



Liddy's mission: Dismantle AIG to make good on gov't bailout

By: [Steve Daniels](#) Sept. 17, 2008

(Crain's) — In tapping former [Allstate Corp.](#) CEO Edward Liddy to run American International Group Inc. following the federal government's \$85-billion bailout of the insurance giant, U.S. Treasury Secretary Henry Paulson has chosen someone he knows well and trusts.

After all, Mr. Paulson picked Mr. Liddy to join the board of Goldman Sachs Group Inc. in 2003 when Mr. Paulson ran Goldman.

Now Mr. Liddy, 62, who retired as chairman of Allstate less than five months ago, takes on the task of largely dismantling the country's largest insurer, with operations spanning the globe and reaching into many nooks and crannies of the financial markets.

Job No. 1 for Mr. Liddy will be ensuring taxpayers are repaid on the \$85-billion, 24-month loan the Treasury Department agreed to make in order to keep AIG out of bankruptcy and forestall a crippling ripple effect that could have imperiled other financial institutions around the world. The federal government, in return, takes an 80% equity stake in AIG, massively diluting existing shareholders' stock.

Preventing a taxpayer loss on the bailout should be doable, given the fact that AIG has many profitable units. Its woes are largely centered on a U.K.-based unit that issued lightly regulated financial instruments that effectively insured other financial institutions against losses in their mortgage-related investments. As the housing market collapsed, capital needed to support that business mushroomed, leading AIG to the brink of bankruptcy.

"Our preliminary estimate of the breakup value for the company is well over \$150 billion," wrote Bijam Moazami, insurance industry analyst for Friedman Billings Ramsey & Co. Inc. in Virginia.

"We believe that the government will try to maximize the value of its 80% holding by pushing the company to sell most of its assets in an orderly fashion," he adds.

The job will be immense, but Mr. Liddy has shown many of the skills it will take during previous stints at Allstate and Sears Roebuck & Co. He's intensely analytical, having played an instrumental role as Sears' chief financial officer in the breakup of the Sears financial empire in the early 1990s that resulted in the sales or spinoffs of Allstate, credit card operation Discover Financial and real estate brokerage Coldwell Banker.

When he became CEO of Allstate in 1998, Mr. Liddy undertook a wrenching restructuring of the insurer's massive agent force, requiring employee agents to become independent contractors and provide for their own health and retirement benefits. After a rocky start at the Northbrook-based insurance giant, he led Allstate through a period of strong earnings growth fueled by steady rate hikes, cost controls and a new focus on shielding the company from heavy exposure in catastrophe-prone areas like the Gulf Coast.

"I can't think of anyone else who has a tool kit like that who also happens to be an expert in insurance," said Peter Crist, chairman of executive search firm Crist/Kolder Associates in Hinsdale. Mr. Crist handled Allstate's recent search for a new chief financial officer.

One key question, Mr. Crist says, is whether Mr. Liddy will step down from his board seat at Goldman, particularly if the investment bank is asked to handle any of the AIG asset sales.

Another is whether Mr. Liddy's task will be to methodically sell off all of AIG, or preserve a core that would continue as a going concern. Mr. Paulson, who has taken a central role in managing the federal government's response to the credit crisis, undoubtedly will have much to say about that, at least until a new presidential administration takes over early next year.

Mr. Crist identified another ironic feature of Mr. Liddy's appointment: The masters of the universe in New York, who made the mortgage meltdown possible by providing the capital to fuel the giddy underwriting of home loans to unqualified home buyers, now are turning to the Heartland for help cleaning up the mess.

"The fact that in the New York meltdown the guys who are at the top of the world reached to Chicago to help, I take great pleasure in," Mr. Crist said. Mr. Liddy was not available to comment.