

Second Enterprise Risk Management Seminar

**ERM 2010**



Institute of Actuaries of Australia

**– It's All About Opportunity**

AMORA JAMISON HOTEL, 11 JAMISON STREET, SYDNEY

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# **ERM in Times of Crisis**

**What happens when it all hits the fan!**

**My experience as a CFO of a AIG related company  
directly impacted by the GFC**

**Warwick Young**

## Context

- ALICO is a subsidiary of AIG operating as a branch office in Japan \$65b Assets
- Leading up to the GFC downgrades and rumours of defaults increased
- \$2b of ALICO Japan capital was in AIG shares and AIG shares experienced a massive fall in value
- ALICO had very significant holdings in CMBS

## Context

- Federal Reserve Bank bailed out AIG
- Federal Reserve Bank had publicly said they would stand by AIG's Insurance companies
- We received \$600m to replace the \$2b in lost value from AIG shares
- Internally we were told "sort out your own problems we can not ask for more money!"

## What did we expect ?

- A run on the bank scenario as soon as we were informed of the AIG situation
- Support from Federal Reserve Bank
- Increased call volumes

## Did we have a crisis?

- Press coverage was intense
- Phone call volumes spiked as did the call drop rates both hitting record highs
- Surrender requests were significant - highest day on record \$600m
- The financial markets around the world were in panic – spreads up – liquidity down – prices at irrational levels



## What did we do?

- The phone staff were supplemented with all available staff to
  - Reduce the call drop rate
  - Talk to customers
- Scripts were developed and refined
- Tied agency rescue packages were developed and communicated to ensure the agency force reinforced a positive message to clients



## What did we do?

- Sold all Japanese equities except for “relationship” holdings – prior to Japan stock market falls
- Liquidated as many assets as we could without incurring significant capital losses
- Constant monitoring of cash levels and prepared cash forecasts
- Constant monitoring of solvency positions
- Talked to
  - Regulators, Bancassurance partners, staff, basically everyone

## What we didn't expect ?

- Overdraft facilities withdrawn
- Inability to transact basic banking transactions converting USD to Yen
- Other branches/subsidiaries creating additional problems for us
- The slow resolution of the crisis

## What I did not expect ?

- The committee decision making process was not abandoned
- The Japan centric focus of management
- The rift between Japan and Head Office
- The ambiguity in proclamations from regulators and standard setting bodies
- The physical and mental toll of the prolonged crisis

## What worked well ?

- Starting selling before others
- Transport
- Blackberry
- My finance team and interpreters
- Telephone Scripts
- USD/Yen exchange rates

## What did not work ?

- Sister company relationships/service providers - “every man/women for themselves”
- Single service providers
- Banking arrangements
- People seizing the opportunity to score political points positioning themselves for life after the crisis

## What would I do differently ?

- Before
  - Identify a crisis team in advance
  - Prepare for parent failure
  - Primary and secondary service providers
  - Run a realistic mock crisis
- After
  - Speak to spouses
  - Organise transport for crisis team
  - Send staff home when you can

## What kept me going ?

- My family
- Desire not to be the CFO of an operation that had to seek regulatory intervention