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EXHIBIT
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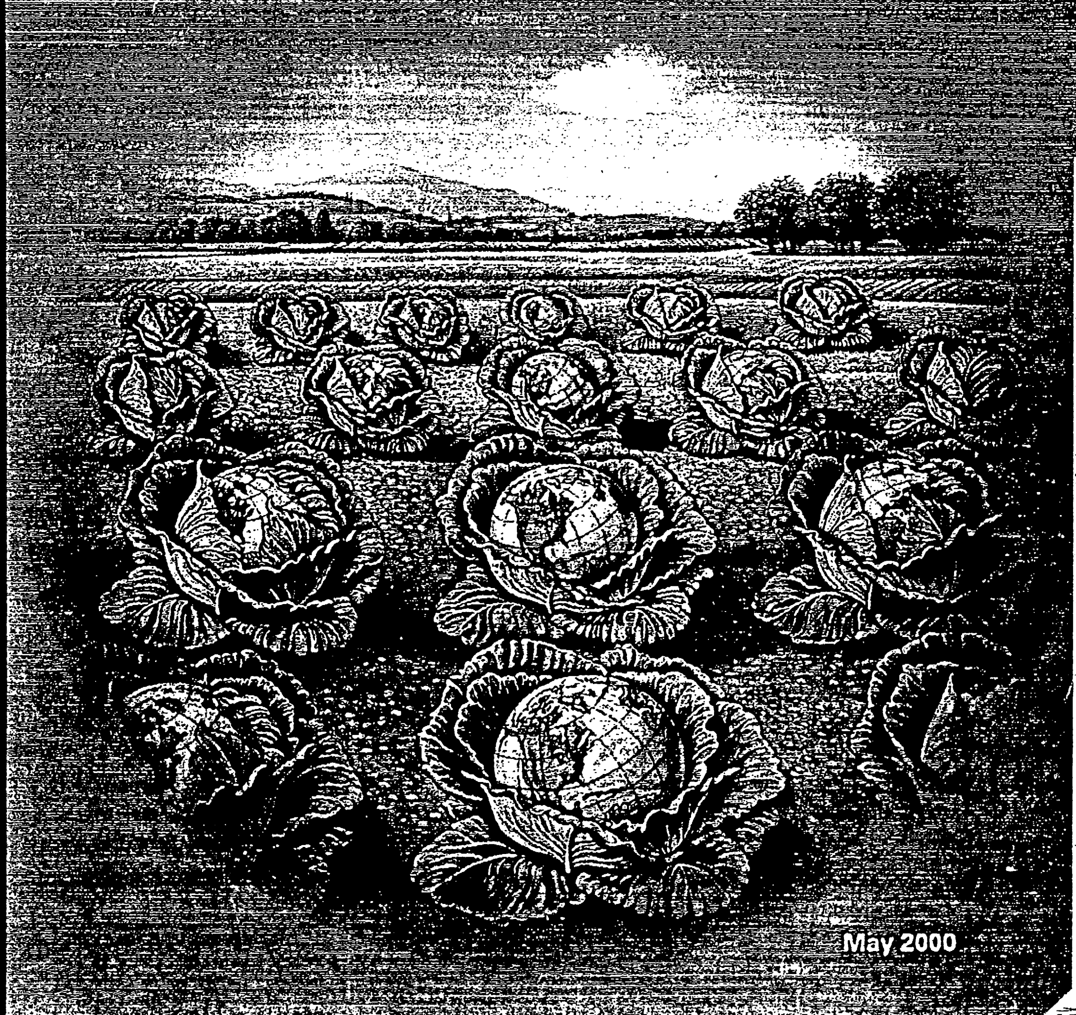
Company Analysis

Property-Casualty Insurance

EQUITY RESEARCH

American International Group

Cultivating Global Growth



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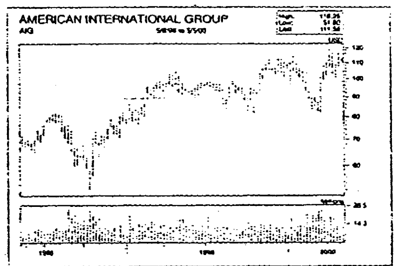
American International Group (AIG-$111.56): Statistical Overview

Operating EPS*	1999 A	2000 E	2001 E
1Q	$0.75	$0.87 A	
2Q	0.80	0.93	
3Q	0.79	0.92	
4Q	0.84	0.98	
Year	$3.19	$3.70	$4.25
P/E Op. EPS	—	30.2x	26.2x
Op. EPS excl. gdwl.	$3.20	$3.71	$4.26
P/E Op. EPS excl. gdwl.	—	30.1x	26.2x
Total Return ROE	8.2%	17.0%	15.9%
Tot. Ret. ROE excl.	15.6%	15.7%	15.6%
Book Value at Market	$21.50	$24.62	$28.62
Price/Book Value	—	5.8x	5.5x

*Excluding realized capital gains and losses.



Source: FactSet Research Systems Inc.

American International Group (AIG) is the leading U.S.-based international insurer. Its member companies write property, casualty, marine, life and financial services insurance in 130 locales.

Key Data

52-Week Range	$118-81	Indicated Dividend	$0.20
Equity Market Cap (MM)	$171,858	Yield	0.2%
Shares Outstanding (MM)	1,540.5	Secular Growth Rate	NA
Float	96%	12-Month Target Price	$135.00
Institutional Holdings	56.2%	12-Month Total Return Potential	21.2%
Average Daily Volume (K)	3,921	Convertible?	No

Fiscal year ends December.

Summary and Introduction

AIG has been the most consistently profitable major U.S. insurance company in history. Since its initial public offering in 1969, an investor in AIG has achieved a compounded return of about 20% annually versus a return of 9.14% for the S&P Index[1]. In addition, the company's valuation relative to other insurance stocks has increased in recent years. Today, AIG is far more than a property/casualty insurer. Its operations encompass a broad range of financial services, including mutual funds, private and global equity funds, infrastructure funds, corporate finance services, aircraft leasing, derivative and commodities trading, as well as all kinds of life, personal lines and commercial insurance.

Trading at five times book value in an industry that is typically valued at less than half that, AIG's relative valuation reflects investors' confidence in its chief executive officer, Maurice R. "Hank" Greenberg; his strategy of international growth focused on asset accumulation, risk management and emerging markets; and the performance-oriented culture he has built. Yet, the increasing complexity of AIG's businesses and the need to obtain and analyze detailed information about its constantly expanding worldwide operations have made it more difficult to estimate the company's long-term sustainable growth rate. The company's structure is dauntingly complex, and its geographical and operational scope is vast. We continually receive questions from investors on AIG's long-term growth prospects, but to date have not had an answer with which we were satisfied.

In a sense, the consistency and strength of AIG's results work against it from a research standpoint. Investors who do incremental research have not so far been any "righter" on the stock than those who simply extrapolate historical trends. Further, while AIG is relatively investor-friendly, the company also is results-focused and management spends its time growing the business rather than promoting its stock. AIG does not take analysts on grand tours of its far-flung operations, nor does it hold conference calls or "investor days."

In late 1999 we decided that an important part of our 2000 research effort would be to develop a more detailed understanding of AIG and to translate that understanding into a meaningful long-term earnings forecast and valuation model. In this report we set out to answer the following questions:

- How long will AIG's competitive advantage last?
- What is the company's expected growth rate during the competitive advantage period?
- What will AIG's return on equity be in the future?

1 No comparable insurance index for this period exists.

To answer these questions, we first focused on identifying, in a concrete way, AIG's true competitive advantages, and on evaluating how sustainable they are. While most investors are aware that AIG's low expense structure is a competitive advantage, two critical questions have been unanswered: 1) *why* AIG's expense structure is low; and 2) *whether this can be sustained* relative to competitors.

We also focused on gaining a detailed understanding of the growth opportunities in AIG's international businesses. Investors already understand in a general way the importance of opportunities in markets such as China and India. But to meaningfully estimate a long-term growth rate, more specific questions need to be answered: How big are these potential markets? How fast will they grow? What cultural, political and economic variables will influence their growth rates? What products are driving the growth? How competitive are these markets likely to be? How fast is AIG likely to grow relative to the overall market?

This report is the result of several thousand hours of research on the subject of AIG's competitive advantages. Even so, we believe we have not come close to exhausting this subject. And forecasting global insurance growth a decade into the future is an exercise in approximation. Among other variables are the world economy, regulatory/legal/political risks and the high likelihood that AIG will continue to make acquisitions. Despite its inherent limitations, we believe our research gives insight into how AIG could achieve better-than-15% earnings growth for the foreseeable future. And we hope that this report will provide investors with an entirely new level of detail on AIG's culture, franchise advantages and operations around the world. We consider these the critical aspects of evaluating the stock and have focused on them rather than writing an exhaustive descriptive analysis of each of AIG's individual businesses. As a result of our research, we have upgraded the stock from Attractive to Buy.

Our fundamental conclusions are:

- **AIG's single most important competitive advantage is the significant head start it has internationally**—a head start that we believe will result in rapidly compounding growth in important markets. In many markets, AIG may well be the only foreign insurer that can successfully go head-to-head with local companies and take share profitably. We have come to view AIG as almost the equivalent of a sovereign corporate nation, with its own diplomatic ties, economy and head of state.

- **AIG has not come close to fully exploiting its growth opportunities.** AIG's business outside the U.S. has plenty of room to expand. Today, approximately 65% of its foreign life premiums are derived from four markets—Japan, Taiwan, Hong Kong and Singapore—and almost 35% of its non-life business is derived from Japan alone. AIG's international pension business is concentrated in Europe.

- **AIG has plenty of room to grow even in its largest markets.** Although Japan and Taiwan represent a large portion of AIG's premiums, the potential of these markets is by no means tapped, as we describe in this report. Therefore, growth in other countries should mostly be incremental, rather than offsetting slowing growth in large maturing markets.

- **AIG has numerous other competitive advantages:** its very low expense structure, flat organization, product innovation skills, underwriting ability, enormous scale, and entrepreneurial culture in which "either/or" is not an acceptable answer. We believe that the expense structure, while strongly culturally driven, also is a function of overwhelming scale and therefore can be considered a sustainable advantage. And while individually or on a small playing field, AIG's other advantages may be replicable, it is difficult to envision any company achieving them all on a grand enough scale to be considered a threat to AIG.

- **We believe AIG is taking its first steps toward global branding, further expanding its franchise.** Several of its American International Assurance operations were co-branded "AIG Life" during 1999. The company is undertaking a branding advertising campaign, focusing on this brand as well as the powerful AIG, AIA and AIU brands around the world. Over time, this process has the potential to create additional franchise value.

- **We see three major company-specific risk factors:** a global economic downturn, disruptive regulatory or political changes in key markets, and a management succession that is poorly timed or executed.

- **We believe AIG can grow its foreign life business at 17.5% per year through 2005** and 16.5% per year from 2006 through 2010.

- **We believe AIG can grow its foreign non-life business at 8.7% per year through 2005** and 9.3% per year from 2006 through 2010

- **We believe AIG can grow its earnings at approximately 16% for the next six years.** We have raised our target on the stock from $100 to $135.

In preparing this report, we:

- Met with Mr. Greenberg in New York and other members of management in Asia.

- Interviewed numerous current and former AIG managers to discuss the company's organizational structure, management style, operations, business prospects, and competitive strengths and weaknesses.

- Met in Beijing with representatives of the China Insurance Regulatory Commission (CIRC), China's new insurance regulatory body. We were privileged to be the first Western securities analysts to meet with Chinese regulators.

- Met with several of AIG's competitors, as well as regulators and rating agency representatives, reinsurers, and brokers in Shanghai, Hong Kong, Tokyo, Beijing and Taipei, to discuss the company's competitive position and business approach in Asia.

- Reviewed political, economic and insurance market data for major AIG markets to understand the key variables that will drive those markets' and AIG's growth. A summary of our findings for each country and a discussion of growth opportunities are included in Appendix 1.

- Estimated AIG's current life and non-life premium volume in these countries using a variety of sources, including Sigma, Axco, discussions with regulators and review of statutory filings in various countries.
- Projected a range of estimates of life and non-life premiums in 2005 and 2010 for each country, using a two-stage model to allow for more conservative out-year estimates.
- Using these premium estimates, computed weighted-average annual growth rates for the company's life and non-life businesses to use in valuing the stock and producing earnings estimates.
- Our detailed earnings model projects six years of results; our valuation model is based on a ten-year competitive advantage period. We believe the latter is conservative.

Exhibit 1: AIG's History—Planting the Seeds for Global Growth

1919	Cornelius Vander Starr founds American Asiatic Underwriters – Shanghai.
1921	Establishes Asia Life Insurance Company.
1926	AIU begins writing American risks in Asia.
1929	AIG present in major Asian markets.
1930s	Enters Latin America.
Late 1930s	Headquarters moved to New York City.
1946	Enters Japanese market.
1950	AIG forced out of China, moves Asian operations to Hong Kong.
1960	Mr. Starr recruits M.R. Greenberg from Continental Casualty Co.
1962	Mr. Greenberg is named president of American Home Assurance.
1968	Mr. Greenberg succeeds Mr. Starr.
1969	AIG makes initial public offering: Net p/c premiums are $245 million; life, $38 million; net income is $13.4 million. Assets total $606.8 million.
1970s	Taiwan asks AIG to take over troubled Nan Shan Life.
1975	AIG negotiates first claims settlement/reinsurance agreement with People's insurance Company of China (PICC).
1976	AIG net income tops $100 million.
1979	AIG net income tops $200 million.
1980	AIG and PICC form China-America Insurance Holdings, the first joint venture between PICC and a foreign insurer.
1980	Opens first representative office in Beijing by a U.S. financial company.
1981	AIG purchases United Guaranty Corp.
1984	Lists on the NYSE.
1988	AIG net income tops $1 billion.
1990	AIG forms joint ventures to market life and non-life insurance in Poland and Hungary.
1990	Buys International Lease Finance Corp.
1992	Granted license to reenter Chinese market.
1993	AIG reopens offices in Shanghai; introduces agency sales to China.
1994	Net income tops $2 billion. Invests in 20th Century Industries.
1994	AIG raises $1.1 billion Asia Infrastructure Fund I.
1995	Receives Chinese life and non-life licenses in Guangzhou.
1996	AIG Golden Insurance Ltd. joint venture formed in Israel to sell personal lines.
1997	AIG gains control of its Polish operations, First American Polish Life Insurance and Reassurance Co. and AIG Poland Insurance Co.
1997	AIG enters market in Bulgaria through AIG Bulgaria Insurance and Reinsurance Company; buys Bulgaria Post Bank.
1997	AIG invests $500 million in Unibanco Brazil.
1997	Begins writing direct auto insurance in Japan.
1998	AIG raises stake in Transatlantic Holdings to over 50%.
1999	AIG Golden is licensed to sell life insurance in Israel.
1999	AIG buys SunAmerica in $18 billion stock swap.
1999	Buys John McStay Investment Management.
1999	AIG receives license in Sri Lanka.
1999	Receives Chinese life and non-life licenses in Shenzhen and Foshan.
1999	Net income tops $5 billion.
1999	Buys Lippo Life, Indonesia's largest life insurer.
1999	Forms joint venture with the Tata Group to enter India.
2000	AIG receives license in Vietnam.

Source: Company information, *Business Insurance*, *Institutional Investor*, *Barron's*.

Financial Overview

Over the past 11 years, AIG has compounded its earnings at 16.1% while raising its return on equity from 12.7% to 15.6%. The return-on-equity gains have been especially impressive considering that a majority of AIG's earnings were derived from an industry that is growing book value faster than earnings. While AIG also has outperformed the industry in property-casualty premium development, the real source of its earnings growth is the consistent 10 point underwriting advantage it has over the industry, the extraordinary growth of its life insurance operations, and the addition of attractive, fast-growing new businesses—financial services, aircraft leasing, and recently, asset management.

In the course of just over a decade, AIG's valuation relative to the market has increased only slightly. But AIG has been perceived as an increasingly "expensive" stock as the ratio of stock price to book value has increased. We attribute this increased market premium to AIG's steady growth as well as to AIG's more efficient use of capital—the gap between AIG's return on equity and that of other insurers has widened. Very few insurers can boast of having increased return on equity significantly during this period to a level well above the cost of capital. Even so, AIG's investment opportunities suggest to us that its current return on equity has not peaked.

Exhibit 2: Financial Overview

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Avg.
EPS Growth	22.2%	13.8%	18.6%	9.6%	18.6%	11.1%	17.6%	16.6%	17.0%	15.1%	17.1%	16.1%
Book value growth	21.1%	13.9%	16.0%	3.1%	21.1%	7.0%	21.6%	12.7%	12.4%	13.4%	9.4%	13.8%
ROE	12.7%	12.3%	12.4%	11.4%	11.3%	13.1%	13.7%	13.3%	14.2%	14.6%	15.6%	13.1%
NWP growth	5.5%	3.7%	-1.3%	-0.1%	9.7%	8.4%	9.5%	6.7%	5.6%	8.8%	11.2%	6.2%
Industry NWP growth	3.2%	4.4%	2.2%	2.0%	6.2%	3.8%	3.6%	3.4%	2.8%	1.9%	2.0%	3.2%
Difference	2.3%	-0.8%	-3.5%	-2.1%	3.5%	4.6%	5.8%	3.3%	2.8%	6.8%	9.3%	2.9%
Industry combined ratio	109.6%	109.8%	108.9%	115.8%	107.5%	109.0%	106.9%	106.3%	102.2%	106.3%	108.3%	108.2%
AIG combined ratio	99.3%	99.2%	100.1%	102.1%	99.9%	98.1%	96.3%	96.2%	96.1%	96.2%	95.7%	98.1%
Difference	10.3%	10.6%	8.9%	13.7%	7.6%	11.0%	10.6%	10.1%	6.1%	10.1%	12.6%	10.1%
Earnings growth:												
Life insurance	15.3%	14.0%	14.8%	15.9%	16.5%	48.4%	23.3%	24.3%	24.5%	18.9%	22.8%	21.7%
Financial services	70.5%	-11.5%	67.7%	55.9%	12.6%	-1.1%	9.8%	18.4%	33.9%	29.5%	24.4%	28.2%
Relative P/E	0.91	0.94	0.77	0.67	0.68	0.79	1.01	1.00	0.96	0.93	0.96	0.87
Average price/book	1.8	1.9	1.8	2.0	2.0	2.0	2.2	2.5	2.9	3.6	4.5	2.5

Source: A.M. Best, ISO, Company financial data, and PaineWebber estimates.

