Federal financial assistance to AIG, both from the Federal Reserve and Federal Reserve Bank of New York through their authority to lend funds to critical nonbank institutions and from Treasury’s Troubled Asset Relief Program (TARP), has focused on preventing systemic risk that could result from a rating downgrade or failure of AIG. The goal of the assistance and subsequent restructurings was to prevent systemic risk from the failure of AIG by allowing AIG to sell assets and restructure its operations in an orderly manner. The Federal Reserve has been monitoring AIG’s operations since September, and Treasury has begun to more actively monitor AIG’s operations as well. Although the ongoing federal assistance has prevented further downgrades in AIG’s credit rating, AIG has had mixed success in fulfilling its other restructuring plans, such as terminating its securities lending program, selling assets, and unwinding its AIG Financial Products portfolio. For example, AIG has made efforts at selling certain business units and has begun an overall restructuring, but market and other conditions have prevented significant asset sales, and most restructuring efforts are still under way. AIG faces ongoing challenges from the continued overall economic deterioration and tight credit markets. AIG’s ability to repay its obligations to the federal government has also been impaired by its deteriorating operations, inability to sell its assets and further declines in its assets. All of these issues will continue to adversely impact AIG’s ability to repay its government assistance.

As part of GAO’s ongoing work related to the federal assistance provided to AIG, GAO is reviewing the potential impact of the assistance on the commercial property/casualty insurance market. Specifically, GAO is reviewing potential effects of the assistance on AIG’s pricing practices. According to some of AIG’s competitors, federal assistance to AIG has allowed AIG’s commercial property/casualty insurance companies to offer coverage at prices that are inadequate for the risk involved. Conversely, state insurance regulators, insurance brokers, and insurance buyers said that while AIG may be pricing somewhat more aggressively than in the past in order to retain business in light of damage to the parent company’s reputation, they did not see indications that this pricing was inadequate or out of line with previous AIG pricing practices. Moreover, some have noted that AIG has lost business because of the problems encountered by its parent company. As GAO evaluates these issues, it faces a number of challenges associated with determining the adequacy of commercial property/casualty premium rates, especially in the short term. These challenges include the unique, negotiated nature of many commercial insurance policies, the subjective assumptions involved in determining premiums, and the fact that for some lines of commercial insurance it can take several years to determine if premiums charged were adequate for the related losses.