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## How a Titan of Insurance Ran Afoul of the Government

By [KURT EICHENWALD](#) and [JENNY ANDERSON](#)

Published: April 4, 2005

**M**aurice R. Greenberg strolled through his executive apartment in Manhattan on Feb. 9, exuding ebullience. Surrounding him and his visitors were the trappings of wealth - windows that beckoned with views of New York Harbor, Chinese antiques, the services of a butler and a maid - acquired over his nearly four decades leading the [American International Group](#), the global insurance giant.

And more success was coming: that day, A.I.G. announced robust earnings on eye-popping revenue of \$100 billion.

Topping it off was the reality that Mr. Greenberg, 79, who is known as Hank, had outlasted them all: the regulators and prosecutors he acknowledged he stonewalled before A.I.G.'s recent settlement of fraud charges; the investors whose calls for stronger succession plans he mostly ignored; and the directors he largely cowed over the years with dismissive treatment.

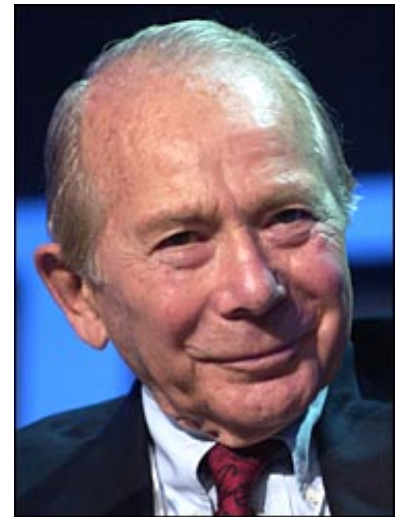
To him, on that day, there seemed no better proof of the wisdom of his decisions than the financial results just disclosed to the investing public. Look how far his company had come, Mr. Greenberg told a visitor, beaming as he clutched a copy of the earnings release. More than \$11 billion in profit, compared with just under \$14 million in 1967, the year he took the helm. It was the kind of performance that defined a career.

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But within 24 hours, Mr. Greenberg's starry image of the company's situation dimmed. Federal regulators had called its general counsel, Ernest Patrikis, with word that a new investigation was under way into whether A.I.G. had cooked its books, and Mr. Greenberg himself was a subject of the inquiry, according to people close to the investigation.

Soon, lawyers were swarming around the company. An investor meeting was canceled minutes before it was to begin, and a once seemingly docile board called a series of meetings without Mr. Greenberg present or even invited to attend.

Helpless, he raged at the board as they contemplated his future by phone, saying

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Daniel Acker/Bloomberg News

Maurice R. Greenberg led the American International Group, the world's largest insurer, for almost four decades.

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"you're going to ruin this company," only to see his protest ignored.

In weeks, Mr. Greenberg was out, with the board pressing him to sever all ties with the company he had built. Days later, A.I.G. acknowledged that a variety of bad accounting could reduce its book value by as much as \$1.77 billion.

Now, this legendary insurance executive has suffered a public and humiliating end to his career, and he faces a future of potential civil litigation and criminal investigations.

By the accounts of people who have spoken with him, Mr. Greenberg, who did not agree to an interview for this article, ranges over bewilderment, rage and self-pity from the turn of events. In recent weeks, he has told A.I.G. directors that his lawyer is advising him to take the Fifth Amendment rather than testify in a broad inquiry, people involved in the case said.

"His personal identity is tied up in A.I.G.," a person briefed on the myriad investigations said. "He is proud of his accomplishments and he wants to protect them." There is "disbelief," he added.

He can't believe "how much they are focusing on isolated transactions which in context are not material to the company."

The company says it is cooperating and lawyers for Mr. Greenberg declined to comment. How could such extraordinary changes occur? How could a man who ruled for almost 40 years see his legacy slip away in a matter of days over events that, at another time, might have been dismissed as immaterial to a company of A.I.G.'s financial prowess?

### Twilight of Irreplaceable Men

The answer, associates say, is found in the life of this one man who, as he approaches his ninth decade, was becoming a throwback to another era - an executive working in a business world still shaken by the corporate scandals of recent years, but who failed to recognize the swirl of change engulfing him.