Earnings Estimates

Exhibit 3 is a summary of our earnings model. We are projecting that AIG's earnings grow approximately 16% per year. The single biggest driver of this growth is a shift in business mix.

- As recently as 1993, more than 56% of AIG's pretax earnings were derived from the property-casualty business. Currently, that percentage has fallen to 43.1%, and we are projecting the non-life contribution to decline further—to 31.7% by 2005.
- Over the same period, life insurance has risen from 30% of pretax earnings to 40.7%; we are projecting that life insurance will continue to rise to compose 46% of pretax earnings in 2005.
- We are estimating that financial services declines slightly as a percentage of pretax earnings, from 16.3% in 1993 to 14.7%.
- Asset management, a new business segment, should represent almost 10% of pretax earnings by 2005.

Exhibit 3: American International Group – Summary Earnings Model

	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Net written premium	$12,691.7	$13,407.5	$14,586.1	$16,223.9	$17,307.6	$18,942.6	$20,457.2	$22,088.6	$23,855.7	$25,768.3
change	6.7%	5.6%	8.8%	11.2%	6.7%	9.4%	8.0%	8.0%	8.0%	8.0%
Earned premium	$11,854.8	$12,421.0	$14,098.0	$15,543.8	$16,749.4	$18,169.0	$19,703.7	$21,276.9	$22,974.5	$24,812.2
change	3.9%	4.8%	13.5%	10.3%	7.8%	8.5%	8.4%	8.0%	8.0%	8.0%
Loss ratio	75.9%	75.3%	75.6%	75.5%	75.6%	76.0%	76.0%	76.0%	76.0%	76.0%
Expense ratio	20.5%	20.7%	20.6%	20.2%	20.1%	20.2%	20.3%	20.3%	20.0%	20.0%
Combined ratio	96.3%	96.1%	96.2%	95.7%	95.6%	96.2%	96.3%	96.3%	96.0%	96.0%
P/C operating earnings										
Domestic	$1,403.4	$1,477.4	$1,762.5	$2,283.9	$2,339.9	$2,521.6	$2,784.1	$3,060.9	$3,366.2	$3,695.6
Foreign	$737.2	$866.3	$960.1	$901.9	$1,046.3	$1,125.6	$1,246.5	$1,379.2	$1,535.7	$1,696.9
Total	$2,140.6	$2,343.7	$2,722.6	$3,185.9	$3,386.2	$3,647.2	$4,030.6	$4,440.1	$4,901.9	$5,392.5
Life ins. operating earnings										
Domestic	$100.5	$124.9	$617.5	$1,062.2	$1,351.0	$1,625.6	$1,918.2	$2,225.2	$2,558.9	$2,942.8
Foreign	$1,188.5	$1,425.4	$1,664.5	$1,943.3	$2,281.9	$2,681.2	$3,177.3	$3,780.9	$4,499.3	$5,399.2
Total	$1,289.0	$1,550.3	$2,281.9	$3,005.5	$3,632.9	$4,306.9	$5,095.5	$6,006.1	$7,058.3	$8,342.0
Financial Services	$501.2	$671.0	$869.0	$1,081.3	$1,270.3	$1,528.6	$1,767.0	$2,003.2	$2,275.3	$2,666.7
Asset Management	$100.7	$127.3	$191.2	$314.1	$460.5	$609.3	$822.5	$1,069.3	$1,390.1	$1,753.6
Operating /share	*$2.02*	*$2.36*	*$2.72*	*$3.19*	*$3.70*	*$4.25*	*$4.90*	*$5.68*	*$6.60*	*$7.66*
Weighted avge. shares	1543.026	1541.716	1553.831	1566.768	1564.595	1565.595	1566.595	1567.595	1568.595	1569.595

Source: Company data and PaineWebber estimates.

We believe that, on average, AIG will grow its domestic non-life business 7.5% for the next decade, and should be able to grow its foreign non-life business 8.7% through 2005 and 9.3% in 2006-10. In life insurance, we are estimating that foreign life business can grow at 17.5% through 2005 and 16.5% thereafter. We believe that AIG's premium volume in countries such as China and India will begin to contribute meaningfully to growth toward the latter part of this period. In the domestic life business, we are projecting a gradual deceleration from the current 30% growth rate, as AIG's base of business in the U.S. reaches a higher mass. Country-by-country details behind these foreign growth assumptions are discussed further in Appendix 1.

Perhaps AIG's single biggest opportunity outside the U.S. is tapping into the international asset management business with SunAmerica and its own retirement and asset management products. This business, which is not capital intensive, should further increase AIG's return on equity over time. We are projecting 16% return on equity in 2005, compared with 15.6% in 1999. We are assuming that AIG continues to retain nearly all of its earnings for growth.

Valuation

We believe a reasonable projection of AIG's earnings growth rate is 16%, deriving from the strength of its international life and asset management businesses. Thereafter, we have assumed that AIG's earnings will grow 8% per year, in line with a long-term market equity growth rate. While this perpetuity assumption is higher than we normally use, AIG's business will be driven by the world economy more than the U.S economy, and we expect the world economy to continue to outgrow the U.S. economy.

A standard discounted cash flow analysis under these assumptions using an 11% discount rate suggests a theoretical valuation of $176. To incorporate our identified risk factors, the fact that AIG is a financial stock, and the inherent risk of using an earnings discounting method, we have applied a 25% margin of safety to this number to arrive at what we view as a reasonable near-term target of $135. We recognize that this target is six times AIG's book value and that some investors are not comfortable with high premiums over book value for financial stocks and/or would use a higher discount rate. Given our most likely estimate of AIG's growth, we are comfortable with this target, which essentially reflects our fundamental optimism about AIG's prospects in its most important lines of business.

Exhibit 4: Terminal Value Projection

	Dividend	PV of Dividends	Earnings	Terminal Value	Payout Ratio	Book Value
2000	$0.21	$0.20	$3.70	$3.33	5.7%	$25.20
2001	$0.24	$0.18	$4.25	$3.45	5.6%	$29.21
2002	$0.26	$0.16	$4.90	$3.58	5.3%	$33.85
2003	$0.29	$0.14	$5.68	$3.74	5.1%	$39.24
2004	$0.33	$0.13	$6.60	$3.92	5.0%	$45.51
2005	$0.37	$0.11	$7.66	$4.09	4.8%	$52.80
2006	$0.41	$0.11	$8.88	$4.28	4.7%	$61.27
2007	$0.46	$0.10	$10.30	$4.47	4.5%	$71.10
2008	$0.52	$0.09	$11.95	$4.67	4.3%	$82.54
2009	$0.58	$0.08	$13.86	$4.88	4.2%	$95.82
2010	$1.16	$0.37	$16.08	$5.10	7.2%	$110.73
Total	$4.84		$545.09			
Present Value		$6.76		$172.95		
				$179.71		
Margin of safety:				$44.93		
Valuation				$134.78		
Terminal price:book				492%		

Source: PaineWebber estimates.

We have not found applying a float valuation method to AIG to be useful because we believe that, in 2005, less than one-third of its earnings will come from non-life insurance. While the low-cost float provided by these businesses is valuable, we do not believe it will be the principal driver of the stock. Life insurance will be the more important business; and its float is less valuable than non-life float, because the liabilities of a life insurer are stated on a present value basis, capturing the impact of future investment income, and because spreads are smaller—much of the investment income inures to the policyholder, not the insurer. The value of a life insurer is therefore driven by growth more than by spreads, whereas the leverage to a non-life insurer of spreads is far more important. At this time, we do not believe that a float valuation is useful in valuing a life insurer.

Cultivating Global Growth

A major objective of this research project was to examine AIG's global growth prospects in more detail than we have ever seen published. This kind of geographical analysis will become increasingly important as we project that more than half of AIG's pretax earnings are likely to be derived from non-U.S. sources by 2005. We believe that AIG's biggest opportunity is the growth of its life insurance and retirement products around the world. Exhibit 5 shows Swiss Re/Sigma's current estimates of the world life and non-life insurance market size and penetration of GDP.

Exhibit 5: World Insurance Market Data—1998

Country	Non-Life Premiums	% of Wld.	Non-Life Penetration	Life Premiums	% of Wld. Total	Life Penetration	Total Penetration
Americas							
Argentina	$4,141	0.46%	1.39%	$2,079	0.16%	0.70%	2.09%
Brazil	$13,718	1.54%	1.77%	$2,994	0.24%	0.39%	2.16%
Canada	$24,481	2.75%	4.05%	$18,642	1.47%	3.09%	7.14%
Chile	$818	0.09%	1.15%	$1,583	0.13%	2.23%	3.39%
Colombia	$1,582	0.18%	1.76%	$511	0.04%	0.57%	2.33%
Ecuador	$228	0.03%	1.15%	$34	0.00%	0.17%	1.32%
El Salvador	$99	0.01%	0.83%	$38	0.00%	0.32%	1.16%
Mexico	$3,456	0.39%	0.83%	$2,852	0.23%	0.69%	1.52%
Panama	$242	0.03%	2.65%	$89	0.01%	0.97%	3.62%
Peru	$420	0.05%	0.67%	$158	0.01%	0.25%	0.92%
United States	$387,080	43.44%	4.55%	$349,390	27.64%	4.11%	8.66%
Uruguay	$245	0.03%	1.17%	$136	0.01%	0.65%	1.83%
Venezuela	$1,755	0.20%	1.85%	$38	0.00%	0.04%	1.89%
Subtotal/Avg.	$438,265	49.18%	1.83%	$378,544	29.94%	1.09%	2.92%
Africa							
Kenya	$249	0.03%	2.15%	$72	0.01%	0.62%	2.77%
Nigeria	$305	0.03%	0.76%	$39	0.00%	0.10%	0.86%
South Africa	$4,106	0.46%	3.08%	$20,715	1.64%	15.52%	18.60%
Uganda	$38	0.00%	0.37%	$3	0.00%	0.05%	0.41%
Zimbabwe	$120	0.01%	2.04%	$111	0.01%	1.88%	3.92%
Subtotal/Avg.	$4,818	0.54%	1.68%	$20,940	1.66%	3.63%	5.31%
Australasia							
Australia	$12,963	1.45%	3.56%	$21,420	1.69%	5.89%	9.45%
New Zealand	$2,463	0.28%	4.65%	$923	0.07%	1.74%	6.40%
Subtotal/Avg.	$15,426	1.73%	4.11%	$22,343	1.77%	3.82%	7.92%
Central & Eastern Europe							
Czech Republic	$1,242	0.14%	2.20%	$468	0.04%	0.83%	3.03%
Hungary	$721	0.08%	1.52%	$419	0.03%	0.88%	2.40%
Latvia	$136	0.02%	2.12%	$13	0.00%	0.21%	2.33%
Lithuania	$82	0.01%	0.77%	$17	0.00%	0.15%	0.92%
Poland	$3,100	0.35%	1.96%	$1,051	0.08%	0.66%	2.62%
Romania	$249	0.03%	0.65%	$22	0.00%	0.06%	0.71%
Russia	$3,036	0.34%	1.13%	$1,272	0.10%	0.46%	1.59%
Slovakia	$420	0.05%	2.06%	$184	0.01%	0.90%	2.97%
Subtotal/Avg.	$8,986	1.01%	1.55%	$3,446	0.27%	0.52%	2.07%

Continued on p. 18

Exhibit 5 (continued): World Insurance Market Data—1998

Country	Non-Life Premiums	% of Wld. Total	Non-Life Penetration	Life Premiums	% of Wld. Total	Life Penetration	Total Penetration
Eastern Asia							
China	$6,035	0.68%	0.62%	$8,246	0.65%	0.85%	1.48%
Hong Kong	$1,842	0.21%	1.44%	$5,332	0.42%	1.72%	3.16%
Indonesia	$607	0.07%	0.65%	$588	0.05%	0.62%	1.27%
Japan	$91,991	10.32%	2.38%	$361,102	28.56%	9.34%	11.71%
Malaysia	$1,507	0.17%	1.97%	$1,347	0.11%	1.76%	3.73%
Philippines	$509	0.06%	0.78%	$466	0.04%	0.72%	1.50%
Singapore	$1,027	0.12%	1.22%	$2,981	0.24%	3.53%	4.75%
Taiwan	$4,973	0.56%	1.63%	$11,928	0.94%	3.98%	5.61%
Thailand	$1,197	0.13%	1.08%	$1,342	0.11%	1.21%	2.28%
Vietnam	$126	0.01%	0.45%	$15	0.00%	0.06%	0.51%
Subtotal/Avg.	$109,814	12.32%	1.22%	$393,347	31.12%	2.38%	3.60%
Europe							
Austria	$6,714	0.75%	3.17%	$4,546	0.36%	2.15%	5.31%
Belgium	$8,666	0.97%	3.47%	$9,026	0.71%	3.62%	7.09%
Bulgaria	$119	0.01%	0.90%	$14	0.00%	0.13%	1.03%
Denmark	$4,378	0.49%	2.51%	$7,454	0.59%	4.28%	6.80%
France	$42,592	4.78%	2.93%	$74,048	5.86%	5.10%	8.03%
Finland	$2,472	0.28%	1.95%	$7,973	0.63%	6.30%	8.26%
Germany	$78,272	8.78%	3.64%	$58,419	4.62%	2.72%	6.36%
Greece	$1,039	0.12%	0.86%	$1,120	0.09%	0.93%	1.79%
Ireland	$2,830	0.32%	3.98%	$4,767	0.38%	6.70%	10.67%
Italy	$28,118	3.16%	2.40%	$29,827	2.36%	2.55%	4.94%
Luxembourg	$762	0.09%	2.73%	$4,862	0.38%	1.44%	4.17%
Netherlands	$15,539	1.74%	4.11%	$21,482	1.70%	5.68%	9.78%
Norway	$3,596	0.40%	2.71%	$3,515	0.28%	2.65%	5.36%
Portugal	$3,003	0.34%	2.81%	$3,260	0.26%	3.05%	5.86%
Spain	$15,108	1.70%	2.73%	$13,890	1.10%	2.51%	5.24%
Sweden	$4,813	0.54%	2.12%	$5,848	0.46%	2.58%	4.71%
Switzerland	$9,084	1.02%	3.47%	$23,962	1.90%	9.14%	12.61%
United	$57,035	6.40%	4.08%	$124,010	9.81%	8.87%	12.95%
Subtotal/Avg.	$284,140	31.89%	2.81%	$398,023	31.49%	3.91%	6.72%
Indian Sub-Continent							
India	$2,255	0.25%	0.61%	$6,048	0.48%	1.63%	2.23%
Pakistan	$214	0.02%	0.35%	$178	0.01%	0.31%	0.66%
Subtotal/Avg.	$2,469	0.28%	0.48%	$6,226	0.49%	0.97%	1.45%
Middle East							
Bahrain	$98	0.01%	1.58%	$23	0.00%	0.37%	1.95%
Egypt	$403	0.05%	0.49%	$134	0.01%	0.16%	0.65%
Israel	$3,415	0.38%	3.50%	$2,959	0.23%	3.04%	6.54%
Jordan	$131	0.01%	1.35%	$21	0.00%	0.55%	1.90%
Kuwait	$168	0.02%	0.66%	$30	0.00%	0.12%	0.78%
Lebanon	$82	0.01%	0.22%	$17	0.00%	0.05%	0.27%
Oman	$115	0.01%	0.70%	$28	0.00%	0.17%	0.87%
Saudi Arabia	$733	0.08%	0.57%	$25	0.00%	0.00%	0.57%
Turkey	$1,750	0.20%	0.88%	$353	0.03%	0.18%	1.06%
Subtotal/Avg.	$6,895	0.77%	1.11%	$3,590	0.28%	0.51%	1.62%
Total/Average	$870,81	97.72%	1.85%	$1,226,458	97.02%	2.10%	3.95%
Rest of the world	$20,298	2.28%		$37,698	2.98%		
World Total	$891,11	100.00%		$1,264,156	100.00%		

Source: Sigma, Axco and PaineWebber estimates.

Of AIG's foreign life business, almost 79% is derived from Asia. We believe that a full 65% of AIG's estimated 2000 foreign life business is derived from just four countries—Japan, Taiwan, Hong Kong and Taiwan (although this understates the diversity of AIG's global business because many of its insurance, pension and annuity products are not accounted for as insurance premiums, and to date these products are more commonly sold in Europe). Similarly, we estimate that Japan by itself makes up nearly 35% of AIG's non-life business internationally. Based on our projections, Asia should still make up the lion's share of AIG's life business in 2005 and 2010. However, we believe that AIG's business will continue to become more diversified among countries. The increasing diversification may not be obvious from reviewing premium details, because much of AIG's growth in Asia is likely to be derived from asset management business, which is reported separately from life insurance.

Why is Asia so important? That's where the people are. That's where the money will be, based on GDP growth rates. That's where AIG has the strongest foothold. Our growth forecasts in Asia took a number of things into account. In addition to details of the competitive and regulatory environment in each country, we considered the economic outlook, relying primarily on World Bank GDP projections and analysis.

Risk Factors

We did not assume high-end economic growth in any country and we note that these forecasts are prone to be conservative. However, a severe global economic downturn, akin to the 1997 Asian currency crisis, is a risk to our estimates. The banking systems in many countries remain fragile and vulnerable to continued problems. While we consider this, or other newly developing economic problems, a risk factor, it's important to remember that AIG's foreign growth did not falter during the Asian crisis—in fact, the company took share from unstable local companies. It also found enhanced opportunities for acquisitions. Therefore, we do not believe our economic assumptions are overly aggressive.

A second risk factor would be a major political or regulatory change in a key country. For example, a reversal of China's commitment to a market economy would certainly affect our growth estimates.

The third major risk factor is poorly timed or executed management succession. In covering the stock, we have yet to hear a suggestion of how CEO Maurice R. "Hank" Greenberg's performance could be improved. The stock's performance is a reflection of the successful organization he has built. AIG has a broad and deep bench, and Mr. Greenberg, age 75, has begun the process of extending his international relationships to his designated successor, Evan Greenberg, his 45-year-old son. Nevertheless, investors rarely assume that perfection can be improved upon. While the business is designed not to be dependent on any one person, it would be absurd to suggest that the stock would not react to Mr. Greenberg's retirement (which is not thought to be imminent). Time should reduce this risk, however, as AIG builds critical mass in such key emerging markets as China and India.

Risk factors not specific to AIG include interest rates, loss reserves, inflation, or an unexpectedly prolonged property-casualty downward cycle.

