# Sullivan's AIG Sheds Arrogant Image After Greenberg

By Hugh Son

May 1 (Bloomberg) -- American International Group Inc. lost about $5 million in annual premiums from Gap Inc. two years ago because Jenny Novoa was sick of AIG's billing delays. The risk manager at the largest U.S. clothing retailer said she's now thinking of returning to the world's biggest insurer.

``We've had a lot of outstanding issues with them and they're getting resolved,'' said Novoa, who used AIG to insure worker injuries and to protect the San Francisco-based company's 3,000 stores against shopper lawsuits. ``The people I'm working with now are more customer focused. It's not this craziness like before. The first answer out of their mouths was always `No.'''

Two years after Martin Sullivan replaced Maurice ``Hank'' Greenberg as AIG's chief executive officer during an accounting probe, the New York-based company is shedding its reputation for arrogance. These days, Sullivan says, he's telling the biggest prospects he would ``be honored'' to insure them.

``We have no right to expect business to gravitate towards AIG just because we're AIG,'' Sullivan, 52, said in an interview last month at the insurer's downtown Manhattan headquarters. ``We've got to go out and earn that business every single day.''

Sullivan said it's too early to measure the success of his approach, though positive signs are emerging. The percentage of companies in North America that renewed policies in 2006 was 2 points higher than in 2004, according to AIG. The North American units sold $24.3 billion of policies last year, 5.3 percent more than in 2005, even as competition forced them to lower prices on some policies.

``AIG has been taken down a rung, so they have to respond to the needs of their insured in a different way,'' said Thomas Russo, a partner at Lancaster, Pennsylvania-based Gardner Russo & Gardner, who helps manage $3 billion and holds 2.5 million AIG shares. ``The goal is to reduce the turnover that happens during policy renewals. If they can accomplish that, it will probably help their profit margins."

Under Sullivan, risk managers get thank-you notes and new client representatives attempt to balance out a claims department perceived as stubborn and unresponsive. At Gap, AIG was chronically late with audits of the sales and payroll numbers that determined Gap's premiums, Novoa said. A two-year-old bill was finally resolved this month, she said.

Sullivan, AIG's former No. 2 executive, plans to draw on the new image as insurance buyers gather in New Orleans for the industry's biggest U.S. conference this week. The annual event, sponsored by Risk & Insurance Management Society Inc., is the third for Sullivan since he was installed. Greenberg, who was CEO for 38 years, went once in his last five years, according to AIG. Sarah Lubman, Greenberg's spokeswoman, declined to comment.

Winning new business and retaining clients is more important when insurers can't rely on price increases to boost premium revenue. U.S. property and casualty insurers sold $444 billion of policies last year, up about 1 percent from 2005, according to inflation-adjusted data from the Insurance Information Institute in New York.

``If they're getting share because they're improving retention, that's good," said Paul Newsome, an analyst at St. Louis-based A.G. Edwards & Sons Inc., who has a ``buy" rating on AIG.

AIG had an ``arrogant edge" when its U.S. property and casualty units had the highest AAA financial strength ratings from Moody's Investors Service, said Diane Labrador, director of risk management at Santa Clara, California-based Intel Corp., the world's largest computer-chip maker.

Moody's reduced the rating to AA2 after state and federal securities regulators began examining whether AIG used sham reinsurance transactions to hide underwriting losses. Today it shares the AA category with at least 17 competitors, according to Moody's. ``You don't feel that edge anymore," said Labrador. ``There's been a more noticeable outreach."

Michael Liebowitz, the risk manager at New York University, found an unlikely ally when AIG's claims department was slow to return phone calls about two claims the school filed in the past six months. Employees from another group at AIG -- the one that sold NYU the coverage -- stepped in and made sure he and his insurance broker got a response from the claims managers.

``They intercede on our behalf to help us open the lines of communication," Liebowitz said. ``They're trying to advocate for their clients."

Sullivan said underwriters are stepping in to help negotiations because they want clients to renew policies. The claims department has also ``come a long way" in its own right, he said.

``What I'm hearing from risk managers is we're doing a much better job with claims adjustment and payments," Sullivan said. ``We want a fair and fast claims service."

Roy Villella, risk manager for Steris Corp., said his dealings with AIG are no different under Sullivan. He said AIG hasn't paid Steris, a Mentor, Ohio-based maker of hospital sterilization equipment, for all the legal defense costs stemming from two class-action lawsuits filed by customers since 2002. The company has few options besides AIG to protect against product liability suits, he said.

``They're very slow and difficult claims payers," said Villella, who was an insurance underwriter at AIG for six years. ``Every 90 days AIG is supposed to pay our lawyers, yet I have to jump up and down because payments haven't been made."

AIG's stock hasn't fully recovered from the 2005 accounting investigation, which led Eliot Spitzer, New York's attorney general at the time, to sue AIG and Greenberg for fraud. The shares, more than $73 before the company got subpoenas in February 2005, lost about a third of their value in the ensuing months. Since then, the stock has come within 31 cents of its price before the probe and closed at $70.03 in New York Stock Exchange composite trading today.

AIG ended the investigation with two earnings restatements and a $1.64 billion settlement. Greenberg, 81, has denied the allegations, some of which were dropped last year.

``At the end of the day, we want more satisfied customers who want to place more business with AIG and stay with us for a longer period of time," Sullivan said. ``Hopefully that gets reflected in the stock price."

Happy risk managers provide introductions to executives who may hire AIG to manage their assets or provide life insurance to their employees, Sullivan said. The company's dozens of units have more than 69 million customers in 130 countries.

``He's got the business savvy of Hank, but he's got an emotional connection to the clients as well," said NYU's Liebowitz. ``He views them as, `These are my people. I need these clients. If we don't have insureds, we don't have a business.'"

--With reporting by Zachary R. Mider in New York. Editor: Stock (tbq)

Story illustration: To graph the relative stock performance of AIG and benchmark indexes, see {AIG US COMP D}. For today's top insurance news, see {INSN}. For more information useful to the insurance industry, see {BINS}.

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