

AIG is a mammoth insurance conglomerate with businesses in 130 countries and roots stretching back to 1919. Built over nearly four decades by former CEO Maurice R. "Hank" Greenberg, AIG resembles few other companies. It sells annuities to teachers in West Virginia, liability insurance to the biggest American corporations, workers' compensation coverage to restaurants and policies covering cows in dusty Jhalawar, India. *WSJ 9-18-08 A7*

In many ways, AIG was healthy. The rot stemmed largely from losses in a unit that sold a complex kind of derivative, called a credit-default swap, designed to protect investors against default in an array of assets, including subprime mortgages. The division's recent \$18 billion in losses forced AIG to put up billions of dollars more in collateral, straining its financial resources. Downgrades from ratings agencies and relentless pressure on the company's stock exacerbated its already weak position.

Mr. Willumstad took over as chief executive on June 15. Mr. Willumstad, who had been passed over for the top spot at Citigroup, assured the board he would "have a game plan by Labor Day" to decide what businesses AIG should stay in.

The financial turmoil killed that timetable. In early September, Mr. Willumstad decided AIG had to raise capital fast after uncovering billions in subprime liabilities. "The holes we'll have to fill are so big, we need to raise capital," Mr. Willumstad told Jamie Dimon, CEO of J.P. Morgan Chase & Co., while engaging his firm for help. The two men knew each other from their time together at Citigroup.

Last week, AIG's crisis became supercharged. AIG tried sticking to its goal to unveil a turnaround plan on Sept. 25. But its shares fell 31% on Friday and Standard & Poor's warned that it could cut AIG's credit rating, making it even harder for the company to borrow.

On Thursday, Mr. Willumstad placed an urgent call to Timothy Geithner, president of the Federal Reserve Bank of New York, which was returned Friday morning. He warned the Fed official of the coming liquidity crunch. Mr. Geithner, who was enmeshed in the Lehman crisis, told Mr. Willumstad: "Keep me informed."

Lehman's collapse was already driving up the cost of short-term borrowing. Mr. Geithner and staffers fretted that a toppled AIG could throw a wrench in a wide range of markets, from ultra-safe money-market funds owned by individual investors to complex derivatives used by Wall Street banks and tools used to finance corporations. AIG's size and complexity meant that its tentacles were spread throughout the financial system, making it almost impossible to be certain about the impact of a collapse—other than to know it was potentially catastrophic.

The decision was happening so fast no one felt they'd had enough time to dig into AIG's finances or perform a thorough analysis of the impact of a collapse. But no one wanted to take the chance of not acting and causing a calamitous market response.

Gov't takes over AIG. →

"AIG will not need to raise capital and will likely emerge a smaller and more focused company than before, in our opinion," Bijan Moazami, an analyst at FBR Capital Markets, wrote in a research note. "We believe that the government will try to maximize the value of its 80% holding by pushing the company to sell most of its assets in an orderly fashion."

AIG has leading market positions in some lines of business, and it is No. 1 in many overseas life-insurance markets, which generally argues for strong sales prices for at least those lines of business. The quality of these companies' investment portfolios also will play into the setting of the price, so any would-be buyer will spend a lot of time scrutinizing AIG's books before ponying up a premium price.

As for insuring businesses, Ken Crerar, president of the Council of Insurance Agents and Brokers trade organization, said clients were calling over the weekend and Monday worried about the fate of AIG but they have since calmed down.

There "was a sigh of relief... when the Fed announced their bridge loan," he said.

AIG's problems could also affect the cost of insurance, particularly for businesses, though the impact would likely have been far greater if the government hadn't stepped forward. Greg Case, the CEO of Aon Corp., a major broker, predicts "limited impact on pricing."

U.S. Treasury loaned up to 85 Billion to AIG, and obtained warrants that could give the government an 80% stake.

Japan, where AIG employs 26,000 people, is the insurer's single largest market outside the U.S. AIG also is the fifth-largest insurer in the country, based on the amount of premiums, according to the company. Through acquisitions and direct pitches by its Alico Japan arm, the company has bucked overall negative trends for insurance in Japan, Mr. Kuroki said.

Signs of worried policy holders appeared elsewhere, including Singapore, Hong Kong, South Korea and Taiwan. In Singapore, hundreds of people lined up outside AIG's American International Assurance Co. unit for a second day, some looking into terminating their contracts. A unit spokeswoman said information on cancellations wasn't immediately available.