Exhibits 6 and 7, following, show our projections of 2000, 2005 and 2010 life and non-life premium growth by country for major regions that are key markets for AIG. These premiums include AIG's unconsolidated joint ventures and partially owned companies and therefore exceed AIG's reported premiums. While we have developed our base estimates in as much detail as possible, the statutory entity through which AIG reports premiums may not correspond to the origin of the business. For example, in non-life insurance, a significant amount of international business is written in the United Kingdom.

We did not estimate certain regions, such as Continental Europe or the Middle East, in detail because AIG's premiums were not available in the relevant countries. However, we individually projected premiums for countries that appear to represent more than 90% of AIG's current business.

We used the projected premiums by country to compute our best estimate of a reasonable international *growth rate*. In creating these estimates, we used economic forecasts, information about the regulatory and competitive climate in each market, and in most cases, a decade of historical information.

In forecasting AIG's growth, we identified an initial group of 35 countries that we considered important to the company's business. We developed, from a variety of sources, a standardized set of country-specific variables to establish a basis for our premium projection model. These figures included gross domestic product (GDP), the size of the insurance markets, split between life and non-life, population, and AIG premium volume for the most recent available year. In most cases, we had ten years of history on key variables. We collected country-specific details from independent and government publications, discussions with insurance professionals, and visits to key countries.

In estimating a range of growth rates for each country, we considered World Bank estimates of GDP growth, and considered GDP per capita, population growth rates, insurance penetration per capita, the relationship between insurance market and GDP growth, and the relationship between AIG's growth and the insurance market. We computed high and low estimates of dollar-weighted growth rates for the economy, the life and non-life insurance markets, and AIG's life and non-life businesses. Our two-stage model projects 2006-10 separately to allow for conservatism in the out years. Finally, we selected our best estimate of AIG's premium volume at 2005 and 2010. These estimates were used to compute weighted-average growth rates for the company's life and non-life business to use in estimating earnings. Growth rates are in real rather than nominal terms, and premium volume has been adjusted for year-to-date currency fluctuations in 2000.

Appendix 1 contains further detail about the development of these estimates. While we believe that our estimates are reasonable, by definition, they cannot be precisely accurate and are intended to be only our best approximation of what is likely to happen. By giving so much detail, we are inviting readers to individually evaluate our assumptions. While we recognize the limitations of this type of analysis, we also believe that our work contains the greatest level of detail that could be currently assembled to support an earnings projection on AIG. We believe there is as much value in providing the details as in coming up with a "final answer" on what AIG's growth is likely to be.

Exhibit 6: Premium Growth Rate Projection—Foreign Life ($, millions)

Country	2000E	2005E	2010E	2005 CAGR	2010 CAGR	% of Total 2000	% of Total 2005	% of Total 2010
Americas								
Argentina	$63	$200	$600	25.9%	25.2%	0.5%	0.8%	1.1%
Brazil	$327	$600	$1,200	12.9%	13.9%	2.8%	2.3%	2.3%
Canada	$13	$20	$30	9.0%	8.7%	0.1%	0.1%	0.1%
Chile	$113	$230	$425	15.3%	14.2%	1.0%	0.9%	0.8%
Colombia	$16	$100	$400	44.7%	38.2%	0.1%	0.4%	0.8%
Ecuador	$0	$12	$60	130.0%	78.1%	0.0%	0.0%	0.1%
El Salvador	$3	$12	$75	28.3%	36.1%	0.0%	0.0%	0.1%
Mexico	$20	$40	$81	15.0%	15.0%	0.2%	0.2%	0.2%
Panama	$25	$40	$70	9.4%	10.6%	0.2%	0.2%	0.1%
Peru	$39	$100	$275	20.5%	21.5%	0.3%	0.4%	0.5%
Subtotal	$620	$1,354	$3,216	16.9%	17.9%	5.4%	5.2%	6.0%
Africa								
South Africa	$1	$10	$40	71.7%	50.5%	0.0%	0.0%	0.1%
Subtotal	$1	$10	$40	71.7%	50.5%	0.0%	0.0%	0.1%
Australasia								
Australia	$11	$15	$20	5.6%	5.8%	0.1%	0.1%	0.0%
New Zealand	$10	$15	$30	9.5%	12.2%	0.1%	0.1%	0.1%
Subtotal	$21	$30	$50	7.5%	9.1%	0.2%	0.1%	0.1%
Central & Eastern Europe								
Bulgaria	$1	$10	$100	56.7%	57.6%	0.0%	0.0%	0.2%
Czech Rep.	$14	$45	$120	26.1%	23.9%	0.1%	0.2%	0.2%
Hungary	$14	$40	$115	23.9%	23.7%	0.1%	0.2%	0.2%
Poland	$182	$460	$1,050	20.4%	19.1%	1.6%	1.8%	2.0%
Romania	$1	$20	$100	69.1%	52.7%	0.0%	0.1%	0.2%
Russia	$1	$50	$400	116.8%	81.3%	0.0%	0.2%	0.8%
Slovak Rep.	$29	$60	$100	15.4%	13.0%	0.3%	0.2%	0.2%
Subtotal	$243	$685	$1,985	23.1%	23.4%	2.1%	2.7%	3.7%
Eastern Asia								
China	$296	$1,000	$3,200	27.5%	26.9%	2.6%	3.9%	6.0%
Hong Kong	$1,402	$3,200	$6,000	18.0%	15.7%	12.2%	12.4%	11.3%
Indonesia	$66	$600	$1,300	55.6%	34.7%	0.6%	2.3%	2.4%
Japan	$2,602	$5,000	$9,000	14.0%	13.2%	22.6%	19.4%	16.9%
Korea	$19	$60	$175	25.8%	24.8%	0.2%	0.2%	0.3%
Malaysia	$94	$130	$265	6.7%	10.9%	0.8%	0.5%	0.5%
Philippines	$162	$500	$1,000	25.3%	20.0%	1.4%	1.9%	1.9%
Singapore	$936	$1,500	$2,400	9.9%	9.9%	8.1%	5.8%	4.5%
Taiwan	$2,476	$6,100	$12,500	19.8%	17.6%	21.5%	23.6%	23.5%
Thailand	$893	$2,225	$4,500	20.0%	17.6%	7.8%	8.6%	8.5%
Vietnam	$0	$13	$400	130.5%	113.8%	0.0%	0.1%	0.8%
Subtotal	$8,946	$20,328	$40,740	17.8%	16.4%	77.7%	78.7%	76.6%
Europe								
Untd Kingdm	$1,667	$2,950	$5,600	12.1%	12.9%	14.5%	11.4%	10.5%
Subtotal	$1,667	$2,950	$5,600	12.1%	12.9%	14.5%	11.4%	10.5%
Indian Sub-Continent								
India [1]	$0	$400	$1,400	70.7%	45.8%	0.0%	1.5%	2.6%
Subtotal	$0	$400	$1,400	70.7%	45.8%	0.0%	1.5%	2.6%
Middle East								
Israel	$5	$30	$70	44.5%	30.8%	0.0%	0.1%	0.1%
Turkey	$10	$35	$100	28.4%	25.8%	0.1%	0.1%	0.2%
Subtotal	$15	$65	$170	34.4%	27.6%	0.1%	0.3%	0.3%
Total	$11,512	$25,823	$53,202	17.5%	16.5%	100.0%	100.0%	100.0%

Note: Five-year CAGRs and ten-year CAGRs use 2000 as the base year.
[1] We do not expect business in India until 2001, five-year CAGRs and ten-year CAGRs begin with 2001.
Source: PaineWebber estimates.

Exhibit 7: Premium Growth Rate Projection—Foreign Non-Life ($, millions)

Country	2000E	2005E	2010E	2005 CAGR	2010 CAGR	% of Total 2000	% of Total 2005	% of Total 2010
Americas								
Argentina	$33	$55	$95	11.0%	11.3%	0.5%	0.6%	0.7%
Brazil	$624	$900	$1,300	7.6%	7.6%	10.4%	9.9%	8.9%
Canada	$112	$425	$550	5.0%	5.2%	5.5%	4.7%	3.8%
Chile	$44	$70	$110	9.6%	9.6%	0.8%	0.8%	0.8%
Colombia	$63	$100	$200	9.8%	12.3%	1.0%	1.1%	1.4%
Ecuador	$5	$12	$60	20.9%	29.2%	0.1%	0.1%	0.4%
El Salvador	$18	$25	$60	7.1%	12.9%	0.3%	0.3%	0.4%
Mexico	$86	$175	$310	15.2%	13.6%	1.4%	1.9%	2.1%
Panama	$14	$25	$35	11.6%	9.3%	0.2%	0.3%	0.2%
Peru	$135	$300	$675	17.3%	17.4%	2.3%	3.3%	4.6%
Venezuela	$37	$65	$105	12.0%	11.0%	0.6%	0.7%	0.7%
Subtotal	$1,391	$2,152	$3,500	9.1%	9.7%	23.2%	23.7%	24.0%
Africa								
South Africa	$58	$100	$160	11.4%	10.6%	1.0%	1.1%	1.1%
Subtotal	$58	$100	$160	11.4%	10.6%	1.0%	1.1%	1.1%
Australasia								
Australia	$83	$100	$135	3.9%	5.0%	1.4%	1.1%	0.9%
New Zealand	$39	$55	$85	7.2%	8.2%	0.6%	0.6%	0.6%
Subtotal	$121	$155	$220	5.0%	6.1%	2.1%	1.8%	1.5%
Central & Eastern Europe								
Bulgaria	$2	$10	$30	43.8%	33.8%	0.0%	0.1%	0.2%
Czech Rep.	$14	$25	$50	12.1%	13.5%	0.2%	0.3%	0.3%
Hungary	$14	$45	$130	26.6%	25.1%	0.2%	0.5%	0.9%
Poland	$18	$45	$85	20.5%	17.0%	0.3%	0.5%	0.6%
Romania	$2	$10	$30	40.0%	32.0%	0.0%	0.1%	0.2%
Russia	$12	$25	$75	15.2%	19.8%	0.2%	0.3%	0.5%
Slovakia	$1	$4	$25	42.1%	43.2%	0.0%	0.0%	0.2%
Subtotal	$62	$164	$425	21.4%	21.2%	1.0%	1.8%	2.9%
Eastern Asia								
China	$23	$40	$100	11.7%	15.8%	0.4%	0.4%	0.7%
Hong Kong	$164	$210	$305	5.1%	6.4%	2.7%	2.3%	2.1%
Indonesia	$321	$400	$700	4.5%	8.1%	5.4%	4.4%	4.8%
Japan	$1,998	$3,000	$4,500	8.5%	8.5%	33.4%	33.0%	30.8%
Korea	$30	$65	$145	16.8%	17.1%	0.5%	0.7%	1.0%
Malaysia	$92	$145	$235	9.5%	9.8%	1.5%	1.6%	1.6%
Philippines	$22	$35	$50	9.6%	8.5%	0.4%	0.4%	0.3%
Singapore	$78	$125	$150	9.8%	6.7%	1.3%	1.4%	1.0%
Taiwan	$32	$65	$130	15.4%	15.1%	0.5%	0.7%	0.9%
Thailand	$33	$80	$170	19.3%	17.8%	0.6%	0.9%	1.2%
Vietnam	$1	$7	$20	44.3%	33.4%	0.0%	0.1%	0.1%
Subtotal	$2,794	$4,172	$6,505	8.3%	8.8%	48.4%	47.4%	45.7%
Europe								
Untd Kingdm	$1,523	$2,045	$2,862	6.1%	6.5%	25.4%	22.5%	19.6%
Subtotal	$1,523	$2,045	$2,862	6.1%	6.5%	26.4%	23.2%	20.1%
Indian Sub-Continent								
India [1]	$0	$180	$630	77.4%	48.3%	0.0%	2.0%	4.3%
Subtotal	$0	$180	$630	77.4%	48.3%	0.0%	2.0%	4.3%
Middle East								
Israel	$32	$85	$200	21.6%	20.1%	0.5%	0.9%	1.4%
Turkey	$8	$30	$90	29.4%	27.0%	0.1%	0.3%	0.6%
Subtotal	$40	$115	$290	23.4%	21.8%	0.7%	1.3%	2.0%
Total	$5,990	$9,083	$14,592	8.7%	9.3%	100.0%	100.0%	100.0%

Note: Five-year CAGRs and ten-year CAGRs use 2000 as the base year.
[1] We do not expect business in India until 2001, five-year CAGRs and ten-year CAGRs begin with 2001.
Source: PaineWebber estimates.

Some Specific Opportunities

Appendix I discusses in more detail our outlook by country. This section highlights some specific opportunities we see for AIG. These include product-specific opportunities as well as trends and themes we found recurring around the world, such as the demographic shift, which favors savings products; the spread of free markets and elimination of trade barriers; and increasing acceptance of insurance as a savings vehicle. Each of the following examples is not equally important, but together they illustrate opportunities AIG has around the world.

Non-Life Insurance

AIG and Unibanco launched the first online insurance company in ***Brazil***, www.unibancoseguros.com.

AIG's market position in the rapidly growing Indonesian personal accident business was strengthened by its acquisition of Lippo Life. And ***Indonesia*** is one of the few countries where motor insurance is not a compulsory product, allowing insurers to select risks more carefully.

In ***Israel***, AIG Golden, AIG's joint venture with Orek (the "Yellow Pages" company), has introduced direct selling to the motor insurance market and also is selling homeowners, personal accident and other coverages. Motor is a very attractive class, comprising 67% of the non-life market, with two-thirds of drivers buying comprehensive coverages. Insurers will be able to retain more premium soon, as a central reinsurance pool with a compulsory cession is being abandoned.

AIG's direct auto insurance operation in ***Japan***, launched in 1997 through American Home Assurance's local branch, is expected to expand rapidly in the fast-growing direct-sales segment of the personal auto insurance business.

Tariff rating is gradually being dismantled in ***Taiwan***; while this may reduce profitability in the short term, it is a market opportunity for companies with strong underwriting and pricing skills.

Life Insurance

In ***Argentina***, the second-largest market in Latin America, insurance penetration is only 0.7% and only 15% of the population has a policy. The market grew at 16.9% annually in 1993-98.

AIG-Unibanco, the fifth-largest insurer in ***Brazil***, has introduced several new products to Unibanco's branch distribution system and expanded its marketing.

Chilean life premiums grew 11% a year in 1993-98; Swiss Re predicts that penetration will rise by 0.8% of GDP, or $825-960 million, by 2005, a 5.7-6.5% annual increase. AIG should grow faster; it was the fifth-largest life insurer in ***Chile***, jumping from eighth place in 1997; foreign companies are taking share from local companies.

China is promoting life insurance as the savings vehicle of choice. Total insurance penetration is less than 1.5%, one of the lowest in the world. China has 22% of the world's population and projected sustainable GDP growth of 7%. Further, the insurance market in large cities is growing much faster than GDP because of economic development and immigration from rural areas of China. AIG has doubled the number of markets in which it operates in the past few months and expects to obtain ten new licenses in the next two years if WTO passes.

AIG purchased Lippo Life in ***Indonesia*** in 1999, and is now the largest insurer in the country, with a 24% market share. AIG expects Lippo's sales and profits to grow at 20% for the next five years in addition to the strong growth of its own company, AIA's, business, and its AIU subsidiary's development of the personal accident market.

Malaysian regulators are promoting private life and savings products to address the aging society. Life penetration remains low, and AIG is the second-largest life insurer in this country of 22 million people.

In ***Peru***, in 1993-98, the life market compounded at 79% annually after deregulation. Life insurance penetration is only 0.3%, nearly the lowest level in Latin America. AIG is the market share leader in non-life insurance, and is the third-largest life insurer, with an overall market share of 28% as of 1998.

In the ***Philippines***, only 16% of the population bought life insurance as of 1997, a percentage that is expected to increase. Life penetration is only 0.7% of GDP. PhilamLife, AIG's life subsidiary, has by far the largest market share in the Philippines—one-third of the market.

Romania has extraordinarily low life penetration—0.3% of GDP. With the second-largest population in Eastern Europe and an increasingly insurance-oriented mindset, growth prospects are excellent. AIG Life Asigurar Romania S.A. expects to grow 600% in 2000.

Life insurance penetration in ***Russia*** also is very low—0.46%—and real life insurance per capita is only $0.14. AIG is the leader in the fledgling individual life market; as Russia's economy improves and Russians come to view life insurance as more than a short-term savings product, a good opportunity exists in this nation of 147 million people.

In the ***Slovak Republic***, insurers likewise expect to capitalize on the country's low penetration rate of 0.9% as the economy resumes growth.

The individual life market in ***Taiwan*** is still growing rapidly after an 18% per year average increase for the past decade. AIG is ranked third in this market, with a 16% market share.

In ***Thailand***, where AIG is the largest life insurer, with a 46% market share, the company recently reaffirmed its expectations of a continued 20% growth rate. Only 12% of the population holds life policies.

Despite its Islamic culture, in which life insurance is shunned, and a high inflation rate, ***Turkey*** has one of the faster-growing life markets in U.S. dollar terms. This country's population of 63 million and its pro-Western orientation may make it an interesting long-term target, despite the current dominance of local insurers and Italian and German companies.

Vietnam, with a population of 78 million, has a goal of significantly increasing its insurance penetration to 1%; the country currently spends only $1 per capita on the product. Life sales quadrupled in 1999; AIA (Vietnam) Ltd. was the first American company to received a license, in March 2000.

Opening the Market to Foreign Ownership

AIG was the first foreign entrant to the Bulgarian life market after liberalization, through AIG ***Bulgaria*** Insurance and Reinsurance Company in 1997. AIG also has established AIG (Life) Bulgaria Insurance.

India passed legislation in 1999 opening the market to foreign insurers for the first time. With 15% of the world's population in an overregulated, underpenetrated, underserved market, growth should be strong. Currently, foreign companies may only own 26% of their investments, but that percentage is likely to increase over time. AIG's joint venture expects to write $500 million of premium by 2005.

Japan's sickly insurance companies are likely consolidation victims. AIG bid on Aoba Life but did not acquire it. We believe AIG may have another opportunity to participate in Japan's life consolidation eventually.

Korea also is likely to allow minority joint ventures to be replaced with greater than 50% ownership.

Poland opened its market to foreign owners for the first time in 1998. Non-life premium growth has been running 35%, with life growth 45%. Insurance penetration is low—1.8% for non-life and 1.0% for life. AIG's life company, Amplico Life, is the third largest, with a 10% share. Amplico's premiums grew 39% in 1999.

