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AIG brand, once golden, is now a liability

Outrage over the bailout and bonuses is hurting insurance sales and may be making it harder to get a good price for some of the units AIG is trying to unload to raise cash.

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In a recent TV ad, a little boy walks into his parents' bedroom in the middle of the night, unable to sleep. But it's not bad dreams that are keeping him awake.

"I'm worried about this family's financial future," he announces.

Don't worry, his dad assures him, "we're with AIG."

The problem for American International Group Inc. these days is that many current and potential customers are worried about *its* future. Public outrage over huge bonuses paid to AIG employees merely highlights the fact that the financial service giant is staying afloat only with the help of tens of billions of taxpayer dollars.

The deluge of bad publicity -- which AIG's regulatory filings delicately call "headline attention" -- is gnawing at sales in the company's core insurance businesses, and may be making it harder to get a good price for some of the units AIG is trying to sell to raise cash.

The bonus brouhaha also makes it likely that the formerly well-regarded AIG brand name will one day disappear from the marketplace, even if the company itself survives.

"There are a lot of people angry out there who don't want to do business with them anymore," said Barbara Casey, founder of Los Angeles public relations consulting firm Casey & Sayre. "Their ads say, 'Trust us,' but spin is not what they need to be doing right now. They need to take responsibility and make sure what happened doesn't happen again."

Even that may not be enough, said Peter Sealey, adjunct professor of marketing at Claremont Graduate University, who said AIG's PR crisis rivals the Tylenol debacle of the early 1980s, when tainted painkillers killed seven people.

"The only solution," Sealey said, is to "re-brand the company and move on."

Company executives appear to agree.

"I think the AIG name is so thoroughly wounded and disgraced that we're probably going to have to change it," Chief Executive Edward M. Liddy said at a congressional hearing this week, noting that the process had already begun.

For instance, Woodland Hills auto insurer 21st Century Insurance, renamed aigdirect.com after AIG bought it out in 2007, went back to its old name in November.

AIG's near-collapse was triggered primarily by huge losses at its Financial Products unit, which lost billions when complex bets it made on the housing market went bad.

The company's global insurance businesses, including 21st Century, have a financial strength rating of A (excellent) from insurance rater A.M. Best Co., albeit with a warning that the grade could be lowered. And an association of state regulators issued a statement saying the insurance subsidiaries were "walled off" from the parent company and "have continued to fulfill their obligations to policyholders."

Nevertheless, AIG's troubles are like blood in the water to insurance agents trolling for business.

"Agents see it as an opportunity to jump on the bandwagon and bash AIG," said Greg Rosenthal, owner of Rosenthal Financial Services in Morrow, Ga. "They'll call AIG policyholders and say, 'Let me switch you to another company.' "

The tactics appear to be having an effect. In reporting a $62-billion fourth-quarter loss this month, AIG said negative publicity contributed to declining sales in some of its insurance businesses, which include life, auto and general business liability coverage.

Insure.com, an online insurance broker, said AIG was the site's No. 1 seller of term life insurance in 2007 and 2008, mostly through its American General brand. It's No. 4 this year.

Meanwhile, Insure.com's "anxiety index" -- which tracks customer interest in financial stability data about insurers -- has spiked with each new AIG bombshell. The index is on pace to hit an all-time high in March as shoppers react to the latest AIG news.

"We haven't seen this kind of anxiety since First Executive was seized in the early 1990s," said Insure.com CEO Robert Bland. The collapse of Executive Life Insurance Co., a unit of First Executive Corp. in Los Angeles, was at the time the biggest insurance failure in history.

Even some business insurance buyers are shying away from AIG brands. But with the economy contracting, many buyers have no choice but to go with the cheapest product.

"If AIG is a little lower and there's another alternative, they go with the alternative," Scott Hauge, president of CAL Insurance & Associates Inc. in San Francisco, said of his clients. But if AIG is offering a markedly lower premium, "given the state of the economy, they take it."

A spokeswoman at AIG's New York headquarters said "it's too early to tell" whether the flap over the $165 million in bonuses paid to AIG employees was having "a material impact on our business."

It's also not clear to what extent the dark cloud that hangs over the company is frustrating a key element of AIG's recovery plan: the sale of several important subsidiaries, including the company's vast Asian insurance operations, 21st Century Insurance and International Lease Finance Corp. in Century City, which owns more than 950 commercial airliners.

The turmoil in global financial markets has stifled corporate acquisitions in many industries. Insurance companies, which would be logical bidders for many of the AIG units, are especially unlikely to go on a buying spree.

"People who are in a position to bid on any of these properties could care less what Congress thinks about what Ed Liddy did," said David Anthony, an analyst at Argus Research Co. "All they think about is how cheap can I get it and can I begin to rebuild the business if it's under my name rather than AIG's."

Still, companies such as International Lease Finance, which has remained profitable despite the downturn in the airline industry, have been devalued because of their ties to AIG, aviation consultant Scott Hamilton said. He noted that the aircraft leasing firm's credit rating has taken a hit because of the problems at its parent.

"It continues to be a well-run business," Hamilton said. "It's the classic innocent-bystander syndrome."

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