Mr. Greenberg, his associates say, clung to the model of the imperial chief executive, steadfast in his belief that the market would lose faith in the company without him. This at a time when the domineering, iron-fisted corporate leader was increasingly being viewed as a liability.

"That technique - stonewalling and pushing people around - worked for him for 40 years," said David Schiff, editor of Schiff's Insurance Observer, an industry publication. "It was an imperial sort of company. It was bigger than regulators, and tougher. He was always good at hitting that knuckleball. Then he missed one."

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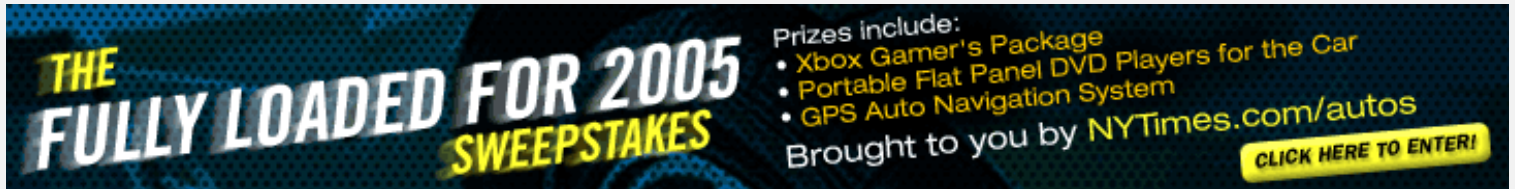
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A.I.G. traces its origins to China in the early 20th century. In 1919 in Shanghai, Cornelius Vander Starr founded American Asiatic Underwriters, working as a subagent for insurance companies in the United States. By 1939, Mr. Starr moved his headquarters to New York, overseeing offices across Asia providing marine, fire and life insurance, among other products.

Mr. Greenberg, who earned a law degree, started in the insurance business in 1952 and joined Mr. Starr's company eight years later. He turned around a money-losing division, and after Mr. Starr fell ill, he took over.

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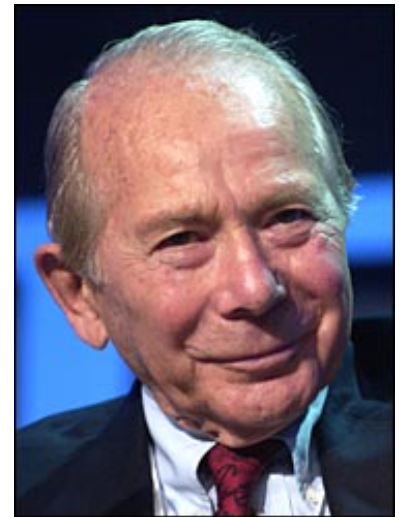
Mr. Greenberg applied an expansion strategy, acquiring multiple companies. The parent company became A.I.G.

Rapid growth and the success of acquisitions transformed A.I.G. from an also-ran to a leader of the American insurance industry. In the process, Mr. Greenberg gained a reputation as a brilliant but demanding taskmaster, associates say, something of a tyrant in chief. Even directors were not spared his withering rebukes.

"That's a ridiculous question," a witness recalled Mr. Greenberg responding to a director's inquiry during a board meeting. "You don't understand the insurance business."

As Mr. Greenberg aged into his 70's, he showed little willingness to plan for the day that he would give up his posts. There had been an expectation that one of his sons, Evan or Jeffrey, might someday succeed him. But Jeffrey left the company in 1996, later emerging as chairman and chief executive of [Marsh & McLennan](#). He was succeeded by Evan, who in turn left the company in 2000.

That same year, a downturn was roiling the property and casualty insurance market as well as the broader stock market. Investors were growing antsy about A.I.G.'s reserves, the money set aside to pay future claims. Usually, reserves are bolstered by taking the money out of earnings. But the financial wizards at A.I.G. had another idea.

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Maurice R. Greenberg led the American International Group, the world's largest insurer, for almost four decades.