Thailand recently increased foreign ownership limits from 25% to 49% and will allow 100% foreign ownership in five years under the WTO agreement. AIG bought a 25% stake in Charoen Pokphand Life Assurance Company in 1998.

AIG entered the market in ***Venezuela*** after legal reform allowed foreign ownership in 1994, writing through a joint venture with Banco Del Caribe Group, with a 1.7% market share in 1997.

Vietnam opened its market to foreign competition in 1999, acting with surprising rapidity. Bao Viet, the state-owned insurer, lost its monopoly in 1998 and foreign companies should gain share rapidly.

Deregulation

In ***Argentina***, higher regulatory capital standards have triggered consolidation, which is expected to continue.

In ***Colombia*** economic growth compounded at 24% in the 1993-98 period. After the passage of Law 100 in 1993, three insurance classes were introduced to the private sector that were previously the domain of the Institute of Social Security (ISS); pensions, workmen's compensation and health (general health and maternity).

Indonesia is now allowing insurers to invest up to 20% of assets outside the country.

The ***Japanese*** regulators in 1996 liberalized insurance rules to allow faster approval of new products, which benefits more competitive insurers like AIG. We understand that the product approval process has become significantly easier.

In ***Korea***, life and non-life products are being freed from rate and form regulation, and opening the market to more competitive savings products may gradually shift market share from local companies to new entrants. Nonadmitted insurance is now being allowed for cargo, marine hull, aviation and life.

Malaysia is likely to see more mergers as Bank Negara, the industry's regulator, introduces a stronger regulatory framework to raise capital standards. In addition, rate and form deregulation is planned once the market has consolidated and stabilized.

In ***Romania***, corporate insurance premium payments have been made tax deductible for the first time, which should sharply increase the demand for insurance.

The ***Slovak*** motor market is being demonopolized in 2002; several licenses are expected to be granted. The state insurer, Slovenska Poist'ovna, is expected to be fully privatized in 2000.

In ***Taiwan***, significantly increased minimum capital standards are making consolidation likely, creating acquisition opportunities. In addition, investment restrictions have been eased and a mandatory cession to Central Re may be phased out, increasing the share retained by primary companies.

In ***Turkey***, a mandatory 15% non-life cession to Mille Re, the former state reinsurer, is to cease in 2001. While most of the Turkish non-life market is unattractively competitive right now, the private market will capture greater premium flow. Turkey has a strong personal accident market, one of AIG's strong suits.

Venezuela is attempting to reform and liberalize its pension and insurance system; this effort suffered a setback in early 2000 but reform may be on the long-term agenda.

Former Socialist Countries Developing Insurance Mindset

Bulgaria has the smallest life insurance penetration of any country we studied; its population of 8.3 million has a penetration of only 0.2%.

AIG essentially created the life insurance market in ***China*** with its introduction of the agency sales system in 1993. Penetration is still extremely low and life insurance is the preferred savings vehicle in China.

The ***Czech*** insurance market as a whole is growing rapidly (31% in 1999); life penetration is a very low 0.7% and life insurance grew 29% in 1999.

The *Slovak* life market is extremely small, with penetration of only 0.9% in 1997. However, Slovakia has transitioned more successfully than most former Eastern Bloc countries from Communism, and Poist'ovna AIG Slovakia is capitalizing on the shift in consumer attitude.

Vietnam's constitution was liberalized in 1992 and an insurance market began to develop in 1993. The first life insurance license, to Bao Viet, a state-owned company, was only granted in 1996.

Personal Accident Insurance

Personal accident, which we estimate is about 10% of AIG's business in *China*, is a rapidly growing market, doubling annually.

Although *Ecuador* is currently a "basket case" economy, AIG is a market leader in personal accident cover, with a 24% market share, and this business is growing nicely.

AIG's joint venture with the Tata Group in *India* will introduce AIG's personal accident product to that country.

In the *Philippines* this small market is growing rapidly and is being sold through bancassurance.

Group personal accident business is becoming popular in *Russia*; AIG has traditionally been very successful in emerging markets with this product.

Poist'ovna AIG Slovakia is a market leader in the attractive *Slovak* personal accident market.

Personal accident is the most popular insurance coverage in *Taiwan*; AIG is the number two writer with a 24% market share.

Personal accident also is the most popular product in *Vietnam*; 21.7% of total market premium in 1998. But market penetration of this product remains very low, and growth prospects are strong.

SunAmerica/Asset Management

Brazil's pension system is expected to be strained due to its aging population; private savings, currently a small market, should grow and create an opportunity for retirement products. In 1999, AIG and Unibanco bought a 50% interest in Prever S.A. Seguros y Previdencia, the second-largest private pension provider in Brazil.

China is a virgin market for retirement products; the state-run cooperatives are underfunded and the government is encouraging private savings. While currently only 5% of insurance assets can be invested in equities, we expect more asset classes, such as mortgages, infrastructure development, and corporate loans to be added. Eventually, we believe some investment outside the country will be permitted.

In the *Czech Republic*, AIG launched a series of mutual funds in 1999, targeting the newly deregulated life and savings market.

Indonesia in 1999 deregulated life products to allow up to 20% of assets to be invested overseas.

In ***Japan***, AIG is aggressively marketing ALICO as "The Retirement Specialists," as the market shifts to defined contribution plans and as it seeks to attract annuity buyers among individuals in some occupations who receive lump-sum pension payouts.

Romania expects to make individual retirement products legal and to implement related tax-incentives in 2001. With the second-largest population in Europe, Romania has the potential to develop a robust retirement market.

The development of a private retirement market is important to ***Russia***; its state pension system cannot meet its obligations. Insurers have little involvement in private pension products today but this area is a potential opportunity for AIG.

In ***Taiwan***, investment restrictions on life products that limit foreign assets to 10% are being eased.

In ***Thailand***, AIG revived its investment advisory arm in 1999, purchased a troubled finance company, and participated in private equity and Financial Sector Restructuring Agency auctions.

Pension Privatization/Mandatory Pensions

El Salvador has privatized its pension system, instituting a new mandatory private pension system.

Hong Kong's Mandatory Provident Fund, which requires the formation of private pension plans, is expected to create an additional 2.2 million policyholders and contributions of $1.54 billion by the end of 2000, the first year of operation. Into this expanding market, AIG, the largest life insurer in Hong Kong, is launching new mutual fund and annuity products designed by its SunAmerica unit.

AIG Private Bank has been extremely active in ***Europe*** and ***Asia***, capturing high-net-worth customer funds and launching a closed-end private equity IPO to draw in money from newly privatized state pension systems, especially in ***Italy***.

In ***Romania***, company pension funds are now mandated, with workers required to contributed 10% of their wages.

Lump-Sum Retirement Plan Payments

Ecuador's pension system permits lump-sum payouts on retirement, upon which AIG may eventually be able to capitalize once the economy recovers from its current crisis.

Private retirement plans are not mandated in ***India***, but companies often provide private plans that cash out beneficiaries with lump sums at retirement—an opportunity for annuity writers.

In *Singapore*, the Central Provident Fund cashes out beneficiaries at retirement age. SunAmerica has entered this market to provide a multi-manager annuity product, similar to its Polaris annuity, to Singaporeans.

E-Commerce Initiatives

AIG has created a cross-organizational group whose mission is to find and maintain effective ways to use the Internet in the company's relationships with consumers, brokers, risk managers and life insurance agents worldwide. This group reports to President and Chief Operating Officer Evan Greenberg, who established this division within AIG.

The evolution of this group illustrates two of AIG's core strengths: adaptability and sharp focus on creating profit centers, not cost centers. Over the past three years, the company has adapted its Internet strategy in two key ways. First, it recognized early that information technology professionals—that is, software and hardware experts—were essential for shaping the initial effort but that ultimately the group needed insurance professionals as leaders. Management responded by having IT team members report to insurance marketing managers rather than the other way around.

Second, management understood early on that a business-to-consumer model should not be pursued to the exclusion of a business-to-business model. The ability to sell insurance direct to consumers via the Internet is a business AIG needs to be in and wants to dominate. Less certain are how big the business will be and when it will start to show significant returns. The immediate potential benefits of business-to-business Internet applications are easier to see. Already, for example, it is successfully using e-Writer to help it access the commercial middle market via a simplified application process.

Ultimately, management's attitude toward e-commerce is that the company has to be willing to spend the money to keep abreast of developments that ultimately are most likely to pay off, but its focus, as always, is on return on investment (ROI). Management is interested not in an increasing number of Web page hits per day, but in premium dollars being generated and transaction and service costs being saved.

The approach to designing the best possible systems has been eclectic. AIG has had a staff dedicated to shopping the world for the best e-commerce pioneers and designs with the dual mission to access the best technology and to make profitable investments. Using its vast resources, the company was an early investor in numerous Internet ventures. The result was a classic AIG win-win. It achieved its primary goal of gaining unlimited access to a broad range of the most innovative, cutting-edge developers of insurance-specific Internet applications—including those it hoped to compete with as well as partner with—and it profited on the investments that gave AIG access. AIG has then used the intelligence gained through having these investments to design its own systems under the guidance of insurance marketing executives who came out of AIG's Mass Marketing Division, the division responsible for the company's direct auto insurance operations.

The commitment to these Internet initiatives comes from the top. In our opinion, AIG's entrepreneurial tradition was ideally suited for encouraging the development of an Internet strategy in which flexibility is essential. The team members responsible for this effort have had direct access to Mr. Greenberg, who has placed the highest priority on staying at the forefront of this evolving business medium. Management understands the need to commit the resources necessary to get and stay a step ahead of the competition in e-commerce.

In a related move, AIG recently committed $1 billion of investment over five years to General Atlantic Partners LLC. The Greenwich, Connecticut-based venture-capital firm has a 20-year track record, including such picks as Priceline.com Inc., E*Trade Group Inc., Legent Corp. and Sierra Online. AIG also acquired a 5% stake in the firm, which already had $6 billion invested and $3 billion available.

AIG has a three-pronged Internet business model:

- Provide consumers and small businesses with quotes, information and applications via aigdirect.com.
- Communicate with existing commercial insureds and prospects via aigonline.com.
- Support brokers via accessaig.com to streamline face-to-face connections as well as electronic relationships with clients and relieve them of having to maintain cabinets full of forms.

AIG stresses that it is not interested in becoming yet another insurance-product aggregator such as InsWeb. The goal is to encourage persistency among AIG customers, not so much by going directly to the consumer as by cementing business-to-business relationships.

The unanswered questions are: Just how much new business can AIG hope to generate via the Internet, how much savings can it realize, how much old business can be migrated into this lower-cost channel without sacrificing it altogether, and how fast can it all be done? The entire industry is grappling with these questions, but in our view AIG will not be one of those companies that will one day be wondering whether it was too timid in getting into the game or too unfocused. Its core business-to-business focus is taking cost out of the distribution process and streamlining the underwriting, administrative and claims processes. A long-term goal for cutting costs is to migrate as much communication as possible away from telephones and onto computers via the Internet, a far less expensive pipeline.

On the personal auto insurance side, one reason to believe AIG can be more successful than its competitors in its Internet efforts is that it already has dual successful distribution channels. It has independent agents, and through the Mass Marketing Division, it has established direct-to-consumer expertise. Unlike some of its rivals, it does not have the issue of channel conflict by virtue of not having career agents. This lack of conflict has made it possible for AIG to move quickly in building AIG Direct.

An Underwriting Culture

In discussions with scores of transaction participants, both inside and outside of AIG, the consistent theme that emerges is that of a company that sets strict underwriting profit targets, monitors progress on a *daily* basis, and never misses the smallest opportunity to protect or widen the profit margin. In short, AIG at its foundation truly is first and foremost an underwriting culture.

An underlying theme is management's single-minded focus on finding out bad news long before it has a chance to hit the bottom line. Mistakes are tolerated; mistakes concealed or allowed to grow out of control are not. This pervasive, consistent focus is infused at every level and motivates employees to monitor results in their own areas to detect problems even before they become reportable problems.

Everyone we talked to throughout the organization expressed an awed respect for the chairman's grasp of detail throughout the company—of the time and devotion required to maintain that level of intelligence—and of Mr. Greenberg's ability to cut to the heart of any problem quickly and with searing clarity. The desire to rob him of the ability to find the fatal flaw in a report or a proposal is palpable. Several AIG veterans told us that even unpleasant encounters with Mr. Greenberg left them feeling subtly flattered that they were considered worth his attention and that they had gained something of value from the encounter.

Understanding how top management motivates its division heads, however, leaves unanswered the underlying question: Exactly how do these operating managers respond to meet the demand for superior performance? Four key areas where a manager can control expenses are:

- Accurate underwriting in terms of risk selection, pricing and reinsuring the risk.
- Loss adjustment expense control.
- Commissions and fees paid to intermediaries.
- Salaries and related expenses.

Exhibit 8: AIG Reserve Development

	1999	1998	1997
Earned Premiums	$15,543.8	$14,098.0	$12,421.0
Losses Incurred	$11,737.5	$10,656.7	$9,356.2
Prior Development	($384.0)	($281.0)	($376.0)
AY Loss Ratio	78.0%	77.6%	78.4%
Points of Delopment	-2.47	-1.99	-3.03
Per Share (in $)	($0.16)	($0.12)	($0.16)

Source: Company financial statements and PW estimates.

Shown in Appendix 2 are reserve triangles for 1998 reserves for National Union Fire, American Home, AIU, the Lexington, Transatlantic Holdings and 21st Century Insurance. The pattern that is apparent is that AIG's reserves have consistently developed favorably, although market conditions in the 1997 and 1998 accident years are not likely to produce similar levels of redundancies as peak cycle years of the past. This is consistent with management's choice to nonrenew certain business in 1999 due to inadequate pricing.

The ability to consistently make profitable decisions about what to underwrite and how much to charge is not, by itself, enough of a unique skill to explain all of AIG's success. In our view, where AIG pulls away from the pack is in its follow-through on how it handles the business, once it has been won—from helping the insured prevent losses to cutting the costs imposed by intermediaries, keeping claim payouts to a minimum and controlling operating expenses.

Equally important in adding to AIG's competitive edge is the company's sophisticated use of reinsurance.

Reinsurance—A Powerful Profitability Tool

AIG is one of the—if not *the*—world's largest buyers of reinsurance, and these transactions have a significant impact on its economics. Reinsurance is one of the essential tools that AIG uses to manage its exposures, maintain consistent earnings growth in a volatile industry, and maintain control of the customer. Because reinsurance relationships and transactions are private, and often have a multiple-year impact, only limited conclusions can be drawn about the impact of reinsurance. Nevertheless, the subject is important to consider. In this section, we address the broad issues of how AIG uses reinsurance:

- How extensively does AIG use reinsurance?
- How does AIG benefit from using reinsurance?
- How stable are the company's reinsurance relationships?

Our conclusion on the first issue is that AIG cedes about the same percentage of reinsurance as its most comparable peers—companies that write large commercial programs (Cigna and Zurich)—but due to its sheer size, may be the world's largest buyer of reinsurance.

On the second issue, we believe that AIG is able to successfully stabilize its earnings, access reinsurers' underwriting capabilities and manage its risk exposure through reinsurance at a below-average cost because of its own low cost structure, scale and skill in reinsurance program structuring.

On the third issue, the evidence is that the company has a stable reinsurance program consisting primarily of core relationships with several reinsurers. We also believe that AIG's diligence in maintaining a low cost structure by definition includes capturing the value of anomalies in reinsurance pricing and capacity. However, the company is also extraordinarily credit-sensitive and aware of the risks of trying to save money by adding cheap capacity from marginal players. We do not believe that AIG follows a strategy of reinsurance "arbitrage"; in fact, the evidence is that AIG's reinsurers make money over time, and its business is sought after in the market.

In general, the reinsurance business is evolving toward a model where capacity and skills matter more than relationships. Therefore, like many, if not most, reinsurance buyers, AIG has narrowed the range of reinsurers with which it does business, moving away from the standard industry practice of diversifying risk among many reinsurers, including by definition some rated lower than itself, in favor of a more limited number of long-term arrangements with the largest, most sophisticated reinsurance providers.

Use of reinsurance. In Exhibit 9, we shed light on how much reinsurance AIG purchases. Over the five years through 1998, the amount of gross written premium ceded to AIG's nonaffiliated reinsurers averaged 31%, with the proportion declining to 26.7% in 1998 from 33.8% in 1994. As much as one-third of this might represent reinsurance for captives.

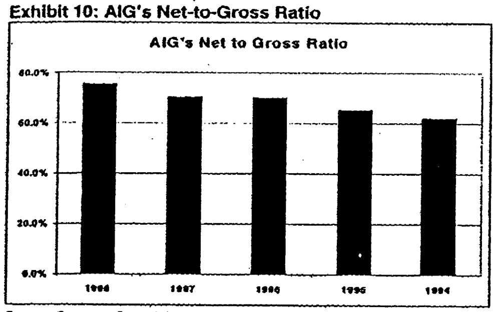
Exhibit 9: Premiums Ceded (Non-Affiliated) to GWP Ratios

	1998	1997	1996	1995	1994	5 Yr Avg
AIG	26.7%	29.7%	31.6%	33.0%	33.8%	**31.0%**
Chubb	7.5%	3.0%	15.0%	24.2%	24.7%	**14.9%**
Cigna	32.6%	28.2%	29.8%	32.8%	30.4%	**30.7%**
CNA	12.2%	10.2%	12.2%	7.1%	7.5%	**9.8%**
Hartford	7.7%	9.7%	9.6%	10.3%	10.8%	**9.6%**
Liberty Mutual	19.9%	12.0%	15.2%	16.1%	21.2%	**16.9%**
Travelers	16.3%	16.7%	21.5%	26.9%	26.7%	**21.6%**
Reliance	49.4%	46.6%	45.3%	42.3%	40.8%	**44.9%**
St. Paul	9.6%	7.9%	12.6%	12.4%	14.5%	**11.4%**
Zurich	34.2%	28.9%	24.7%	35.3%	16.9%	**28.0%**
Avg ex AIG	21.0%	18.1%	20.7%	23.0%	21.5%	**20.9%**

Source: Statutory financial statements and PW estimates.

In Exhibit 10, we illustrate that AIG has been ceding less reinsurance relative to its premiums than previously. Comparability in the reinsurance line can be affected by various items: the amount of captive business, the underlying business mix, the split between proportional and excess reinsurance, the underwriter's risk appetite, and the specifics of rates, terms and conditions. Any of these factors could be affecting AIG's results; our most likely explanation is that the difference relates mostly to: 1) the growing proportion of short-tail business, such as auto insurance, in the book; and 2) the company's increasing consolidation of its reinsurance programs, which is producing higher aggregate retentions. A decline in the percentage of premium ceded during a soft market also supports the observation that AIG is not engaging in reinsurance arbitrage.

