claims.

AIG's financial troubles are contained within its non-insurance holding company, which is regulated by the U.S. Office of Thrift Supervision (OTS.) It is not held to the same investment, accounting and capital adequacy standards as its state-regulated insurance subsidiaries.

Some opportunists will use the AIG crisis to renew efforts to deregulate the insurance industry by the states and create a federal system of regulation. Alternatively, state insurance regulators suggest that federal regulators look to state insurance regulation as a proven model that protects consumers by considering restrictions on risky investments and establishing appropriate minimum capital and surplus requirements.

AIG's failure and the states' response was a test of the coordinated regulatory system already in place. And, happily, the states proved that the system works. Although federal entities will be bailing out the parent company, not one policyholder of an AIG subsidiary policy was at risk during the event, nor in the foreseeable future, as long as the states continue to protect the assets of the companies they regulate.

As I have said before, the states' reaction to this crisis was wisely tempered by our knowledge that we are doing our jobs to protect insurance consumers. The states do not act as firemen, putting out a fire. We are guarding a carefully built safe, and the contents are protected due to the regulatory structure around it.

-Marcy Morrison