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The company struck a deal with the General Reinsurance Corporation, a unit of Warren E. Buffett's [Berkshire Hathaway](#). A.I.G. bought a portfolio of loans worth \$500 million, which allowed it to substantially increase reserves. Later, after regulators investigated the transaction, the company would conclude that the deal was more like a loan and should not have received favorable accounting treatment.

With his sons out of the picture, investors were worried about the future leadership. Early in 2002, Mr. Greenberg waved off questions during an analysts' conference call regarding succession plans.

"You'll wait," Mr. Greenberg told the analysts, ending the line of inquiry.

Soon after, he appointed co-chief operating officers: Martin J. Sullivan, who would in time be named to succeed Mr. Greenberg as chief executive, and Edmund S. W. Tse. But Mr. Greenberg said he had no plans to retire, noting that his great-grandmother had continued working until the age of 108.

### Investigations Begin

Early in 2001, Mark K. Schonfeld, a senior enforcement lawyer in the Northeast regional division of the Securities and Exchange Commission, studied a brochure from A.I.G. and felt puzzled - even troubled. The document, handed to him by a junior member of his staff, laid out how an A.I.G. product deemed "loss mitigation insurance" could be used by public companies to present smooth earnings performance to investors, even amid losses.

Was A.I.G., Mr. Schonfeld wondered at the time, aiding companies in manipulating earnings? Mr. Schonfeld declined to comment on the continuing investigation.

By the fall of 2002, the S.E.C.'s enforcement division had uncovered possible securities fraud at [Brightpoint Inc.](#), a struggling cellphone distributor based in Indiana, but was being stymied almost every step of the way by A.I.G.

At issue was an A.I.G. product that investigators say allowed Brightpoint to conceal \$11.9 million in losses.

A year later, when the S.E.C. reached a settlement with A.I.G., it pointedly noted the company's failure to cooperate - something that led to an increase of the total penalty to \$10 million.

Neither company admitted wrongdoing.

Indeed, the Brightpoint settlement was just the beginning. Late last September, A.I.G. learned that the S.E.C. was considering suing it for its role in another questionable transaction, one that allowed the [PNC Financial Services Group](#) to offload problem loans and assets to help mask its true financial position.

But another law enforcement agency was about to make an even bigger splash in the industry. On Oct. 14, the New York State attorney general, Eliot Spitzer, sued Marsh & McLennan, led by Jeffrey Greenberg, on accusations of bid-rigging. Named as co-conspirators and accused of accepting improper payments were A.I.G.; [ACE Ltd.](#), headed by Evan Greenberg; and Hartford Financial.



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The same month, on the day that A.I.G. was announcing its quarterly earnings, a letter arrived from the United States attorney for the Southern District of Indiana. A grand jury had been convened to investigate the Brightpoint case as a possible criminal matter. The stonewalling of the S.E.C. had backfired, and Mr. Greenberg made no effort to disguise his anger in a conference call with analysts.

"I cannot explain why this arose now," he said. "But the timing of this last letter was certainly not by accident, given that we are putting out earnings today."

During the call, Mr. Greenberg referred to the assortment of investigations as "a tragedy," adding that "what's going on in the United States is causing harm to many companies."

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On the board, the flurry of inquiries and Mr. Greenberg's obstinate approach raised concerns, directors say. Pressed by the board, the company began to make efforts to settle the cases. Lawyers from Paul, Weiss, Rifkind, Wharton & Garrison worked to devise a deal. In November, A.I.G. agreed to pay \$126 million to resolve all criminal and regulatory liabilities related to the PNC and Brightpoint deals.

Directors were stunned. People close to the company said that two independent directors on the company's audit committee - Frank G. Zarb, former head of the NASD, and M. Bernard Aidinoff, a retired partner with the law firm of Sullivan & Cromwell - decided that the board had to assert itself.

Mr. Zarb and Mr. Aidinoff approached Richard Beattie, managing partner of Simpson Thacher & Bartlett, to represent and advise the audit committee.

But after a tumultuous few months, things seemed to be calming down.