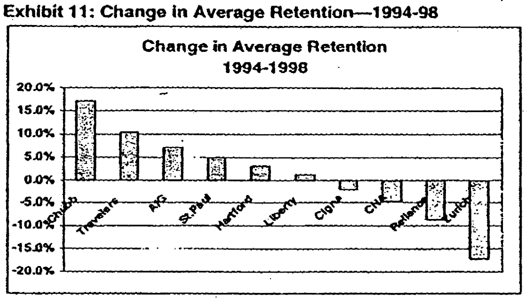
Exhibit 10: AIG's Net-to-Gross Ratio



Source: Statutory financial statements and PaineWebber estimates.

The past few years have shown a shifting pattern in retentions throughout the industry. Many insurers decided in the mid-1990s that reinsurance retentions had not kept up with the growth of their capital and risk appetite. This frequently resulted in an increase in retentions. Other insurers increased retentions out of a desire to show more premium growth. A few insurers have reduced retentions. For example, ACE Limited and XL Capital began using reinsurance to protect their net underwriting line when it became very cheap in the late 1990s. In recent years, Reliance was fronting an increasing amount of business, retaining little more than the credit risk on business it wrote and, in some way, acting almost as a broker. This strategy ultimately led to its involvement in Unicover, in which concentrations of credit risk grew so excessive that they nearly brought down the company. In short, there are a variety of reasons for fluctuating retentions and companies are rarely comparable to one another. In Exhibit 11, we show the average percentage point change in premium ceded to unaffiliated reinsurers between 1994 and 1998 for a group of AIG's peers.

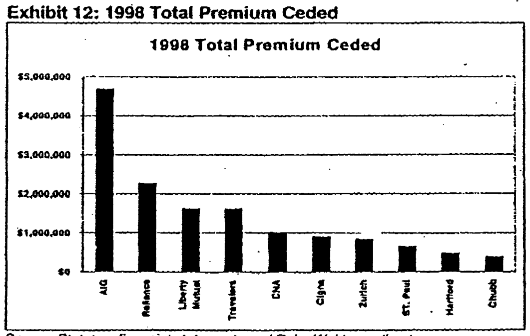
Exhibit 11: Change in Average Retention—1994-98



Source: Statutory financial statements and PaineWebber estimates.

To illustrate just how big a factor AIG is in the reinsurance market, we think it's worth putting AIG's cessions in the context of the global reinsurance market. The company ceded a total of $4.69 billion in premium to nonaffiliates in 1998. As shown in Exhibit 12, the closest any of its nine major commercial-lines rivals came to that level was Reliance, with $2.28 billion. Accordingly, we estimate that AIG's cessions in 1998 totaled about 3.5% of the world's estimated total direct premiums written by reinsurers.

Exhibit 12: 1998 Total Premium Ceded

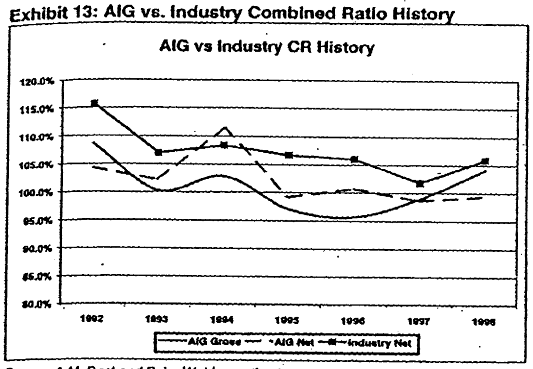


Source: Statutory financial statements and PaineWebber estimates.

Reinsurance benefits. We believe that AIG is able to successfully stabilize its earnings, access reinsurers' underwriting expertise, and manage its risk exposures through reinsurance at a below-average cost because of its own low cost structure, scale and skill in reinsurance program structuring. This is particularly important given AIG's long-standing history as a product innovator. Because of its scale and reinsurance-buying expertise, AIG is able to use reinsurance cost-effectively to create unique, untested coverages while limiting exposure to any unsuccessful product experiments or to markets that suddenly turn against the insurer.

AIG's sheer buying power makes it an effective negotiator in terms of both price and risks to be placed. AIG can thus use reinsurance to stay on the new-product cutting edge without taking inordinate risk. In addition to AIG's importance as a large customer, the company has earned preferred treatment from its reinsurers due to decades of superior performance in the fundamental business of selecting risks and generating consistently positive underwriting results. In other words, while AIG's use of reinsurance is a critical element in its success formula, it is subordinate to the company's outstanding underwriting and marketing skills. As shown in Exhibit 13, AIG's gross and net combined ratios *both* typically are lower than the industry's.

Exhibit 13: AIG vs. Industry Combined Ratio History



Source: A.M. Best and PaineWebber estimates.

AIG has prospered by building a reputation as a market that is unafraid of tackling tough risks. Yet AIG has consistently escaped the poor results and volatility some insurers adopting this strategy have incurred (refer to Exhibit 14). Further, although AIG is a major buyer of reinsurance, it does not follow the Lloyd's strategy of maintaining only minimal net retentions. AIG has followed a two-pronged formula that has allowed it to grow faster than the industry over time.

When possible, AIG's strategy is to accept risks that command higher rates because few markets would be willing or capable of writing them, then to reinsure under favorable terms in order to limit the downside risk. Thus, while AIG, at first blush, looks like it has a high appetite for risk, in reality the company is more conservative than many of its competitors. When AIG wants to write a new program in the commercial market involving unique terms and conditions, it will do so aggressively, but only with strong reinsurance backing, ceding as much as 75% of an untested risk. Ultimately, however, this strategy works because AIG knows how to charge the right price across its book of business and quickly discontinues any products that are not working.

The second prong of the strategy comes into play when market conditions are poor. In that situation, the best way to maintain a presence in critical markets is by reducing retentions. However, the company does not attempt to aggressively arbitrage its reinsurers to grow rapidly in such a market. Rather, AIG accepts less primary business, and selects risks to produce acceptable results on the book it is maintaining.

AIG's reinsurance strategy evolved during the hard markets of the mid-1970s and early 1980s as a way to establish itself in the commercial market at the expense of its competitors. AIG companies stepped into a market being abandoned by its major multi-line competitors; reinsurance supported high levels of growth. Even in the current environment, when possible, AIG chooses to underwrite entire risks directly and to reinsure the portion it doesn't want to retain, rather than walk away from an opportunity entirely or underwrite only the portion it can retain, leaving the rest for other primary carriers to accept.

The key skills AIG fosters in reinsurance purchasing are getting the right, tailor-made structure and price, knowing what net retention to target in a market, and how to optimize placements to achieve an ideal risk/return profile.

AIG is centralizing its reinsurance strategy. About two renewal seasons ago, AIG's Risk Management Division, in light of competitive reinsurance pricing and a softening primary market, bundled its facultative reinsurance placements into a single treaty to be placed with a consortium of the largest reinsurers. In 2000, AIG consolidated much of its reinsurance buying into a single multiyear treaty with a group of core reinsurers. A consolidating strategy has been an increasing trend in the industry; AXA made a similar move during 2000 renewals. Using these strategies, the costs for both AIG and the reinsurers are reduced by eliminating the individual underwriting process of facultative reinsurance or multiple annual treaties, and the reinsurers are guaranteed a stable source of business. This strategy amounts to locking in a reinsurance line of credit at a time when rates are low. It further narrows the list of reinsurers the company does business with, raising the average credit profile, and lowering the cost of reinsurance administration, collections and credit-monitoring.

Perhaps the greatest benefit AIG derives from a more centralized reinsurance strategy is that it further increases the pressure on underwriters to do a better job evaluating the primary risks. The bundling process, to be effectively coordinated, means underwriters face a greater degree of scrutiny in terms of the business they are writing and the terms they are agreeing to on what they cede. In other words, it is just one more motivator for maintaining the company's underwriting discipline, which even more so than sheer volume is ultimately what makes AIG such an attractive customer to reinsurers.

Another more subtle way AIG benefits from its dominant role in the reinsurance market is its ability to influence a reinsurer that may be looking for ways to reach the primary market directly—a growing trend among reinsurers. Clearly, a reinsurer involved, for example, in capitalizing a potentially direct competitor of an AIG division or writing direct itself has to weigh the benefits against any possible negative impact on its relationship with such a large client.

The success of this centralization effort, enhanced by AIG's skills in transacting business electronically, is being extended to the rest of the company. The opportunities for savings are extensive. Challenges in extending the program include the company's international scope and complexity, as well as established relationships between divisional reinsurance buyers and their preferred providers. Bundling diverse risks from multiple lines of businesses and regions requires global coordination.

From the reinsurer's perspective, this strategy is more efficient. It does reduce the transparency of the risks being ceded and also lowers the total amount of premium available to the reinsurance market. However, because AIG's core reinsurers are gaining an increasing share of its program, the market has been accepting of the change. In the long term, the new reinsurance-buying approach creates even more of a partnering arrangement between the company and its key reinsurers.

In recent years, AIG also has fine-tuned and centralized its internal reinsurance-management practices, monitored by an internal reinsurance security committee that reviews reinsurance positions on a monthly basis.

Stability of reinsurance program. AIG has maintained stable relationships with a core group of reinsurers over time. Reinsurers generally view AIG as a preferred customer not only because of the volume of business AIG generates but also because of its profitability. AIG would not be able to maintain its level of reinsurance cessions in the market if the companies assuming the risks did not profit over time, if not on every cession.

AIG is very credit-sensitive, and predictably, the list of reinsurers assuming the largest amount of premium from AIG divisions has been dominated by major, highly rated companies: Swiss Re, SCOR Re, General Re, Employers Re, Munich Re's American Re and Hannover Re.

In Exhibit 14, we show premium ceded to and outstanding recoverables from AIG's major reinsurers in 1998 (for the consolidated company) and in 1999 for AIG's major subsidiaries that file U.S. statutory statements (consolidated blanks were not filed at our report date). Included in the list is an intercompany pool, American International Underwriters Overseas Association (AIUOA, based in Bermuda), maintained by AIG.

Exhibit 14: Top Ten AIG Reinsurers Ranked by 1998 Premiums Assumed

Reinsurer	Premiums Assumed	% of Total	Reinsurance Recoverables	% of Total
AIUOA	$1,074,479	22.9%	$1,284,815	9.2%
Europaische Ruck. Zurich	$429,841	9.2%	$429,839	3.1%
Overseas Partners Ltd.	$414,737	8.8%	$147,239	1.0%
Swiss Reinsurance America	$125,061	2.7%	$283,665	2.0%
Employers Reinsurance	$120,479	2.6%	$319,244	2.3%
AXA Reassurances	$116,874	2.5%	$871,139	6.2%
American Reinsurance Co.	$95,770	2.0%	$337,511	2.4%
Scor Reinsurance Co.	$78,240	1.7%	$175,030	1.2%
General Reinsurance Corp.	$71,316	1.5%	$505,542	3.6%
E & S Reinsuance (Ireland)	$64,995	1.4%	$269,517	1.9%
Top 10	$2,591,792	55.3%	$4,623,541	32.9%
Total	$4,688,841		$14,038,179	

Source: Statutory financial statements and PW estimates.

Highly disciplined underwriting skills also are at the heart of why reinsurers value AIG's business. Over time, the business being ceded is profitable. As shown in Exhibit

15, the loss ratios on the business AIG cedes to reinsurers generally track with those of the business it retains.

A look at the loss ratios on the business AIG cedes puts to rest the question of whether reinsurers profit in the long term from their dependence on AIG. As shown in Exhibit 15, the average percentage-point difference between the loss ratio on the ceded premium and the net loss ratio for AIG and its nine predominantly commercial-lines rivals is 8.2% in favor of the reinsurers for the five-year period through 1998. For AIG, the comparable number is an even more favorable 13.1%. In other words, in recent years, AIG has by no means saddled reinsurers with the less desirable portions of its business, although the trend reversed in 1998 when the loss ratio on ceded premiums was 6.5% higher than the net loss ratio.

It should be noted that these numbers are based on annual statutory filings and therefore reflect calendar year results, as opposed to accident-year results. Therefore, loss ratios correspond to the reported calendar year results shown, rather than the more meaningful accident-year statutory Schedule Ps. In addition, IBNR (incurred but not reported) factors applied to ceded reinsurance may be developed differently than those on retained business, and IBNR is not always ceded. Therefore, this illustration may not perfectly represent AIG's reinsurance activity in a given year. But we believe it broadly illustrates that AIG cedes profitable business to its reinsurers over time.

Exhibit 15: AIG Premiums Ceded vs. Its Commercial Lines Peers

AIG		Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
	1998	$17,557,904	$6,467,640	$4,688,841	36.8%	26.7%	85.2%	89.1%	82.6%	6.5%
	1997	$14,931,302	$5,160,902	$4,441,656	34.6%	29.7%	74.2%	63.6%	81.6%	-17.9%
	1996	$15,061,903	$5,473,302	$4,753,899	36.3%	31.6%	77.6%	68.3%	82.3%	-14.0%
	1995	$14,934,149	$6,181,484	$4,932,999	41.4%	33.0%	75.6%	66.2%	81.3%	-15.1%
	1994	$13,826,296	$5,755,376	$4,679,959	41.6%	33.8%	81.9%	66.3%	91.4%	-25.0%
	AVG	$15,262,311	$5,807,721	$4,699,471	38.2%	31.0%	78.9%	70.7%	83.8%	-13.1%

Chubb		Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
	1998	$5,165,497	$386,162	$386,162	7.5%	7.5%	72.8%	98.3%	70.8%	27.6%
	1997	$4,962,435	$149,396	$149,396	3.0%	3.0%	68.1%	54.9%	67.0%	-12.1%
	1996	$4,963,648	$746,288	$746,288	15.0%	15.0%	65.9%	57.8%	67.7%	-9.9%
	1995	$5,031,226	$1,218,026	$1,218,026	24.2%	24.2%	63.5%	60.5%	64.4%	-3.9%
	1994	$4,737,991	$1,171,383	$1,171,383	24.7%	24.7%	69.1%	76.2%	66.7%	9.6%
	AVG	$4,972,169	$734,251	$734,251	14.9%	14.9%	67.6%	69.6%	67.3%	2.2%

CIGNA		Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
	1998	$2,766,769	$1,101,465	$900,954	39.8%	32.6%	74.0%	77.3%	71.7%	5.5%
	1997	$2,622,836	$1,106,196	$738,914	42.2%	28.2%	68.9%	66.4%	70.7%	-4.2%
	1996	$3,013,019	$1,341,530	$899,104	44.5%	29.8%	71.9%	59.9%	83.1%	-23.2%
	1995	$3,672,743	$1,983,655	$1,203,835	54.0%	32.8%	72.6%	58.6%	87.0%	-28.5%
	1994	$4,270,943	$1,964,709	$1,298,119	46.0%	30.4%	70.0%	52.7%	84.4%	-31.7%
	AVG	$3,269,262	$1,499,511	$1,008,185	45.3%	30.7%	71.5%	63.0%	79.4%	-16.4%

CNA		Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
	1998	$8,361,141	$1,022,890	$1,022,890	12.2%	12.2%	75.8%	47.6%	79.8%	-32.2%
	1997	$8,085,115	$823,721	$823,722	10.2%	10.2%	81.1%	69.6%	82.0%	-12.4%
	1996	$7,836,530	$955,402	$955,403	12.2%	12.2%	79.1%	70.1%	80.2%	-10.1%
	1995	$7,350,335	$520,833	$520,833	7.1%	7.1%	80.8%	77.9%	81.0%	-3.1%
	1994	$7,091,669	$530,831	$530,831	7.5%	7.5%	77.2%	73.6%	77.5%	-3.8%
	AVG	$7,744,958	$770,735	$770,736	9.8%	9.8%	78.8%	67.8%	80.1%	-12.3%

Hartford		Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
	1998	$6,462,858	$615,504	$497,249	9.5%	7.7%	74.5%	60.0%	76.0%	-16.0%
	1997	$6,523,400	$752,061	$629,979	11.5%	9.7%	70.3%	55.7%	72.2%	-16.5%
	1996	$6,491,559	$748,150	$625,357	11.5%	9.6%	72.9%	55.3%	75.2%	-19.9%
	1995	$6,456,390	$782,222	$662,691	12.1%	10.3%	69.9%	61.1%	71.2%	-10.0%
	1994	$6,487,790	$839,319	$699,165	12.9%	10.8%	72.6%	64.4%	74.0%	-9.6%
	AVG	$6,484,399	$747,455	$622,892	11.5%	9.6%	72.0%	59.3%	73.7%	-14.4%

Continued on p. 40.

