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AIG and Federal Reserve Supervision

The **Dodd-Frank Wall Street Reform and Consumer Protection Act** was signed into law in 2010. In 2013 the Financial Stability Oversight Council (FSOC) designated AIG a nonbank Systemically Important Financial Institution (SIFI) and the Financial Stability Board (FSB) designated AIG a Global Systemically Important Insurer (G-SII). AIG has several years of experience with consolidated supervision by the Federal Reserve.

As a prudential regulator, the Fed's focus is on overall safety and soundness and they continue to regulate AIG in accordance with their risk-focused approach to consolidated supervision, which is consistent with the framework articulated in the Supervision and Regulation letter SR 12-17, *Consolidated Supervision Framework for Large Financial Institutions*. The primary objectives of the framework are:

Enhancing Resiliency of a Firm

- Capital and Liquidity Planning and Positions
- Corporate Governance
- Recovery Planning
- Management of Core Business

Reducing the Impact of a Firm's Failure

- Management of Critical Operations
- Support for Banking Offices
- Resolution Planning
- Additional macro prudential supervisory approaches to address risks to financial stability

AIG

Enterprise-Wide Federal Reserve Supervision

The Federal Reserve Bank of New York (FRBNY) has a dedicated team of examiners and risk specialists who assess and monitor AIG's business and risk exposures, benchmarking AIG against the leading practices of the largest, most sophisticated financial institutions, including AIG's SIFI peers.

Dedicated Onsite Team with Specialized Expertise	**The FRBNY team has been increasing its presence, expertise and depth of supervision.** ▪ Experience and specialized expertise in liquidity, credit, models, operational risk, investments, IT, actuarial and insurance industry
Extensive, In-Depth Reviews	**The FRBNY conducts detailed reviews of AIG risk management and processes:** ▪ Capital Planning Inspection (CPI): Extensive review of stress forecasting process and methodologies ▪ Annual Resolution Plan: The Federal Reserve and Federal Deposit Insurance Corporation (FDIC) examine these plans to gain insight into risks arising from material entities, core business, interconnectedness, critical functions and market concentrations
Annual Report of Inspection and Formal Feedback	**Each year, the Federal Reserve informs supervised institutions of their annual assessment, referred to as the Annual Report of Inspection.** ▪ Using a bank holding company (BHC) framework, these assessments rate Risk management, including Board oversight, policies / limits, risk monitoring, management information system (MIS), and controls and Financial condition, including capital, asset quality, earnings, and liquidity
Transparency	▪ AIG's Board, leadership and management teams engage regularly with the FRBNY supervisory team as part of the Fed's continuous monitoring. This includes senior actuarial leadership and facilitates a common understanding of AIG's business and risk profile.

AIG

Actuarial Component to the Fed Focus

Most of the following *Areas of Focus* have an actuarial component whether it be projected liquidity needs, required capital, use of models, risk management, structuring investment portfolio or resolution planning.

The *High Level Themes* are typical components of the Fed's assessment process, and not unique to AIG's experience. As the Fed team grows, activity has progressed from high level overviews to a more business focused approach as they examine new areas or take "deep dives" on ones briefly covered.

Areas of Focus

- Capital (Governance framework, CCAR planning, scenario design and stress testing)
- Risk Management (Including operational, political, vendor management and country)
- Resolution & Recovery Planning (Legal entity structure, reinsurance program, intercompany program, and shared services)
- Project Management
- Regulatory Reporting and Financial Close
- Model Governance
- Business Unit Focus

High Level Themes

- Governance aligned with businesses/risks
- Clear Accountability/Responsibility
- Risk Management identification/mitigation
- Effective Communication
- Well Supported Decision Making
- Management Reporting content/distribution
- Effective Controls
- Information Technology effectiveness
- Data Quality
- Technical Skill Competency

Conversations with the Federal Reserve - Assessing Banks vs Assessing Insurance Companies

Measure	Difference
1 Leverage	▪ Insurers are less reliant on debt and equity as they are mostly funded by policyholders, and insurers have less derivative exposure than banks
2 Liquidity	▪ Insurers use much less short term funding, are less vulnerable to runs and match maturities of assets and liabilities
3 Risk Factor Diversification	▪ Risk factors are more varied than banks' and are generally uncorrelated, providing significant industry risk diversification
4 Asset Quality	▪ Insurance assets tend to be more liquid and of higher known quality
5 Balance Sheet Size & Velocity	▪ Insurer balance sheets are smaller and more stable than those of big banks, where asset/liability mixes change rapidly and magnify risks
6 Inter-connectedness	▪ Insurers are far less interconnected with other financial institutions and the capital markets than banks
7 Resolution	▪ Insurance company failures that do occur follow a unique pattern and their resolution is deliberate, orderly and not prone to fire sales
8 Market Conduct Regulation	▪ Insurers are subject to long-established, comprehensive market conduct regulation, examinations and discipline

AIG

Bring on tomorrow