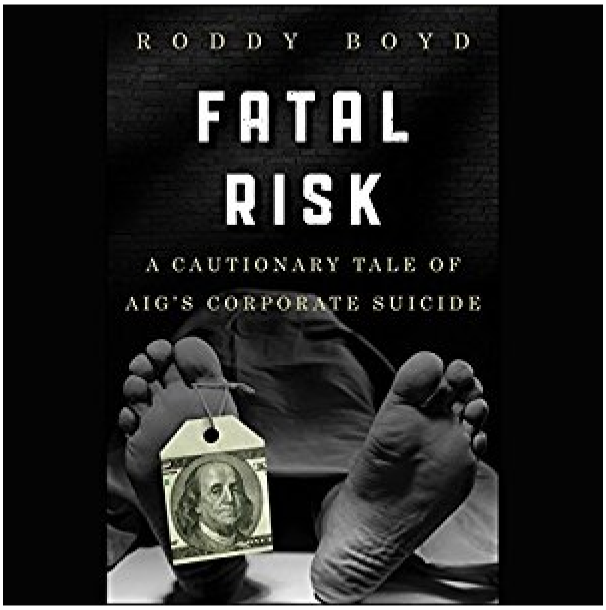
Fatal Risk: A Cautionary Tale Of AIG's Corporate Suicide



Synopsis

Long-listed for the FT & Goldman Sachs Business Book of the Year Award 2011.The true story of how risk destroys, as told through the ongoing saga of AIG From the collapse of Bear Stearns and Lehman Brothers, the subject of the financial crisis has been well covered. However, the story central to the crisis-that of AIG-has until now remained largely untold. Fatal Risk: A Cautionary Tale of AIG's Corporate Suicide tells the inside story of what really went on inside AIG that caused it to choke on risk and nearly brining down the entire economic system. The book:Reveals inside information available nowhere else, including the personal notes and records of key players such as the former Chairman of AIG, Hank GreenbergTakes readers behind the scenes at the U.S. Treasury and the Federal Reserve Bank of New YorkDetails how an understanding of risk built AIG, but a disdain for government regulators led to a run-in with New York State Attorney General Eliot SpitzerFatal Risk is the comprehensive and compelling true story of the company at the center of the financial storm and how it nearly caused the entire economic system to collapse.