Exhibit 15 (continued): AIG Premiums Ceded vs. Its Commercial Lines Peers

Liberty Mutual	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$8,176,383	$1,659,484	$1,627,354	20.3%	19.9%	94.6%	111.9%	91.7%	20.2%
1997	$6,751,731	$830,814	$812,836	12.3%	12.0%	91.5%	99.9%	90.1%	9.9%
1996	$6,082,366	$940,100	$927,491	15.5%	15.2%	91.0%	86.3%	91.9%	-5.6%
1995	$6,430,786	$1,045,465	$1,034,397	16.3%	16.1%	86.3%	77.4%	88.4%	-11.0%
1994	$6,749,512	$1,442,251	$1,431,130	21.4%	21.2%	85.4%	68.4%	90.4%	-22.0%
AVG	$6,838,156	$1,183,623	$1,166,642	17.1%	16.9%	89.8%	88.8%	90.5%	-1.7%

Travelers	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$9,960,580	$1,668,202	$1,624,923	16.7%	16.3%	76.8%	72.5%	78.4%	-5.9%
1997	$9,535,955	$1,631,144	$1,590,131	17.1%	16.7%	76.9%	74.4%	77.7%	-3.3%
1996	$9,468,331	$2,032,197	$2,034,583	21.5%	21.5%	76.2%	67.3%	78.9%	-11.6%
1995	$5,100,708	$1,414,605	$1,370,103	27.7%	26.9%	71.8%	55.5%	76.1%	-20.6%
1994	$5,237,610	$1,512,483	$1,395,989	28.9%	26.7%	74.9%	68.3%	76.3%	-8.0%
AVG	$7,860,637	$1,651,726	$1,603,146	22.4%	21.6%	75.3%	67.6%	77.5%	-9.9%

Reliance	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$4,615,712	$2,281,750	$2,280,994	49.4%	49.4%	71.7%	65.7%	76.8%	-11.0%
1997	$3,726,495	$1,745,334	$1,738,090	46.8%	46.6%	67.1%	61.8%	71.9%	-10.2%
1996	$3,232,127	$1,495,611	$1,462,892	46.3%	45.3%	70.5%	73.7%	67.5%	6.2%
1995	$3,066,750	$1,297,686	$1,297,687	42.3%	42.3%	72.0%	77.2%	67.5%	9.8%
1994	$2,993,907	$1,220,710	$1,220,711	40.8%	40.8%	70.1%	74.1%	66.3%	7.8%
AVG	$3,526,998	$1,608,218	$1,600,075	45.1%	44.9%	70.3%	70.5%	70.0%	0.5%

ST. Paul	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$6,789,499	$817,182	$652,100	12.0%	9.6%	73.9%	68.4%	75.8%	-7.4%
1997	$4,324,650	$349,986	$340,273	8.1%	7.9%	73.0%	64.3%	75.7%	-11.4%
1996	$4,692,107	$593,120	$592,887	12.6%	12.6%	77.1%	54.7%	81.8%	-27.1%
1995	$4,304,933	$535,372	$535,525	12.4%	12.4%	79.2%	61.6%	81.8%	-20.3%
1994	$3,872,181	$564,472	$563,033	14.6%	14.5%	86.6%	83.3%	87.1%	-3.8%
AVG	$4,796,674	$572,026	$536,764	12.0%	11.4%	78.0%	66.4%	80.4%	-14.0%

Zurich	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$2,484,375	$1,168,166	$849,870	47.8%	34.2%	89.4%	93.0%	87.6%	5.5%
1997	$2,746,381	$1,196,876	$794,885	43.6%	28.9%	81.7%	76.1%	85.4%	-7.3%
1996	$2,765,401	$1,138,540	$683,849	41.2%	24.7%	77.3%	69.5%	83.0%	-13.5%
1995	$2,691,783	$1,308,814	$950,642	48.6%	35.3%	79.6%	70.7%	86.3%	-15.7%
1994	$1,497,681	$481,704	$253,723	32.2%	16.9%	93.7%	101.9%	87.0%	14.8%
AVG	$2,437,124	$1,062,820	$706,594	42.7%	28.0%	84.4%	82.6%	85.9%	-3.2%

Avg Totals	Gross Written Premiums	Total Premiums Ceded	Premiums Ceded to Non-Aff	Total Premium Ceded/GWP	Non-Aff Ceded Prem/GWP	Gross LR	Ceded LR	Net LR	Diff.: Ceded - Net
1998	$7,234,072	$1,720,835	$1,453,134	25.2%	21.6%	78.9%	78.4%	79.1%	-0.7%
1997	$6,421,030	$1,374,645	$1,205,988	22.9%	19.3%	75.1%	68.9%	77.4%	-8.6%
1996	$6,360,699	$1,546,424	$1,368,175	25.7%	21.6%	75.9%	66.3%	79.2%	-12.9%
1995	$5,903,980	$1,628,816	$1,372,674	28.6%	24.0%	75.1%	66.7%	78.5%	-11.8%
1994	$5,676,556	$1,548,324	$1,324,406	27.1%	22.7%	78.2%	72.9%	80.1%	-7.2%
Avg	$6,319,268	$1,563,809	$1,344,875	25.9%	21.9%	76.6%	70.6%	78.9%	-8.2%

Source: Statutory financial statements and PaineWebber estimates.

AIG's Expenses—How Do They Do It?

It is well understood that AIG has the lowest expense ratio among large commercial insurers and one of the very lowest expense ratios in the personal lines. However, most insurance companies would love to have a low expense ratio, and nearly everybody "talks the talk" yet nobody "walks the walk" like AIG.

Part of being the low-cost producer of auto insurance comes with being a direct writer in personal lines, but being the low-cost producer of commercial lines is a more challenging feat and one of AIG's best-known accomplishments. AIG's expense ratio in 1998 was 14.3% lower than the average for its nine closest rivals, a major reason behind the company's ability to consistently deliver underwriting profits and 15% annual earnings growth. Less well known, however, is how this is accomplished.

We spent a significant amount of time exploring the source of the company's expense advantage to draw a conclusion on how defensive and sustainable this competitive advantage is. The bottom line: AIG's expense advantage is a function of culture and scale. We believe both factors are, for the most part, defensible. While culture is something that always evolves over time, we believe expense-consciousness is baked deeply into the culture of AIG. As one manager we interviewed put it, AIG operates on the "zero budgeting" principle: "You have no money, don't spend it." And the scale advantage is only widening as the company grows faster than its peers.

AIG's ratio of underwriting-related expenses to premium—32.8% in 1998 versus an average of 47.1% for its peers—reflects superior performance in virtually every expense category, but particularly in commissions. On the commercial lines side, this expense advantage stems from the fact that AIG, because of its size, strength and can-do reputation, is foremost in brokers' minds for submitting business, even though it is widely known for paying lower commissions. AIG believes it can maintain solid relationships with brokers without paying top dollar in commissions. On the personal lines side, mainly auto, its expense advantage is largely a function of its being a direct writer. In fact, the auto writers that most closely match AIG's expense ratio are its direct-writer rivals.

Exhibit 16: Underwriting Expenses vs. Peers—1998

	AIG	CB	CI	CNA	HIG	Liberty	TAP	REL	SPC	Zurich	Avg. *
Claim adjustment net	5.7%	8.4%	10.3%	8.0%	4.6%	8.1%	3.1%	7.2%	9.7%	12.2%	8.0%
Commission & salary	15.6%	27.7%	27.0%	29.9%	25.7%	18.0%	25.2%	28.2%	28.9%	17.7%	25.4%
Taxes, licenses & fees	2.3%	2.8%	4.7%	3.6%	2.7%	3.8%	3.7%	4.9%	2.6%	4.9%	3.7%
Other overhead	9.1%	7.6%	14.2%	6.9%	10.4%	9.8%	9.7%	13.2%	9.6%	9.1%	10.1%
TOTAL EXPENSES INCURRED	32.8%	46.5%	56.3%	48.4%	43.4%	39.7%	41.7%	53.5%	50.8%	43.9%	47.1%

* Average of nine companies excluding AIG

Source: Statutory financial statements and PaineWebber estimates.

Loss adjustment expenses. AIG's expenses relative to those of its peers are strikingly low in two key areas, commissions and salaries, and merely low in a third predictable area, loss adjustment expenses. Indeed, as shown in Exhibit 16, AIG's loss adjustment expenses are somewhat lower than those of its nine U.S. commercial-lines peers (5.7% versus an 8.0% average for the other nine), but not sharply lower, as is the case with commissions and salaries.

In managing claims, AIG's focus is to get and stay in front of the claim as much as possible. It invests in large claims staffing, establishes contract relationships with particularly effective defense lawyers (referred to as "panel counsel"), and scrutinizes claims closely before payment. Based on our conversations with brokers, we believe the company's reputation for being difficult on claims is exaggerated—a part of AIG's larger-than-life mythology. And because AIG's core strengths are underwriting expertise and efficiency-driven competitive pricing, the company's strategy is not built on paying claims as fast as possible in the interest of preserving a client or broker relationship.

AIG has two major claims divisions whose mission is to mitigate and reduce losses as well as manage the claims-handling process with the greatest efficiency possible. The AIG Claim Services Inc. division serves the company's high-frequency claims, including workers' compensation, general liability and auto liability. AIG Technical Services Inc. handles the high-severity claims. A third unit, AIG Consultants, handles loss control.

AIG Claim Services is responsible for auditing its numerous third-party administrators. The claims division also operates Intellirisk, an online, real-time service for large clients that tracks losses and feeds the information back to the underwriters. The division handles 200,000 workers' compensation claims per year with 1,250 adjusters. It has an additional 700 adjusters handling non-workers' comp claims. Over the past five years, the average workers' comp claim payout was down 50%. The division's mission is separated from that of the producers, much as the investment side of AIG is separated from the underwriting side.

The Claims Division sees itself as the company's biggest opportunity for savings, not just because of its ability to ferret out unwarranted claims but also to manage the legitimate claims to a cheaper, more effective and quicker resolution. The workers' comp area is at the heart of these efforts, where the company prides itself on its effectiveness in chasing down questionable claims and doing it cost efficiently. AIG Claim Services specializes in integrating medical case management and litigation management for all size clients, from middle market to national accounts.

AIG Technical Services manages specialty claims and litigation management, including D&O, professional, health care and medical-malpractice liability, fidelity, surety, financial institutions, environmental, toxic tort, high-exposure property and excess casualty. AIG Technical Services works with underwriters throughout AIG and is responsible for the staff counsel program that has more than 200 trial attorneys in 27 locations serving AIG insureds.

Stacked up against its personal auto competitors (see Exhibits 17-21), AIG comes in with the third-lowest expense ratio in both personal liability and physical damage, including the results of its majority-owned 21st Century Insurance Group, which shows the lowest expense ratios on a stand-alone basis. Number four in these two categories is Berkshire Hathaway, reflecting the results of its GEICO unit, the leading direct writer. More than anything else, these tables highlight the low cost of selling auto insurance without having to maintain an army of agents.

Exhibit 17: Personal Auto Liability Underwriting Expense Ratios

	1998	1997	1996	1995	1994
TW	11.1%	9.8%	10.0%	9.6%	8.4%
USAA	12.0%	11.8%	10.9%	10.1%	11.0%
AIG *	16.1%	14.2%	15.6%	18.3%	12.5%
BRK	18.4%	15.4%	14.7%	14.7%	15.4%
HMN	19.2%	19.3%	19.2%	18.6%	19.4%
Amer. Fam.	20.4%	19.9%	19.1%	18.1%	17.8%
State Farm	21.4%	20.3%	18.3%	16.7%	17.1%
Liberty Mut.	22.3%	21.0%	20.1%	18.2%	20.5%
Farmers	22.3%	25.9%	26.4%	25.7%	25.6%
ALL	22.9%	23.7%	22.2%	21.5%	22.7%
Nationwide	24.3%	23.4%	23.0%	21.8%	24.2%
SAFC	24.5%	23.8%	24.4%	24.5%	24.5%
PGR	24.7%	23.1%	23.0%	23.0%	25.2%
MCY	26.2%	24.7%	24.2%	24.2%	25.4%
HIG	26.6%	24.6%	19.4%	18.7%	19.2%
Travelers	26.6%	26.5%	26.7%	26.0%	27.6%
CGI	27.0%	25.1%	27.0%	26.7%	25.6%
SPC	31.1%	28.8%	30.3%	28.5%	31.0%
CNA	39.1%	30.4%	29.9%	29.7%	29.0%
Average	23.6%	22.3%	21.9%	21.4%	21.9%

* Consolidated results, including TW

Source: Statutory financial statements.

Exhibit 18: Personal Auto PDD U/W Expense Ratios

	1998	1997	1996	1995	1994
TW	11.0%	9.40%	9.90%	9.40%	8.30%
USAA	12.0%	11.7%	10.1%	9.6%	10.4%
AIG *	14.6%	13.2%	14.7%	17.8%	11.7%
BRK	18.1%	17.2%	16.7%	14.5%	15.4%
HMN	18.7%	18.6%	18.7%	18.9%	19.5%
Amer. Fam.	18.9%	18.8%	18.2%	17.7%	16.8%
State Farm	19.3%	20.1%	18.1%	18.5%	16.8%
Liberty Mut.	21.1%	19.2%	18.6%	19.1%	19.9%
Farmers	22.0%	25.8%	26.0%	22.9%	22.5%
ALL	22.9%	23.3%	21.8%	21.6%	22.1%
Nationwide	24.3%	21.0%	21.5%	22.3%	22.6%
SAFC	24.6%	24.2%	24.5%	25.1%	24.9%
PGR	25.1%	23.1%	23.0%	22.9%	24.9%
MCY	26.2%	24.8%	24.2%	24.3%	26.2%
HIG	26.8%	24.7%	18.3%	20.4%	19.7%
Travelers	27.4%	28.1%	25.7%	27.2%	29.6%
CGI	30.2%	25.0%	26.7%	28.9%	27.0%
SPC	34.2%	27.7%	29.7%	30.6%	30.6%
CNA	34.8%	28.8%	28.5%	32.4%	31.8%
Average	23.4%	22.0%	21.4%	21.9%	21.8%

* Consolidated results, including TW

Source: Statutory financial statements.

In the following tables, we break down expenses in more detail for the two auto lines. Despite paying no commissions, AIG's other acquisition costs and general expenses are in line with industry averages.

Exhibit 19: Personal Auto Liability Expense Ratio Breakup—1998

			As a % of NPW					
Companies	NPW	Div/NPE	Comm/brkrg	Tax, Lic, Fees	Oth Acq Costs	Gen Exp	U/W Exp *	Total Exp
TW	$488,257	0.0%	-0.9%	2.7%	5.4%	4.0%	11.1%	11.1%
USAA Group	$2,077,972	26.4%	0.8%	2.2%	7.2%	1.8%	12.0%	38.4%
AIG **	$1,523,324	0.0%	3.0%	2.0%	7.7%	3.4%	16.1%	16.1%
BRK	$2,625,432	0.0%	1.2%	2.6%	9.2%	5.4%	18.4%	18.4%
HMN	$217,894	-0.1%	5.9%	2.4%	5.3%	5.6%	19.2%	19.1%
American Fam.	$1,295,933	0.0%	6.8%	1.2%	5.8%	4.7%	20.4%	20.4%
State Farm	$14,143,464	3.7%	7.8%	2.0%	8.2%	3.4%	21.4%	25.0%
Liberty Mutual	$1,702,520	0.1%	1.1%	3.3%	12.1%	5.9%	22.3%	22.4%
Farmers	$4,182,162	0.0%	5.3%	2.8%	6.8%	7.4%	22.3%	22.3%
ALL	$8,528,611	0.2%	9.5%	2.4%	7.5%	3.7%	22.9%	23.2%
Nationwide	$2,807,653	1.0%	12.1%	2.7%	5.7%	3.8%	24.3%	25.3%
SAFC	$1,033,710	0.1%	13.1%	2.4%	5.9%	3.0%	24.5%	24.6%
PGR	$3,047,093	0.0%	8.6%	2.3%	5.0%	8.9%	24.7%	24.7%
MCY	$657,378	0.0%	17.3%	2.5%	4.4%	1.9%	26.2%	26.2%
HIG	$1,180,789	-1.6%	6.4%	2.2%	6.0%	11.8%	26.6%	24.9%
Travelers	$1,520,361	0.0%	14.1%	2.5%	6.8%	3.2%	26.6%	26.6%
CGI	$456,323	0.0%	18.2%	2.6%	3.3%	2.9%	27.0%	27.0%
SPC	$643,245	0.0%	15.1%	2.2%	6.2%	7.6%	31.1%	31.1%
CNA	$771,723	0.1%	22.6%	3.3%	5.3%	7.9%	39.1%	39.1%
Average		1.6%	8.9%	2.4%	6.5%	5.1%	22.9%	24.5%

* Excludes dividends

** Consolidated results, including TW

Source: Statutory financial statements.

Exhibit 20: Personal Auto PPD Expense Ratio Breakup—1998

			As a % of NPW					
Companies	NPW	Div/NPE	Comm/Brkrg	Tax, Lic, Fees	Oth Acq Costs	Gen Exp	U/W Exp *	Total Exp
TW	294214	0.0%	-1.0%	2.7%	5.4%	4.0%	11.0%	11.0%
USAA Group	$1,567,406	24.4%	0.4%	2.4%	7.5%	1.7%	12.0%	36.4%
AIG **	$774,540	0.0%	1.9%	1.9%	7.1%	3.6%	14.6%	14.6%
BRK	$1,580,238	0.0%	1.0%	2.5%	9.2%	5.3%	18.1%	18.1%
HMN	$159,111	-0.1%	5.0%	2.5%	5.4%	5.7%	18.7%	18.6%
Liberty Mutual	$1,067,605	0.1%	0.3%	3.2%	11.3%	4.0%	18.9%	19.0%
American Fam.	$950,974	0.0%	7.6%	1.2%	5.8%	4.8%	19.3%	19.3%
State Farm	$9,697,685	3.7%	7.6%	2.0%	8.2%	3.3%	21.1%	24.7%
Nationwide	$1,715,582	1.2%	11.8%	2.7%	4.7%	2.8%	22.0%	23.2%
ALL	$5,909,952	0.2%	9.3%	2.1%	7.8%	3.7%	22.9%	23.1%
PGR	$1,771,814	0.0%	8.5%	2.3%	5.0%	8.5%	24.3%	24.3%
SAFC	$711,481	0.1%	13.2%	2.5%	5.9%	3.0%	24.6%	24.7%
Travelers	$807,632	0.0%	14.0%	2.4%	5.8%	3.0%	25.1%	25.1%
MCY	$398,892	0.0%	17.3%	2.5%	4.5%	1.9%	26.2%	26.2%
CGI	$234,831	0.0%	17.9%	2.6%	3.5%	2.9%	26.8%	26.8%
HIG	$596,035	-0.9%	5.0%	2.2%	6.6%	13.6%	27.4%	26.5%
SPC	$394,332	0.0%	14.7%	2.3%	6.0%	7.3%	30.2%	30.2%
Farmers	$2,690,335	0.0%	17.6%	2.7%	6.7%	7.2%	34.2%	34.2%
CNA	$482,623	0.0%	19.8%	3.1%	5.1%	6.9%	34.8%	34.8%
Average		1.6%	9.6%	2.4%	6.4%	5.0%	23.4%	25.0%

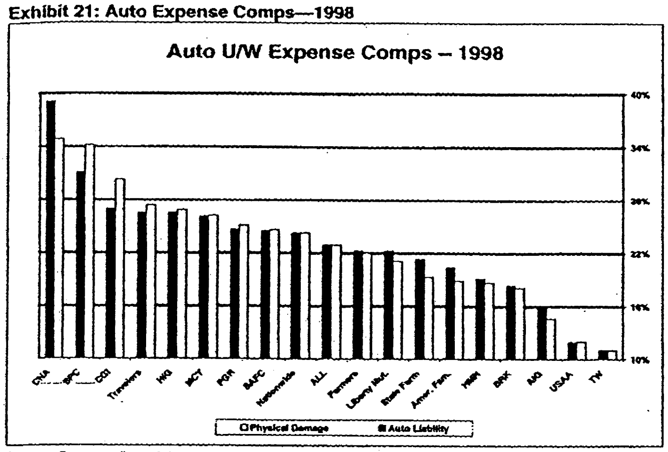
* Excludes dividends

** Consolidated results, including TW

Source: Statutory financial statements.

