



**TESTIMONY BY**  
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**CHAIRMAN AND CHIEF EXECUTIVE OFFICER,**  
**AMERICAN INTERNATIONAL GROUP**

**BEFORE THE HOUSE FINANCIAL SERVICES**  
**SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE**  
**AND GOVERNMENT-SPONSORED ENTERPRISES**

**WEDNESDAY, MARCH 18, 2009**

THANK YOU CHAIRMAN KANJORSKI, RANKING MEMBER GARRETT, HONORABLE MEMBERS OF THE SUBCOMMITTEE. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

MY NAME IS EDWARD LIDDY. SIX MONTHS AGO, I CAME OUT OF RETIREMENT TO HELP MY COUNTRY. I HAVE HAD THE DUTY, HONOR, AND EXTRAORDINARY CHALLENGE OF SERVING AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF AMERICAN INTERNATIONAL GROUP – AIG. I SPEAK TO YOU TODAY ON BEHALF OF 116,000 AIG EMPLOYEES AROUND THE WORLD WHO ARE UNITED AROUND THREE SIMPLE BELIEFS:

- FIRST, WHEN YOU OWE SOMEONE MONEY, YOU PAY THAT MONEY BACK.
- SECOND, WHEN YOU HAVE SHAREHOLDERS – AND TODAY THE AMERICAN TAXPAYER, THROUGH THE U.S. GOVERNMENT, IS OUR BIGGEST SHAREHOLDER – YOU ARE ACCOUNTABLE TO THEM FOR HOW YOUR BUSINESS IS RUN.
- THIRD, WHEN A FINANCIAL CALAMITY OF THE KIND THAT HIT AIG STRIKES, THE ONLY POSSIBLE RESPONSE IS TO ROLL UP YOUR SLEEVES, ACKNOWLEDGE THE MISTAKES OF THE PAST, CORRECT THOSE MISTAKES AND MOVE FORWARD – EXACTLY WHAT AIG’S EMPLOYEES HAVE BEEN DOING.

WE ARE MEETING TODAY AT A HIGH POINT OF PUBLIC ANGER. AMERICANS WANT TO KNOW HOW THE COUNTRY GOT INTO THE FINANCIAL MESS WE ARE IN, HOW WE ARE GOING TO GET OUT OF IT, AND HOW QUICKLY WE CAN GET BACK TO THE ECONOMIC GROWTH AND PROSPERITY WE ENJOYED FOR SO MANY YEARS.

I SHARE THAT ANGER. AS A BUSINESSMAN OF SOME 37 YEARS, I HAVE SEEN THE GOOD SIDE OF CAPITALISM. OVER THE LAST FEW MONTHS, IN REVIEWING HOW AIG HAD BEEN RUN IN PRIOR YEARS, I HAVE ALSO SEEN EVIDENCE OF ITS BAD SIDE.

MISTAKES WERE MADE AT AIG ON A SCALE FEW COULD HAVE EVER IMAGINED POSSIBLE. THE MOST CRITICAL OF THOSE MISTAKES WAS THAT THE COMPANY STRAYED FROM ITS CORE COMPETENCIES IN THE INSURANCE BUSINESS. THIS WAS TYPIFIED BY THE CREATION OF WHAT GREW TO BECOME AN INTERNAL HEDGE FUND, WHICH THEN BECAME SUBSTANTIALLY OVEREXPOSED TO MARKET RISK.

THOSE MISSTEPS HAVE EXACTED A VERY HIGH PRICE, NOT ONLY FOR AIG BUT FOR AMERICA'S TAXPAYERS, THE FEDERAL GOVERNMENT'S FINANCES AND THE ECONOMY AS A WHOLE.

OUR NEW MANAGEMENT TEAM CONCLUDED VERY QUICKLY THAT THE COMPANY'S OVERALL STRUCTURE IS TOO COMPLEX, TOO UNWIELDY, AND TOO OPAQUE FOR ITS COMPONENT BUSINESSES TO BE WELL-MANAGED AS ONE COMPANY. WE IMMEDIATELY TOOK STEPS TO RESTRUCTURE AIG, ALTHOUGH THE CONTINUED DETERIORATION OF WORLD MARKETS AND THE INABILITY OF BUYERS TO ACCESS CAPITAL HAVE IMPEDED OUR ABILITY TO SECURE SUFFICIENT VALUE FOR AIG ASSETS AT THIS TIME.

WE HAVE ALSO CONCLUDED – AS MANY IN THE CONGRESS HAVE AS WELL – THAT THERE MUST BE SAFEGUARDS IN PLACE AGAINST THE SYSTEMIC CONSEQUENCES OF FAILURES OF LARGE, INTER-CONNECTED FINANCIAL INSTITUTIONS.