Early in January, auditors reported that they had finished a yearlong effort analyzing A.I.G.'s internal controls as required under the Sarbanes-Oxley Act, the tough securities law adopted in the wake of the [Enron](#) and [WorldCom](#) collapses. A.I.G. scored quite high, the auditors proudly reported.

The Beginning of the End

The end began days later, with a single phone call.

Mr. Patrikis, the company's general counsel, reacted with incredulity when an S.E.C. lawyer called him with word that a new subpoena was on the way. All those issues were done, he shot back.



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No, the S.E.C., lawyer replied. The recent settlement dealt only with A.I.G.'s efforts to help another company manipulate its financial reporting. This new subpoena was about A.I.G. manipulating its own accounting.

The General Re deal from 2000 had come back to haunt A.I.G. Months before, during their investigation of insurance industry practices, prosecutors had stumbled across details of the transaction, people close to the inquiry said. They passed details to the S.E.C., which asked Gen Re to send records of any such transactions. Early in February, representatives from Gen Re came to New York with a binder full of documents that were presented to the S.E.C. and lawyers from Mr. Spitzer's office, who were also investigating the matter, these people said.

It quickly became evident that Mr. Greenberg himself had played a role in the transaction and was being investigated. "We knew how this would end," a lawyer who attended the Gen Re meeting on Feb. 8 said. "It was evident that he would not be able to survive this."

On March 13, directors gathered in a 30th-floor conference room at Simpson Thacher's Manhattan headquarters.

Barry Winograd, the PricewaterhouseCoopers partner in charge of the account, informed the board that because of the requirements of Sarbanes-Oxley, he might not be able to provide an unqualified opinion on A.I.G.'s annual financial report, which was due to be filed soon.

The directors then turned to Mr. Greenberg's future. As the discussion rolled on, Mr. Greenberg, who had been invited to comment, telephoned from a yacht off the Florida coast. His rage at the directors shocked even those who had seen his disdain for the board in the past.

"None of you know what you're talking about!" Mr. Greenberg was quoted as saying by participants in the meeting. "You're going to ruin this company!"

At one point, Mr. Zarb asked Mr. Greenberg if he would take the Fifth Amendment when he met with government investigators to give his deposition at that point scheduled for March 17. Mr. Greenberg replied that he had not decided, but that his lawyers were telling him to do so.

Calls from Mr. Greenberg came throughout the meeting, including one from a private airplane. During the breaks, some directors, including Carla A. Hills, a former United States trade representative, pleaded to keep Mr. Greenberg on. But eventually, Mr. Zarb telephoned Mr. Greenberg with news that the board, "with a heavy heart," had reached a unanimous consensus to remove him as chief executive, although he could remain as chairman.

But as the internal investigation continued, more problem transactions emerged. Richmond Insurance Company Ltd., an entity in Bermuda that had entered into transactions with A.I.G., for example, appeared to be controlled by the company itself, meaning that its operations should have been consolidated onto A.I.G.'s books.

With the number of problem transactions growing, the board decided to act. Before Easter weekend, Mr. Beattie of Simpson Thacher told one of Mr. Greenberg's lawyers, David Boies, that the chairman needed to resign. On Thursday, March 24, Mr. Boies began drafting a resignation letter.

Then, another bombshell. Lawyers for Paul, Weiss learned that, on Good Friday, a lawyer for Starr International, a privately held company controlled by current and former A.I.G. executives, including Mr. Greenberg, supervised the removal of cartons of Starr records from a joint A.I.G.-Starr International office in Bermuda. Lawyers immediately started sparring over who had rights to what documents. Separately, the Paul, Weiss lawyers learned that computer files and tapes had

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been destroyed by an A.I.G. employee.


Mr. Spitzer was immediately notified, and he became enraged. A.I.G., he threatened, now faced possible indictment for obstruction of justice. Lawyers for Paul, Weiss and Simpson Thacher spoke with Mr. Spitzer, and hammered out an agreement: No indictment would be brought and the documents would be secured. A team of security officials was sent to Bermuda on Easter Sunday, and the building was locked down.

It was the final straw. Mr. Boies faxed the resignation letter that Monday. Hank Greenberg severed all ties with the company he had built.

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