Being competitive on the expense side of the auto insurance business is crucial. St. Paul and CNA, whose personal auto divisions had among the highest expense ratios in the peer group, sold those divisions last year rather than working on making them more competitive. Note that auto insurers pursuing a growth strategy incur high up-front acquisition costs that may not represent their true underlying cost structure.

Exhibit 21: Auto Expense Comps—1998



Source: Statutory financial statements and PaineWebber estimates.

Commissions and fees. AIG consistently beats nearly all of its major rivals in both commercial and personal lines in this expense category. It does so for similar reasons in both lines, beginning with the fact that the company is not agency-driven. Its Mass Marketing division is a direct-mail operation for auto policies, and through its e-business division is building a book of business written via the Internet, again without involving commission compensation. Indeed, the competitors whose expense ratio comes closest to AIG's are, like AIG, built around low-cost sales channels.

In commercial lines, the biggest single contributor to AIG's advantage in its expense ratio over its nine peers is 6 points in its commission and brokerage fee expenses—4.8% for AIG versus an average of 10.8% in 1998. As one broker put it, "They've convinced brokers that they have two classes of business: AIG's and all others."

AIG's dependence on brokers has never hampered its efforts to carve as much cost out of this part of the expense ratio as possible. In discussions with management, it is clearly stated that AIG is not in the business of trying to win the friendship of brokers by being generous with commissions and fees. AIG does not need to do this, as it is a "must-see" market that can price any risk expertly and competitively. Indeed, brokers tell us that AIG is unapologetically tight-fisted, but the expertise and huge amounts of capacity the company wields in the market makes brokers willing to grant concessions of up to several hundred basis points. The impact of this in an industry that rarely earns an underwriting profit is significant. Another large part of what brings business to AIG, especially in the middle tier of brokers where it is increasingly focusing, is the company's prestige as a highly rated, bold, powerful underwriter that is in the market for the long haul.

Only recently has AIG begun to place more business with the smaller regional brokers, both to restore the balance of power versus the "mega-brokers" and as part of the battle for the middle market that practically everyone in the business now considers the greatest source for growth. The challenge, however, is that for a company like AIG, it's easier to convince a Marsh Inc. or an Aon to accept a lower commission rate; a small broker doesn't have the volume of a Marsh or an Aon to absorb the lower yields.

Part of what is attracting the smaller-broker business to AIG despite the lower commission rates is client demand, driven by AIG's "panel counsel" arrangements. Clients with other insurers seeking to mount aggressive defenses are finding the best lawyers are often locked up in deals with AIG. This is a typical example of how AIG kills two birds with one stone: These select law firms work for negotiated lower rates, cutting litigation costs, and tend to be more effective in holding down the ultimate claim costs. All this translates into a third benefit: Clients save money, which makes AIG an even more attractive insurance source, a trend that even brokers accustomed to working with insurers over which they have more leverage are finding hard to ignore.

In general, the company manages cash flows closely—using its market clout to insist on prompt premium remittances from brokers. When an AIG company binds a policy, the bill frequently is submitted at inception with payment due on receipt. Many of AIG's competitors allow their bills to go out anywhere from 30 to 60 days after binding. An AIG client is likely to receive a bill within 20 days.

Salaries. Mr. Greenberg once referred to AIG as a corporate culture "that's almost self-cleansing. It's not for everybody." We have heard this same expression from other AIG veterans in discussions about AIG's employee retention. The company runs lean and mean, with a flat organization and a high level of individual accountability. It is also the boot camp for the industry—everyone's favorite recruiting ground for top-notch underwriters and marketers. The expense numbers for salaries suggest that AIG runs lean in this category—10.8% of the expense ratio versus 14.6% for its nine peers. With its flat organizational structure, premiums per employee are higher than at the average insurer. AIG also has the benefit of a valuable stock currency and its unique C.V. Starr partnership to compensate employees, giving it an edge over its peers.

Exhibit 22: Underwriting Expenses by Category—1998

	AIG	CB	CI	CNA	HIG	Liberty	TAP	REL	SPC	Zurich	Avg. *
Claim adjustment expense -- direct	1.9%	8.8%	14.1%	9.8%	5.3%	9.3%	4.0%	12.2%	11.0%	17.9%	10.3%
Claim adjustment expense -- assumed	9.7%	0.3%	1.0%	0.4%	0.2%	0.6%	2.5%	9.9%	0.6%	0.7%	1.8%
Claim adjustment expense -- ceded	5.9%	0.6%	4.8%	2.2%	0.9%	1.8%	3.4%	14.9%	1.8%	6.4%	4.1%
Claim adjustment net	**5.7%**	**8.4%**	**10.3%**	**8.0%**	**4.6%**	**8.1%**	**3.1%**	**7.2%**	**9.7%**	**12.2%**	**8.0%**
Commssn & brkrg dir ex contngncies	15.0%	14.3%	18.7%	15.4%	9.9%	3.2%	15.9%	25.0%	12.9%	13.8%	14.3%
Commssn & brkrg re assumed ex contngncies	3.5%	0.9%	2.7%	2.4%	3.1%	1.8%	1.8%	19.0%	4.2%	1.5%	4.2%
Commssn & brkrg re ceded ex contngncies	13.8%	0.9%	10.5%	3.5%	1.3%	4.2%	5.0%	37.0%	2.6%	16.9%	9.1%
Commssn & brkrg contingencies -- direct	0.1%	2.3%	0.9%	1.9%	1.6%	0.0%	1.9%	1.6%	1.6%	0.8%	1.4%
Commssn & brkrg contingencies -- assmd	0.2%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.1%	0.8%	0.0%	0.0%	0.1%
Commssn & brkrg contingencies -- ceded	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%	0.0%	0.1%
Commission & brokerage net	**4.8%**	**16.4%**	**11.7%**	**16.3%**	**13.2%**	**0.9%**	**14.8%**	**8.8%**	**16.1%**	**-0.9%**	**10.8%**
Salaries	8.8%	9.1%	12.2%	11.3%	9.5%	13.6%	8.5%	16.0%	10.8%	14.1%	11.7%
Payroll taxes	0.4%	0.7%	0.8%	0.8%	1.0%	1.0%	0.9%	1.0%	0.8%	1.0%	0.9%
Employee welfare	1.6%	1.6%	2.4%	1.5%	1.9%	2.4%	0.9%	2.4%	1.2%	3.6%	2.0%
Salary & employment related	**10.8%**	**11.3%**	**15.4%**	**13.6%**	**12.4%**	**17.1%**	**10.4%**	**19.4%**	**12.9%**	**18.6%**	**14.6%**
Total commission & salary	**15.6%**	**27.7%**	**27.0%**	**29.9%**	**25.7%**	**18.0%**	**25.2%**	**28.2%**	**28.9%**	**17.7%**	**25.4%**
Insurance licenses & fees	0.1%	0.1%	0.2%	0.4%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.2%
Guaranty association assessments	0.0%	0.2%	0.2%	0.1%	-0.1%	0.1%	0.0%	0.2%	0.1%	0.3%	0.1%
Other taxes, licences & fees	0.4%	0.2%	0.1%	0.2%	0.2%	0.1%	0.4%	0.3%	0.1%	0.0%	0.2%
Total taxes, licenses & fees	**2.3%**	**2.8%**	**4.7%**	**3.6%**	**2.7%**	**3.8%**	**3.7%**	**4.9%**	**2.6%**	**4.9%**	**3.7%**
Allowances to managers & agents	0.1%	0.0%	0.0%	0.1%	0.7%	0.0%	0.0%	0.0%	0.0%	1.9%	0.3%
Advertising	0.7%	0.2%	0.3%	0.4%	0.1%	0.7%	0.1%	0.7%	0.2%	0.5%	0.3%
Boards, bureaus & associations	0.2%	0.5%	0.9%	0.7%	0.5%	0.3%	0.5%	0.7%	0.4%	0.5%	0.6%
Survey & underwriting reports	0.3%	0.1%	0.1%	0.3%	0.3%	0.2%	0.3%	0.8%	0.2%	0.2%	0.3%
Insurance	0.2%	0.1%	0.9%	0.1%	0.1%	0.4%	1.8%	0.1%	0.1%	0.1%	0.4%
Travel	0.7%	1.0%	1.3%	0.9%	0.9%	1.2%	0.6%	2.2%	1.1%	1.7%	1.2%
Rent	1.4%	1.5%	2.0%	1.5%	1.7%	1.6%	1.0%	2.3%	1.3%	1.9%	1.7%
Equipment	0.6%	1.2%	1.3%	1.7%	1.0%	1.6%	1.0%	1.3%	1.9%	2.1%	1.5%
Printing & stationery	0.5%	0.2%	0.5%	0.2%	0.9%	0.5%	0.2%	0.5%	0.3%	0.5%	0.4%
Postage & telephone	0.6%	0.6%	1.3%	0.4%	1.5%	1.1%	0.7%	1.2%	0.8%	0.9%	0.9%
Legal & auditing	0.6%	0.1%	1.4%	0.2%	0.2%	0.3%	2.3%	0.3%	0.6%	0.7%	0.7%
Total other overhead	**9.1%**	**7.6%**	**14.2%**	**6.9%**	**10.4%**	**9.8%**	**9.7%**	**13.2%**	**9.6%**	**9.1%**	**10.1%**
TOTAL EXPENSES INCURRED	**32.8%**	**46.5%**	**56.3%**	**48.4%**	**43.4%**	**39.7%**	**41.7%**	**53.5%**	**50.8%**	**43.9%**	**47.1%**

* Average of nine companies excluding AIG

Source: Statutory financial statements and PaineWebber estimates.

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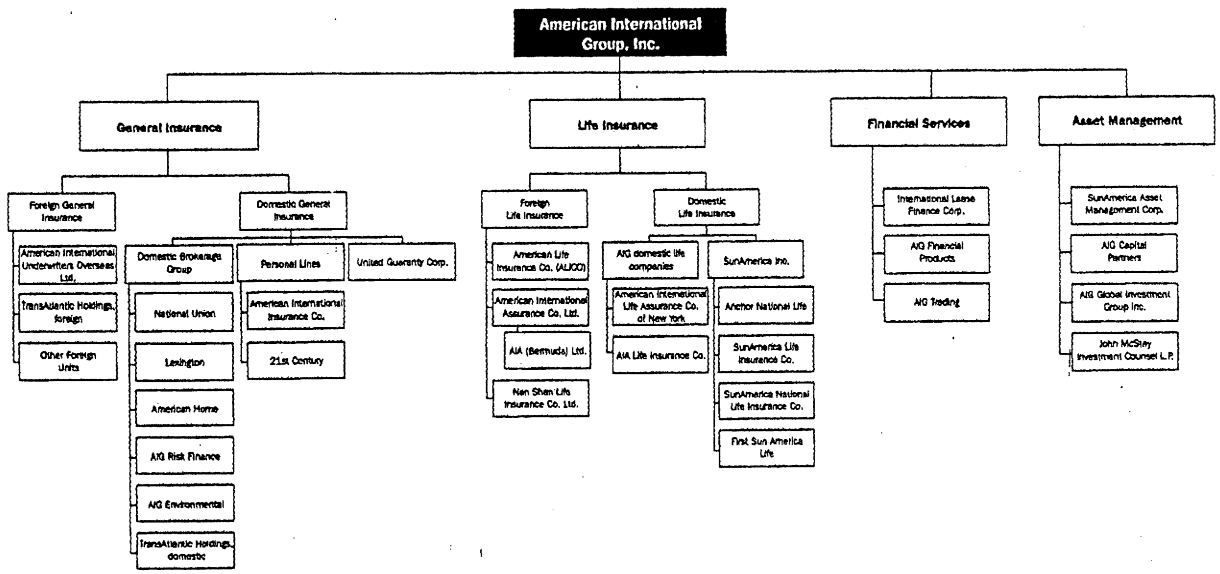
Operational Structure

Exhibit 23: American International Group—Organizational Chart



Source: Company reports and PaineWebber estimates.
For a complete list of AIG subsidiaries as of 1998, see Appendix IV.

General Insurance Operations

The General Insurance Operations, which generated $16.22 billion of AIG's 1999 net written premiums, comprise four segments: Domestic General Brokerage, Foreign General Brokerage, Domestic Personal Lines and United Guaranty Corp. Domestic General, which includes the Domestic Brokerage Group (DBG) and the domestic business of Transatlantic Holdings Inc., accounted for 50.0% of all general insurance premium; Foreign General, 34.2%; Domestic Personal Lines, including 21st Century Insurance Group, 13.3%; and United Guaranty Corp., 2.5%.

Domestic Brokerage Group (DBG)

The Domestic Brokerage Group (DBG) produced 31% of AIG's pretax earnings in 1999. The group markets property-casualty insurance products through brokers to corporate America—large, mid-sized and smaller companies. The DBG companies write all classes of insurance, and are leaders in many specialty classes, including directors and officers (D&O), professional and management liability, financial lines, environmental and casualty, excess and surplus lines coverages, risk management services, and integrated global programs for multinational corporations. Transatlantic Holdings Inc., a consolidated subsidiary of AIG, is the largest stand-alone publicly traded U.S.-based reinsurance organization. AIG's United Guaranty Corp., whose subsidiaries write mortgage guaranty insurance for financial institutions, is among the leading companies in the U.S. mortgage guaranty market.

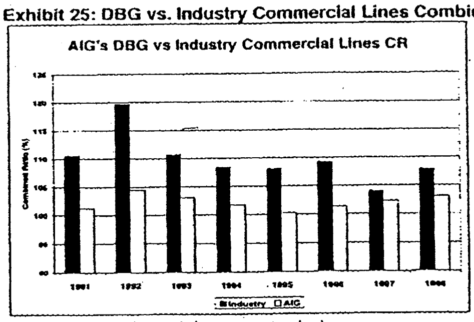
Exhibit 24: Domestic Brokerage Operations

	1999	Diff	1998	Diff	1997	Diff	1996	Diff	1995
Net premiums written	$8,119	1.5%	$8,002	1.5%	$7,885	7.7%	$7,324	8.5%	$6,749
Net premiums earned	$7,608	-2.6%	$7,814	8.4%	$7,207	6.6%	$6,763	5.0%	$6,442
Losses & LAE	$6,490	-5.4%	$6,862	9.5%	$6,268	6.5%	$5,886	5.2%	$5,597
Underwriting expenses	$1,060	-9.3%	$1,169	8.2%	$1,080	17.9%	$916	12.9%	$811
Underwriting profit/(loss)	$58	-126.7%	($217)	53.9%	($141)	261.5%	($39)	-214.3%	$34
Loss Ratio	85.3%	-2.5	87.8%	0.8	87.0%	0.0	87.0%	0.1	86.9%
Expense Ratio	15.6%	0.4	15.3%	-0.1	15.3%	1.0	14.3%	0.9	13.4%
Combined Ratio	100.9%	-2.1	103.1%	0.8	102.3%	1.0	101.3%	1.0	100.3%
Net investment income	$1,738	10.7%	$1,570	15.8%	$1,356	9.2%	$1,242	8.4%	$1,146
Operating income	$1,796	32.6%	$1,354	11.4%	$1,215	1.0%	$1,203	1.9%	$1,180

Source: Company financial statements and PW estimates.

Commercial insurance business is written primarily through National Union Fire Insurance Co., of Pittsburgh; American Home Assurance Co., of New York; and Lexington Insurance Co. This market has been plagued for more than a decade by soft pricing, with many insurers underwriting for market share. AIG is known for refusing to take this approach to underwriting, requiring instead that all underwriting activity be profitable on a stand-alone basis.

Exhibit 25: DBG vs. Industry Commercial Lines Combined Ratio



Note: Industry combined ratio is on a statutory basis.
Source: Company financial statements and PaineWebber estimates.

In 1999, DBG cancelled or nonrenewed $450 million of business because the business was priced so inadequately that DBG was willing to forfeit it to its less-disciplined competitors. Now, however, more carriers are drawing the line on buying market share by underpricing. In its 1999 annual report, AIG noted, "While we are seeing long overdue price increases in many classes, they are still not at levels we believe are necessary. But the price slope is now in the right direction." While we remain skeptical that prices will rise to a level that would provide an attractive return to the broader market until more capacity is withdrawn, AIG believes the pruning of its book is ending and therefore rate increases on the renewal book will cause premiums to grow beginning in the second half of 2000.

Exhibit 26: History of Nonrenewed Premiums

	Nonrenewed Premiums	% of NPW	Net Prem. Written	% Chg Yr/Yr Incl NR	% Chg Yr/Yr Excl NR	% Impact
98:Q1	$0.0	0.0%	$3,381.4	2.0%	2.0%	0.0%
98:Q2	$0.0	0.0%	$3,617.3	2.1%	2.1%	0.0%
98:Q3	$270.0	7.2%	$3,760.2	9.6%	19.0%	9.4%
98:Q4	$180.0	4.7%	$3,827.3	22.6%	30.1%	7.5%
1998	$450.0	3.1%	$14,586.1	8.8%	12.6%	3.8%
99:Q1	$175.0	4.3%	$4,053.7	19.9%	26.4%	6.5%
99:Q2	$100.0	2.4%	$4,190.9	15.9%	19.2%	3.3%
99:Q3	$95.0	2.4%	$3,972.4	5.6%	8.4%	2.7%
99:Q4	$80.0	2.0%	$4,006.9	4.7%	6.9%	2.2%
1999	$450.0	2.8%	$16,223.9	11.2%	14.8%	3.5%
00:Q1	$110.0	2.6%	$4,226.3	4.3%	7.2%	2.9%

Source: Company financial statements and PW estimates.

National Union Fire Insurance Co. of Pittsburgh writes directors and officers (D&O) liability, general liability, and other management and professional liability insurance and services, employment practices liability, fidelity and surety coverages. In 1998, it added new products, D&O Gold to cover risks related to governmental investigations and Y2K risks, and IPO Gold, which expanded D&O to cover risks associated with e-commerce, the Internet, electronic publishing and initial public offerings. Some of these products were introduced early this year but had been designed during 1999 with launches postponed until after January 1, 2000. The company wanted to first assess any negative Y2K claims impact before moving forward. The IPO product was an outgrowth of DBG gaining Nasdaq-American Stock Exchange and New York Stock Exchange sponsorship in 1998 to provide management with liability coverage for listed companies.