LET ME BRIEFLY DISCUSS THE PROGRESS WE HAVE MADE OVER THE PAST SIX MONTHS WORKING WITH OUR PARTNERS FROM THE FEDERAL RESERVE AND U.S. TREASURY. I AGREED TO TAKE THE REINS AT AIG LAST SEPTEMBER, AT THE REQUEST OF THE U.S. GOVERNMENT AND AFTER THE COMPANY HAD TURNED TO THE U.S. GOVERNMENT FOR FINANCIAL SUPPORT.

THE COMPANY’S REQUEST FOR SUPPORT POSED TO THE FEDERAL RESERVE AND U.S. TREASURY A DIFFICULT DILEMMA: SHOULD THEY LET THE COMPANY FAIL, OR SHOULD THEY PROVIDE INTERIM SUPPORT GIVEN AIG’S DEEPLY EMBEDDED ROLE IN THE GLOBAL FINANCIAL SYSTEM? AS WE ALL KNOW, THE U.S. GOVERNMENT DETERMINED THAT A COLLAPSE OF AIG AND THE CONSEQUENT BLOWS TO OUR COUNTERPARTIES AND CUSTOMERS AROUND THE WORLD POSED TOO GREAT A RISK TO THE GLOBAL ECONOMY, PARTICULARLY IN THE CONTEXT OF THE NEAR OR ACTUAL FAILURE OF OTHER FINANCIAL INSTITUTIONS.

ON BEHALF OF MY COLLEAGUES, I WANT TO THANK THE FEDERAL RESERVE AND THE U.S. TREASURY FOR MAKING THAT EXTRAORDINARILY TOUGH CALL. IT HAS MEANT THAT TOGETHER WE HAVE BEEN ABLE TO PRESERVE JOBS AND BUSINESSES, AND PROTECT POLICYHOLDERS WHO RELY ON THE PROMISE OF INSURANCE TO SECURE THEIR WELL-BEING.

WE HAVE ADDRESSED OUR LIQUIDITY CRISIS AND STABILIZED THE COMPANY'S CASH POSITION.

WE ARE EXECUTING A METHODICAL, ORDERLY WIND-DOWN OF AIG FINANCIAL PRODUCTS, THE BUSINESS THAT CAUSED MANY OF THE COMPANY'S FINANCIAL PROBLEMS; WE HAVE REDUCED THE NOTIONAL VALUE OF AIG FINANCIAL PRODUCTS' DERIVATIVES BUSINESS FROM \$2.7 TRILLION TO \$1.6 TRILLION.

AND ALTHOUGH THE PACE OF OUR MOST IMPORTANT ASSET SALES HAS SLOWED BECAUSE OF POOR MARKET CONDITIONS, WE HAVE EXECUTED SEVERAL SALE TRANSACTIONS AND EXPECT MORE IN THE FUTURE.

THOSE ARE SIGNIFICANT STEPS. MOREOVER, WE HAVE ACHIEVED THIS PROGRESS AGAINST STIFF HEADWINDS. INSURANCE COMPANY STOCKS IN THE LAST FIVE WEEKS HAVE GONE DOWN 35 PERCENT; SINCE THE BEGINNING OF THE YEAR, 50 PERCENT; AND IN THE LAST FIVE MONTHS, 65 PERCENT. THE SAME MACRO-ECONOMIC FORCES THAT MAKE FOR ROUGH SAILING FOR AIG ARE BUFFETING OTHERS IN THE FINANCIAL SERVICES SECTOR AS WELL. AND THIS CREATES PROBLEMS FOR POTENTIAL BUYERS OF AIG ASSETS.

WE UNDERSTOOD THAT SINCE OUR RELATIONSHIP WITH THE GOVERNMENT AND TAXPAYERS HAD CHANGED, OUR BEHAVIOR AS A COMPANY NEEDED TO CHANGE. SO, ON OUR OWN INITIATIVE, WE ADOPTED A SERIES OF RESTRICTIONS ON EXECUTIVE COMPENSATION, ELIMINATED OUR FEDERAL LOBBYING ACTIVITIES, HALTED CORPORATE POLITICAL CONTRIBUTIONS, AND KEPT CONTROLS ON OUR EXPENSES.

WE ARE ALSO MOVING URGENTLY ON A BUSINESS PLAN DESIGNED TO MAXIMIZE THE VALUE OF OUR CORE BUSINESSES, SO THAT IN TURN WE CAN MAXIMIZE THE AMOUNT THAT WE REPAY TO AMERICAN TAXPAYERS.

ON MARCH 2<sup>ND</sup>, WE ANNOUNCED ROBUST NEW ARRANGMENTS WITH THE FEDERAL RESERVE AND U.S. TREASURY THAT GIVE US ADDED FLEXIBILITY TO EXECUTE THAT BUSINESS PLAN. WITH THESE CHANGES, WE WILL TAKE TWO OF AIG'S INSURANCE COMPANIES – AIA AND ALICO – AND PLACE THEM IN A TRUST FOR THE BENEFIT OF THE FEDERAL RESERVE. WHEN WE DO THAT, WE WILL SUBSTANTIALLY REDUCE THE \$40 BILLION IN AIG'S OUTSTANDING DEBT ON THE \$60 BILLION FEDERAL RESERVE CREDIT FACILITY.

