AIG Is Even Worse Off Than You Think

John Carney|Jul. 31, 2009, 9:25 AM

Remember the fairy tale about AIG being an otherwise healthy insurance company that just got a little crazy selling credit default swaps? Well, it's time to put that one to rest.

The New York Times has reviewed state regulatory filings and discovered that "AIG's individual insurance companies have been doing an unusual volume of business with each other for many years — investing in each other's stocks; borrowing from each other's investment portfolios; and guaranteeing each other's insurance policies, even when they have lacked the means to make good. Insurance examiners working for the states have occasionally flagged these activities, to little effect."

"More ominously, many of A.I.G.'s insurance companies have reduced their own exposure by sending their risks to other companies, often under the same A.I.G. umbrella," the NYT reports.

Regulators have been turning a blind eye to this sort of thing because they are worried about putting the taxpayer investment in AIG at risk.

Read that again: we invested billions in AIG and now we can't properly regulate it without putting that investment at risk. It's a brand new type of regulatory capture. Great work, team.

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