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After 12 Years, A.I.G.'s Former Chief Executive Agreed to Settle in Accounting Fraud Case

By John Billiet, L.L.M. Candidate 2017 | February 21, 2017

On February 10, 2017, Maurice Greenberg (A.I.G's former CEO) and his co-defendant Howard Smith (A.I.G.'s former CFO) agreed to settle with New York Attorney General, Eric T. Schneiderman on an accounting fraud case that lasted for more than 12 years. That settlement ends a civil case that began in 2005 under Spitzer – the then-New York Attorney General – and was continuously delayed by a flurry of defense motions and eight pre-trial appeals.

The two men finally acknowledged their roles – without admitting to fraud - in two transactions that inaccurately portrayed A.I.G.'s financial results over four years. Although not reaching the $50 million the state initially claimed, the two former executives agreed to return more than $9.9 million of performance bonuses they received from 2001 to 2004.

The accusation involved two reinsurance deals that aimed to misrepresent A.I.G.'s finances and dupe A.I.G.'s investors. The first deal converted a $210 million underwriting automotive warranty insurance losses into investment losses, while the other oversaw a $500 million transaction with General Reinsurance Corporation that artificially increased A.I.G.'s loss reserves. In their statement, the two executives recognized that "as a result of these transactions, A.I.G.'s publicly-filed consolidated financial statements inaccurately portrayed the accounting, and thus the financial condition and performance for A.I.G.'s loss reserves and underwriting income."

In this settlement, Mr. Greenberg recognized that he "initiated, participated in and approved these two transactions" followed by Smith who said that he also participated and approved the transaction. That acknowledgement comes after years of trial during which Mr. Greenberg said he "sometimes had an active role in formulating the transactions at issue but insisted he had intended for them to comply with accounting rules" and that "he had left most details to subordinates."

This result is a relief for New York Attorney General Eric Schneiderman who declared that "after over a decade of delays, deflection and denials by Mr. Greenberg, we are pleased that Mr. Greenberg has finally admitted to his role in these fraudulent transactions." Nevertheless, by agreeing to settle, Mr. Greenberg was allowed to avoid two penalties which could have prevented him from working in the securities industry or as an officer of a public company.