WE WILL ALSO IMPLEMENT A SECURITIZATION PROCESS THROUGH WHICH AIG WILL REALIZE TODAY THE CASH VALUE OF SOME OF OUR INSURANCE BUSINESSES. WITH THOSE TWO STEPS, PLUS CASH FROM THE SALE OF BUSINESSES, WE SHOULD BE ABLE TO EXTINGUISH OUR DEBT TO THE FEDERAL RESERVE.

WE WILL ALSO COMBINE THE COMPANY'S COMMERCIAL INSURANCE AND FOREIGN GENERAL INSURANCE UNITS, CREATING A STRONGER ENTITY THAT WE BELIEVE COULD ATTRACT SUBSTANTIAL INTEREST IN A MINORITY INVESTMENT.

IT IS OUR INTENT TO BE AS TRANSPARENT AND FORTHCOMING AS POSSIBLE. IT IS IN THAT SPIRIT THAT WE TOOK STEPS EARLIER THIS MONTH TO POST TO OUR WEB SITE AN "AIG SYSTEMIC RISK ANALYSIS". AFTER CLOSE CONSULTATION WITH THE FEDERAL RESERVE, AIG HAS ALSO DISCLOSED INFORMATION IDENTIFYING CERTAIN CREDIT DEFAULT SWAP COUNTERPARTIES, MUNICIPAL COUNTERPARTIES AND SECURITIES LENDING COUNTERPARTIES. AS WE MOVE FORWARD, WE WILL BE VIGILANT ABOUT OUR RESPONSIBILITIES TO BE ACCOUNTABLE TO, AND TRANSPARENT WITH, THE AMERICAN PEOPLE.

LET ME CLOSE WITH THESE FINAL THOUGHTS:

NO ONE KNOWS BETTER THAN I THAT AIG HAS BEEN THE RECIPIENT OF GENEROUS AMOUNTS OF GOVERNMENT FINANCIAL AID. WE HAVE BEEN THE BENEFICIARY OF THE AMERICAN PEOPLE'S FORBEARANCE AND PATIENCE. AND WE ARE ACUTELY AWARE NOT ONLY THAT WE MUST BE GOOD STEWARDS OF THE PUBLIC FUNDS WE HAVE RECEIVED, BUT THAT THE PATIENCE OF AMERICA'S TAXPAYERS IS WEARING THIN.

WHERE THAT PATIENCE IS ESPECIALLY THIN IS ON THE QUESTION OF COMPENSATION. I AM PERSONALLY MINDFUL BOTH OF THE ENVIRONMENT IN WHICH WE ARE OPERATING AND THE PRESIDENT'S CALL FOR A MORE RESTRAINED COMPENSATION SYSTEM. AT THE SAME TIME, WE ARE ESSENTIALLY OPERATING AIG ON BEHALF OF THE AMERICAN TAXPAYER SO THAT WE CAN MAXIMIZE THE AMOUNT OF MONEY WE PAY BACK TO THE GOVERNMENT.

IN ORDER TO DO THAT, WE HAVE TO CONTINUE MANAGING OUR BUSINESS AS A BUSINESS – TAKING ACCOUNT OF THE COLD REALITIES OF COMPETITION FOR CUSTOMERS, FOR REVENUES AND FOR EMPLOYEES. BECAUSE OF THIS, AND BECAUSE OF CERTAIN LEGAL OBLIGATIONS, AIG HAS RECENTLY MADE A SET OF COMPENSATION PAYMENTS, SOME OF WHICH I FIND DISTASTEFUL.

WE AT AIG WANT TO BELIEVE THAT WE ARE ALL IN THIS TOGETHER. WE HAVE BEEN WORKING SHOULDER-TO-SHOULDER WITH THE NEW YORK FEDERAL RESERVE AND U.S. TREASURY. I WANT TO ASSURE YOU THAT THE PEOPLE AT AIG TODAY ARE WORKING AS HARD AS WE CAN TO EXECUTE THE RESTRUCTURING PLAN THAT, WE BELIEVE, OFFERS AMERICA'S TAXPAYERS THE BEST POSSIBLE OUTCOME:

- REPAYMENT OF AIG'S DEBT TO THE GOVERNMENT TO THE MAXIMUM EXTENT POSSIBLE;
- CONTINUATION OF AIG'S MAIN INSURANCE UNITS AS STRONG, THRIVING BUSINESSES;
- AND THE CONTINUED PROTECTION OF POLICYHOLDERS THAT HAS ALWAYS BEEN AT THE CORE OF THE COMPANY'S MISSION.

WITH THAT, MR. CHAIRMAN, I WOULD REQUEST THAT MY REMARKS AND SEVERAL ADDITIONAL DOCUMENTS BE INCLUDED IN THE HEARING RECORD, AND I AM HAPPY TO RESPOND TO YOUR QUESTIONS. THANK YOU.