Book Information

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Customer Reviews

If you followed the 2007-2009 subprime crisis you may think that you know most of the story of AIG's collapse. However, as is frequently the case, there is a lot more to the story than the simplified media narrative. "Fatal Risk" is a well-researched and highly readable account of the whole story behind the AIG disaster. The author Roddy Boyd clearly had excellent sources and there is a great deal of information here that you will not find anywhere else. The subprime mortgage affair was such a huge, global crisis (as Roddy Boyd puts it in this book, it was as though "the entire Western world was one big, highly leveraged real estate trade") that books covering the crisis as a whole (such as Michael Lewis's excellent "The Big Short") simply do not have the space for the detailed account of AIG that is "Fatal Risk".Of course, any book about AIG has to tell the story of the remarkable Maurice "Hank" Greenberg, who was CEO of AIG from 1968 through 2005. Starting with a "far-flung and not terribly profitable" business, Greenberg built AIG into the largest and most respected insurance company in the world. We learn the story of how Greenberg served in World War 2 (landing on Omaha Beach on D-Day and participating in the liberation of the Dachau concentration camp) and in the Korean War, and how three days after his discharge he talked his way into an entry-level insurance job in New York, rose quickly through the ranks, and ended up at AIG a few years later. The book also tells the story of how the capital markets subsidiary AIG Financial Products (AIG-FP) was established in 1987, as a joint venture with the "absurdly intelligent" Howard Sosin, formerly of Drexel. While AIG-FP under Sosin was hugely successful, Greenberg forced Sosin out in 1993 because he was uncomfortable with the risks of some of AIG-FP's transactions. This is the first piece of a great deal of persuasive evidence from Boyd that AIG-FP's CDO losses in 2007-2008 would not have happened if Greenberg had still been the CEO of AIG.So why was Greenberg not still the CEO in 2007? Boyd explains how this is largely because of the cynical and disgusting behavior of Eliot Spitzer, who at the time was the New York State Attorney General. Spitzer wanted to be elected Governor and his strategy was to prosecute the rich and the powerful, which he believed would be highly popular in the wake of the Enron scandal. Boyd explains how Spitzer's pretext was some questionable AIG transactions in 2000 and 2001. No matter that nobody was ever able to prove that Greenberg had any knowledge of these transactions (which amounted to a minuscule fraction of AIG's earnings), Spitzer was determined to remove Greenberg and threatened AIG with a corporate indictment if they did not fire him. Unfortunately, the AIG board was craven enough to cave in to Spitzer's demand. Spitzer's later conduct caused "utter disbelief" for Greenberg and his legal team. In a "freeform riff" on TV with George Stephanopoulos, Spitzer pronounced Greenberg guilty of fraud; as Boyd puts it, "the most powerful Attorney General in America was simply cutting out the annoying and tedious business of mustering evidence and filing suit, and pronounced Greenberg guilty". Every Spitzer episode leaves a nasty taste in your mouth, from the time Spitzer planned to have Greenberg arrested, to the threat to expand his investigation to the Starr (charitable) Foundation, based upon a summer intern in Spitzer's office misunderstanding some documents. (All of the criminal charges against Greenberg were dropped, and Spitzer has a "stunning record of losses and reversals" in his other high-profile prosecutions).Spitzer is by far the least sympathetic character in this whole sorry saga. The dogged pursuit of Greenberg by this ambitious politician (who it later transpired was simultaneously prosecuting and patronizing prostitution rings) resulted in Greenberg being replaced by the affable but incompetent Martin Sullivan. Moreover, Spitzer forced AIG to abandon their plan for Greenberg to work with Sullivan during a transition period. So the highly risk-averse Greenberg was abruptly gone; the man who insisted on "detailed contingency plans for AIG's survival in the event of a nuclear attack on New York", and who personally grilled AIG-FP's Tokyo trader about the $10 million loss resulting from the collapse of Barings Bank (due to the unauthorized trading of Nick Leeson) was gone, replaced by Sullivan who apparently had no interest whatsoever in risk management.Meanwhile at FP, Sosin was succeeded by the avuncular and widely respected Tom Savage, who had a well-known aversion to mortgage-related transactions, due to their "unanalyzable credit and unquantifiable risk". Savage had a much better relationship with Greenberg than Sosin had, and made sure to keep him very well informed of the details and risks of all of the transactions at FP. Given Greenberg's gimlet-eyed approach to risk management, and Savage's discomfort with mortgage risk, it is inconceivable that FP would have transacted the swaps that proved to be fatal if either man had remained in place. However, Greenberg was gone because of Spitzer's political ambition, and in 2001 Savage and his family wanted to move to a warmer climate and Savage was succeeded by Joe Cassano, who was much more comfortable taking mortgage risk than Savage had been. Boyd explains how FP's mortgage swap business ballooned under the Sullivan-Cassano regime; they "plugged a handful of variables into a 7-year old computer model; somehow the model always said 'yes' ". In 2005 a couple of AIG-FP traders were prescient enough to realize the growing risks of the subprime mortgage market, and because of this AIG-FP stopped executing these transactions in 2006. (Given that AIG-FP was aware of, and uncomfortable with, the subprime mortgage risk, it is inexplicable that while they stopped doing new transactions, they did not attempt to unwind or hedge the transactions that they had already closed). While AIG was kept informed of these transactions, it is incredible that there was "not a single instance of a New York-based senior manager sending so much as an inquisitive email about a swaps portfolio that amounted to 75 percent of AIG's equity base". It is very safe to say that this would not have been the case had Greenberg still been the CEO.While most readers will already be familiar with the story of AIG-FP and its subprime swap portfolio, Boyd also describes another shocking reason for AIG's collapse that has received much less publicity. This is the story of the AIG Global Securities Lending program, which was run by AIG's Chief Investment Officer, Win Neuger. Neuger was responsible for investing the policyholder cash coming in from AIG's life insurance subsidiaries. When Greenberg was CEO he ensured that the fund was essentially riskless (Boyd describes one incident of Greenberg being absolutely livid when the fund made a small loss). However, as soon as Greenberg was gone Neuger pounced, quickly removing language from the prospectus that referred to "safety of funds" and "limitations on investment in derivatives", and loading up on subprime mortgage securities in a quest for what he referred to as "Ten Cubed", which was the goal of raising his unit’s annual income to $1 billion. When the value of these assets crashed, there was no immediate problem because any redemptions could be funded by new cash that was coming into the program. This may remind you of Bernie Madoff, and for good reason; Boyd points out that Neuger was effectively running a giant Ponzi scheme. Instead of being disgraced and going to prison for life, however, Neuger’s "corporate star remained ascendant and he earned $8.78 million for his work". And this all took place in AIG’s New York offices under the not-so-watchful eyes of Martin Sullivan and his risk management executives. It is utterly inconceivable that anything like this would have happened under Greenberg."Fatal Risk" is a riveting read for anyone who wants to know the story of AIG and AIG Financial Products, the disgusting and undeserved hounding of Hank Greenberg by Eliot Spitzer, and the establishment and horrible consequences of Joe Cassano’s swap book and Win Neuger’s Ponzi scheme. On the negative side, I hate to nitpick but the book has a somewhat slapdash feel to it due to several spelling and grammatical errors ("This was even aggressive even for Hank", "AIG had just true constituent at that moment", and even the dreaded "seperate"). There are also some small factual errors; it’s "Kelley Kirklin", not "Kelly Kirkland", and "Robert Hirst", not "Michael Hurst

