

August 3, 2009

WOODRUFF-SAWYER UPDATE ON CHARTIS INSURANCE COMPANY (AIG)

On July 27, 2009 AIU Holdings announced that its parent, American International Group, Inc (AIG) had formed a special purpose vehicle into which AIG would contribute the equity of AIU Holdings. In addition, AIU Holdings announced that it would change its name to Chartis in an effort to re-brand the company. The company will have a separate executive team and a board of directors and will include the Commercial Insurance, Foreign General Insurance and Private Client Group operations. Eventually, Chartis plans to sell up to 20% of the company either to the general public or a private investor(s).

On July 31, 2009 a New York Times article suggested that problems may arise out of the intercompany pooling arrangements between AIG's insurance operating subsidiaries. The story specifically named some of the operating subsidiaries which are part of Chartis. Intercompany pooling is where affiliated companies reinsure proportions of business written by other affiliated companies. This is a standard practice among companies under common management and we have been aware of the use of intercompany pooling at AIG operating subsidiaries for years. More importantly, state regulators - who are ultimately responsible for monitoring the safety and soundness of insurance companies and their insurance operating subsidiaries - are aware of these arrangements and have specific guidelines for transactions among affiliated companies. Individual operating subsidiaries are required to report reinsurance premiums ceded to or assumed from each affiliate to state regulators.

The New York Times article quoted both the New York and Pennsylvania insurance regulators, saying that they believed the insurance operating subsidiaries to be sound. However, the article also suggested that state regulators may be deferring to the wishes of the Fed and the Treasury department. In response, The National Association of Insurance Commissioners (NAIC) issued a press release stating that "(s)tate regulators are engaged in a virtually non-stop, coordinated, comprehensive review of AIG's U.S. insurance company subsidiaries We are convinced, based on a complete, broad and deep ongoing review of all current material information, that the claim-paying abilities of these companies remain appropriate." The full text of the NAIC letter to the New York Times is attached to this update.

Chartis remains on our approved list of companies based on its ability to meet policyholder demands. AIG will release its second quarter earnings within the next two weeks. Furthermore, since the fourth quarter of 2008, the companies comprising Chartis have been providing to brokers a supplemental financial report which includes more specific data that is not in the consolidated holding company financial statements. We will continue to review all of this data as it becomes available.

Woodruff-Sawyer & Co. commitment to clients

- Woodruff-Sawyer is committed to providing our clients with the information necessary to make buying decisions based on their risk tolerance.
- When/if our clients require alternative quotes from other insurers, we will respond accordingly.
- We will be proactive in monitoring and discussing market security issues with our clients.

Woodruff-Sawyer is one of the largest independent insurance brokerage firms in the nation, and is an active partner of International Benefits Network and Assurex Global. For over 90 years, Woodruff-Sawyer has been partnering with clients to implement and manage cost-effective and innovative insurance, employee benefits and risk management solutions, both nationally and abroad. Headquartered in San Francisco, Woodruff-Sawyer has offices throughout California and in Portland, Oregon. CA License 0329598.

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National Association of Insurance Commissioners

July 31, 2009

The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

As state regulators charged with protecting AIG policyholders, we were disappointed that *The New York Times* July 30 article, “After Rescue, New Weakness Seen at A.I.G” by Mary Williams Walsh, relied heavily on critics with less access to the facts than state regulators and failed to fully explicate the multiple ways in which policyholders are protected by state regulators.

State regulators are engaged in a virtually non-stop, coordinated, comprehensive review of AIG’s U.S. insurance company subsidiaries, both at the level of the individual companies and within and across the entire group of companies.

The process includes quarterly and annual financial reports from the individual entities which are analyzed thoroughly by multiple review teams working individually and cooperatively through processes facilitated by the National Association of Insurance Commissioners (NAIC).

We are convinced, based on a complete, broad and deep ongoing review of all current material information, that the claims-paying abilities of these companies remains appropriate. If this status changes, we are prepared and fully able to step in on behalf of policyholders and protect their interests.

During this extremely critical time, it is vital that important voices in the public discourse such as *The New York Times*, act and speak responsibly with the full recognition that making inappropriate assertions based on incomplete information ultimately hurts both policyholders and taxpayers.

Kermitt Brooks
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Chair of NAIC’s AIG Managing Task Force

Joel Ario
Pennsylvania Insurance Commissioner
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