The subtext of Boyd’s fine expose’ on AIG is, absent Hank Greenberg, the management blew up the company by abandoning Greenberg’s core principle of deep, thorough evaluation of risk as an integral component in every investment AIG made. In doing so, he points the finger at the specific top management at AIG headquarters in New York and its Financial Products division in Connecticut. He explains AIG’s worldwide insurance business, its massive revenues and how Greenberg’s "hands on and heads on" approach created and furthered the mystique of his reign in knowing and controlling all aspects of AIG’s worldwide businesses down to the paperclips. Boyd’s impatient writing annoys but moves quickly through esoteric financial transactions and terms, often leaving the reader lost in a welter of catch phrases and Wall Street dialogue, the meanings of which is not fully understood. He does not match in explication such reader friendly financial journalists as Roger Lowenstein or Gregory Zuckerman. Setting this minor criticism aside, Boyd’’s story is judgmental, as it should be, convincing and honest. Commentary on Greenberg and his managment style leads the reader to the conclusion that AIG’s fall would not have happened on Hank’s watch. The financial arm wrestling between AIG and Goldman leading to AIG’s demise in September 2008 is highly informative. Boyd is a Wall Street realist and unapologetic for the business of trading as anything other than the dog eat dog business it is. The Spitzer and Greenberg struggle, somewhat secondary to the story, fascinates in detail and consequence and ends with the reality that American business is far better off with Client # 9 out of office and on entertainment television. His last two chapters are superb and worth the price of the book.

You don’t have to be an insurance/financial nerd to get this book.This is the story behind the story of the financial crash. Everyone who thinks they’ve been hoodwinked by the government, Goldman Sachs, or AIG should read it.I worked at AIG 25 years ago and probably learned more about how the world works in my first week than in four years of college.When I read in 2005 that legendary CEO Hank Greenberg was out, I thought, there goes the company. Actually, there went the US economy. This book supports my initial instinct that Eliot Spitzer, in ousting Greenberg on a spurious accounting fraud charge (just thrown out of court again yesterday) did more to enable the bubble and crash than any other single player.It took only one month of Greenberg’s absence -- and the terms of his severance were so onerous, he was not, as he should have been, kept on as an advisor -- for the business that sunk the company to be off and running. AIG was essentially brain-dead, a Leviathan without a head.Boyd’s fascination with his material is reflected in his vivid writing -- a challenge when the topic is financial products. More important, he comes to the subject with an open mind. Despite declaring his mission as exposing "financial filth", he steers clear of the condemnatory snark that characterizes so many of the other big books on the crisis.I have read "Too Big to Fail", "All the Devils Are Here" and the hilariously naive "Griftopia." Of these, "Fatal Risk" is the most solid and informed book about the financial crisis, and should be read alongside the equally excellent "Fallen Giant" by Ron Shelp (former AIG-insider)which focusses on the history of AIG and the rise of Hank Greenberg.

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