A recent Watson Wyatt study showed that the D&O market has been growing in terms of limits on capacity for for-profit corporate and financial institution carriers, reaching its highest level ever in 1998 at $1.5 billion. In terms of premium volume, AIG's share of that market edged higher, to 34% from 33% a year earlier, although its share of the number of policies written eased to 23% from 25%, not surprising in light of competitive market conditions. AIG's nearest competitor, Chubb, saw its market share drop to 20% from 29%; its newly acquired Executive Risk unit offset part of that decline, with 4% of the market versus 5% in 1997, although a number of Executive Risk employees later defected to XL Capital. Executive Risk's policy-count share rose to 7% from 5% in 1998. The biggest beneficiaries of Chubb's loss of share were Reliance National and the London market. Due to Reliance's rating problems, we believe in 1999 and 2000 its share will decline and some of its business will flow back toward other markets.

National Union views the middle-market unit as having the highest growth potential. It defines "middle market" as public and private companies with under $100 million in annual revenue. In addition to Chubb, AIG's major competitors in this market are Zurich and the London market.

In the middle market, the company's growth strategy includes "account rounding," meaning the addition of other coverages to win over a client, by adding, for example, an employment practices liability coverage without significantly boosting the premium and without compromising underwriting standards. Employment practices liability insurance itself is a steadily growing market, fueled in part by numerous high-profile sexual-harassment cases and subsequent Supreme Court rulings that have expanded employer obligations.

National Union's ability to launch innovative product offerings with low turn times is a competitive strength in today's rapidly changing business environment. For example, the creation of "eWriter" is considered a key to AIG's success in the middle and not-for-profit markets. This electronic application process is an extension of AccessAIG, the company's online broker service. The eWriter form consists of just 26 questions aimed at simplifying and streamlining the underwriting process and reducing the cost—including brokers' commissions and fees—and the time involved in writing business in the middle market. This approach is part of AIG's overall strategy to exercise greater control of the customer relationship. Last year, National Union also established a technology unit to design insurance coverages not just for technology companies but for commercial insurance buyers setting up e-commerce facilities for their traditional businesses. This unit serves the entire organization, not just National Union Fire. It consists of four modules—the Internet, telecommunications, publishing/media, and network and patent security—with several more in the formative stages. A network-security product is being offered as a "one size fits all" policy through Marsh Inc. Another product covers advertising liability on the Internet, and the company also has launched a liability protection policy for Web designers and

Internet publishers. Another major target market is financial institutions, the so-called clicks-and-mortar businesses, as well as information service providers and portals, for such liabilities as denial of service and hacking.

The nascent market AIG is pursuing, along with several competitors, consists of the legions of businesses that are operating on the Web but that are not primarily Web companies. Exactly how large a market this represents is hard to quantify, although ultimately it could extend to the vast majority of companies in the U.S., if not the world. The underlying tenet is that every company that maintains a Web site has a "cyber liability" for damages people could suffer as a result of mismanagement. An online auction company, for example, might have a contractual obligation to make sure its customers don't suffer losses because of glitches in its systems.

The growth strategy for National Union's core D&O business has three key elements, themes that AIG invokes throughout the organization:

- **Loss prevention.** This activity accounts for about 50% of the time spent on this line of business. It involves deep communication with the insured on prevention. It also involves the use of a crisis fund to contain problems as they emerge. The strategy is to help the insured be quick and thorough in telling the truth fast about a problem before the lawsuits start to fly and before anyone else—a newspaper, for example—gets to tell the story. The underlying principle is: "Tell it early, tell it yourself and tell it all." AIG believes that this kind of aggressive, proactive communication effort by an insured facing a potential D&O suit is worth the investment. As a policy enhancement, this coverage provides $50,000 for a public relations effort that ultimately aims to prevent a claim or, failing that, to limit the damages by demonstrating the company's good-faith efforts from day one of a crisis. AIG also has earmarked $1 million for a "corporate governance tuition reimbursement plan" for D&O coverage buyers involved in launching IPOs.

- **Loss mitigation.** AIG's huge scale gives it an advantage in this area. The company does not engage in false economies on legal fees, but rather, locks up the best lawyers on retainer (referred to as "panel counsel" arrangements) and uses them aggressively in an offensive, defensive and marketing strategy. Offensively, AIG's clients have access to the counsel with the best track record for winning cases or negotiating quick settlements on favorable terms. Defensively, plaintiffs are up against retained law firms that are very experienced in the relevant area and are held to a high degree of accountability for their performance on behalf of AIG's clients. From a marketing standpoint, AIG's specialty panels, such as its Technology Panel Counsel of law firms with expertise in computer-related Internet, multimedia and intellectual-property litigation, demonstrate AIG's commitment and depth of resources to the client's industry.

- **Another scale benefit.** Not only can AIG tap into an extensive database of briefs related to its own cases, it can also negotiate the best available rates in return for long-term relationships with the most effective law firms. These firms then achieve a preapproved status that makes it possible for AIG to respond that much faster to an emerging exposure. Statistically, AIG has found that the cost of aggressive litigation that gets a lawsuit thrown out on a motion is less than the D&O deductible. In fact, AIG will waive the insured's retention as an incentive to go after the plaintiff rather than settle.

- **Policy clarity.** The terms of coverage must by clear, fair and broad. Insureds may favor ambiguity in policy language, but AIG is adept at drafting clear policy wording to avoid ambiguities that are detrimental to the insurer.

American Home Assurance Co. is AIG's principal domestic provider of commercial umbrella/excess liability, and primary and excess workers' compensation insurance. Its excess casualty division is organized into three teams: middle-market, commercial and national accounts. The middle market consists of companies with under $100 million in annual revenue; the commercial market, $100 million to $700 million; and national accounts, over $700 million. In 1998, American Home Assurance added third-party impaired property coverage and endorsements to middle-market umbrella liability policies to cover catastrophic D&O and employment practices liability claims.

Exhibit 27: Top 20 CMP Insurers

	1998		1997	
Company	NPW	Mkt Shr	NPW	Mkt Shr
Citigroup	$1,394,599	7.4%	$0	0.0%
CNA	$1,338,819	7.1%	$1,344,371	7.1%
The Hartford	$914,548	4.8%	$879,882	4.6%
State Farm	$865,768	4.6%	$860,871	4.5%
Chubb	$858,807	4.5%	$912,907	4.8%
St Paul	$715,109	3.8%	$251,221	1.3%
Allianz	$688,329	3.6%	$761,793	4.0%
Zurich	$648,188	3.4%	$687,399	3.6%
Nationwide	$571,498	3.0%	$595,763	3.1%
SAFECO	$562,336	3.0%	$543,567	2.9%
Farmers	$523,481	2.8%	$513,580	2.7%
Commercial Union	$432,928	2.3%	$401,755	2.1%
General Accident	$398,828	2.1%	$384,506	2.0%
Cincinnati Financial	$377,494	2.0%	$353,928	1.9%
Allstate	$358,112	1.9%	$324,850	1.7%
Lumbermens Mutual	$310,011	1.6%	$420,763	2.2%
Royal & Sun Alliance	$304,528	1.6%	$310,671	1.6%
Fairfax Financial	$281,162	1.5%	$33,530	0.2%
Allmerica Financial	$280,490	1.5%	$269,540	1.4%
GRE	$263,309	1.4%	$92,797	0.5%
Top 20 Total	$12,088,344	63.7%	$11,680,170	61.6%
Top 30 Total	$14,035,619	74.0%	$13,631,341	71.9%
Total	$18,974,119		$18,951,134	
% Change	0.1%			

Source: Statutory financial statements and PW estimates.

Exhibit 28: Top 20 General Liability Insurers

	1998		1997	
Company	NPW	Mkt Shr	NPW	Mkt Shr
AIG	$3,405,177	17.9%	$4,102,152	20.4%
Chubb	$1,488,772	7.8%	$1,493,648	7.4%
CNA	$1,256,691	6.6%	$1,192,273	5.9%
St Paul	$811,647	4.3%	$706,955	3.5%
Zurich	$794,061	4.2%	$903,211	4.5%
Citigroup	$554,770	2.9%	$0	0.0%
GE Global	$518,293	2.7%	$410,595	2.0%
Allianz	$518,167	2.7%	$557,110	2.8%
The Hartford	$425,491	2.2%	$445,620	2.2%
State Farm	$423,016	2.2%	$418,796	2.1%
Liberty Mutual	$420,940	2.2%	$355,852	1.8%
Reliance Group	$389,142	2.0%	$359,085	1.8%
Nationwide	$270,851	1.4%	$475,187	2.4%
General Reinsurance Corp	$263,888	1.4%	$256,521	1.3%
Cigna Health	$261,178	1.4%	$229,687	1.1%
Orion Capital	$250,251	1.3%	$250,482	1.2%
American Financial	$240,187	1.3%	$278,786	1.4%
Lumbermens Mutual Casualty	$225,791	1.2%	$270,726	1.3%
TIG	$218,684	1.1%	$197,628	1.0%
Cincinnati Financial	$199,380	1.0%	$192,098	1.0%
Top 20 Total	$12,936,377	67.9%	$14,044,111	70.0%
Top 30 Total	$14,572,884	76.5%	$15,593,181	77.7%
Total General Liability	$19,048,449		$20,074,698	
% Change	-5.4%			

Source: Statutory financial statements and PW estimates.

This is another part of AIG's family of companies targeting the middle and commercial markets. In addition to being a leading provider of commercial umbrella policies, American Home also has a major presence in workers' compensation and in the warranty business. Its strategy is to offer value-added policies including loss-mitigation services at no extra charge that benefit both the insured and the insurer, similar to National Union Fire's D&O products.

For example, like National Union Fire, American Home will provide $25,000 at the outset of an *E coli* outbreak for a food-handling company to hire a public relations firm from a list of AIG-approved firms to immediately launch a communications effort. The notion of "free" access to public relations professionals becomes a policy selling point, especially in the middle market, where few firms retain a PR firm as a matter of course. But American Home is also finding interest in this value-added feature, even among large accounts, because of the specialized crisis-management skills the approved PR firms can provide.

Another umbrella add-on designed for loss mitigation is a fund that American Home provides to start settling claims immediately. Experience shows that when a company tells the truth quickly about a problem, the claimants become fewer and less demanding and are far more likely to accept a quick, reasonable settlement and to decide not to aggressively pursue litigation. The cost of these add-ons is minimal; it is estimated that less than 1% of the policies American Home sells will ever need to use the $25,000 PR fund.

A key element in American Home's strategy is to sell through second- and third-tier brokers that might be able to lure a client away from its primary insurer for the umbrella coverage. American Home also is teaming up with National Union to market to the Nasdaq-listed public companies that are particularly vulnerable to public-image crises that could destroy their capital and reputation overnight.

As with other divisions of AIG, the claims-adjusting process is given a high priority. American Home has access to a staff of 100 full-time adjusters—who are managed within a separate subsidiary, AIG Technical Services Inc.—working on excess claims, which means that compared to its competitors, its adjusters are able to spend more time scrutinizing specific claims and finding ways to mitigate losses.

One reason National Union and American Home are motivated to work hard to develop new products is to replace the premium they are nonrenewing, or declining to accept, in workers' compensation and medical malpractice. As shown in Exhibits 29 and 30, AIG's market share in both of these lines of business has been declining. In medical malpractice, as it became apparent that adequate returns could not be achieved in certain states and professional specialties as a result of severe pricing competition, AIG intentionally let business go. Fundamentals in the workers' compensation business also deteriorated significantly. In retrospect, these lines that AIG had the foresight to walk away from produced widespread financial hardship among several large players.

AIG has intentionally let business go due to severe pricing competition. They are declines AIG has incurred willingly as part of a division-wide strategy to reduce its share of unprofitable lines of business.

Exhibit 29: Top 20 Workers' Comp. Insurers

Company	1998 NPW	1998 Mkt Shr	1997 NPW	1997 Mkt Shr
CNA	$1,838,201	7.2%	$1,439,810	5.2%
Liberty Mutual	$1,800,418	7.0%	$1,803,647	6.6%
State Compensation	$1,210,959	4.7%	$1,030,265	3.7%
Lumbermens Mutual	$1,192,049	4.7%	$1,172,564	4.3%
Citigroup	$1,181,037	4.6%	$0	0.0%
AIG	$1,127,160	4.4%	$1,597,392	5.8%
The Hartford	$1,068,799	4.2%	$1,094,869	4.0%
Nationwide	$782,959	3.1%	$755,080	2.7%
Zurich	$707,194	2.8%	$795,820	2.9%
Fremont General	$651,193	2.5%	$794,590	2.9%
Allianz	$610,484	2.4%	$519,223	1.9%
Cigna Health	$507,811	2.0%	$342,323	1.2%
Orion Capital	$433,604	1.7%	$386,872	1.4%
St Paul	$403,109	1.6%	$258,694	0.9%
TIG	$381,782	1.5%	$313,144	1.1%
Chubb	$376,883	1.5%	$358,459	1.3%
Reliance Group	$365,601	1.4%	$324,793	1.2%
Superior National	$335,428	1.3%	$511,240	1.9%
SAFECO	$323,238	1.3%	$332,123	1.2%
Zenith National	$312,933	1.2%	$236,972	0.9%
Top 20 Total	$15,610,842	61.0%	$16,228,774	59.0%
Top 30 Total	$17,927,373	70.1%	$18,648,782	67.9%
Total	$25,580,387		$27,483,395	
% Change	-6.9%			

Source: Statutory financial statements and PW estimates.

Exhibit 30: Top 20 Medical Malpractice Insurers

Company	1998 NPW	1998 Mkt Shr	1997 NPW	1997 Mkt Shr
St Paul	$363,760	7.0%	$399,999	8.0%
MLMIC	$339,485	6.5%	$307,770	6.1%
Doctors Company	$287,257	5.5%	$208,980	4.2%
SCPIE	$270,731	5.2%	$254,126	5.1%
CNA	$240,102	4.6%	$379,946	7.6%
Medical Group	$233,758	4.5%	$60,651	1.2%
AIG	$202,647	3.9%	$216,312	4.3%
Medical Protective	$184,041	3.5%	$199,696	4.0%
MMI	$179,028	3.4%	$151,648	3.0%
Medical Inter-Insurance	$174,484	3.3%	$128,962	2.6%
PHICO	$154,816	3.0%	$113,429	2.3%
American Healthcare S	$152,459	2.9%	$126,436	2.5%
Illinois State Med Interin	$134,207	2.6%	$104,950	2.1%
Medical Assurance	$117,458	2.2%	$122,649	2.4%
Frontier Insurance	$104,141	2.0%	$121,149	2.4%
Physicians Reciprocal	$101,411	1.9%	$125,285	2.5%
Michigan Physicians	$101,180	1.9%	$74,237	1.5%
HUM	$99,066	1.9%	$32,380	0.6%
PICOM	$98,073	1.9%	$35,900	0.7%
Promutual	$93,499	1.8%	$95,785	1.9%
Top 20 Total	$3,631,603	69.4%	$3,425,875	68.2%
Top 30 Total	$4,241,780	81.1%	$3,964,991	79.0%
Total	$5,231,433		$5,022,001	
% Change	4.0%			

Source: Statutory financial statements and PW estimates.

Lexington Insurance Co. is the largest excess-and-surplus lines insurer in the United States. It specializes in employment practices liability, professional liability, health care, specialty personal lines and inland marine. Lexington was described as having a "reasonable" year in 1999; the excess and surplus lines market has been very competitive, with traditional primary companies writing these risks on an admitted basis during the soft market. According to management, market conditions are beginning to improve.

In 1998 and 1999, Lexington designed new coverage for the alternative staffing industry, as well as specialized coverages for schools and public entities, law firms, investment banks, insurance brokers, accounting firms, architects/engineers and other professional organizations.

Starr Excess Liability Insurance Co. Ltd. sells high-limit excess coverage for general liability, D&O and professional liability worldwide. Since giving up its tax-advantaged status in connection with its acquisition by AIG, the company has been able to market onshore and to assume more business from U.S. brokers without giving up its presence in the Bermuda market.

New Hampshire Group. Also under the DBG umbrella is NHIG Holding Corp., which includes New Hampshire Insurance Co., AIG's leading commercial middle-market insurer, and Audubon Insurance Co., a personal and small-business insurer operating mainly in the South.

Exhibit 31: Top 20 E&S Insurers Ranked by 1998 DPW

Company	DPW	Mkt Shr	Surplus
AIG[1]	$1,724,236	18.2%	$13,400,016
Lloyd's	$1,208,000	12.7%	$10,653,075
Nationwide	$494,007	5.2%	$10,486,674
Reliance	$331,803	3.5%	$1,754,991
Berkshire Hathaway	$320,444	3.4%	$42,257,223
Zurich-USA	$315,732	3.3%	$3,071,236
Markel	$269,003	2.8%	$372,872
WR Berkley	$215,794	2.3%	$941,853
United National	$209,876	2.2%	$251,526
CNA	$209,306	2.2%	$7,490,476
Hartford	$201,179	2.1%	$8,539,281
Acceptance	$175,855	1.9%	$236,041
Allianz	$174,734	1.8%	$3,694,123
Associates First Capital	$154,736	1.6%	$541,801
Great American	$129,276	1.4%	$1,840,357
St Paul	$125,303	1.3%	$3,934,420
Frontier	$122,624	1.3%	$396,205
Royal & Sun Alliance	$114,974	1.2%	$2,959,325
Executive Risk	$114,292	1.2%	$305,852
Chubb	$106,703	1.1%	$2,788,218
Top 20 Total	$6,717,877	70.8%	$115,915,565
Total	$9,494,470		

[1] AIG's major subsidiaries in E&S Lines are Lexington and AISLC.

Source: AM Best and PW estimates.

Commerce & Industry Insurance Co. is the subsidiary through which AIG writes most of its environmental coverage and insurance on medium-sized, highly protected property risks ("HPR") that typically qualify for lower rates. This is the corporate home for *AIG Environmental*, the leading U.S. provider of environmental insurance and services for everything from large complex risks like ports and rail yards to local dry cleaners and shopping centers. The deregulation of utilities is expected to provide new opportunities for AIG Environmental, as increased competition leads to more aggressive cost-containment efforts and consolidation, which, in turn, could lead a utility to resolve environmental liabilities that have been allowed to linger.

AIG Environmental is a classic AIG business designed and built from scratch to fill an emerging market niche. It markets coverages aimed at clearing the way for the transfer of potentially contaminated properties, including government and military property as well as commercial real estate and for merger and acquisition transactions. Policies are designed to protect buyers and sellers from unknown environmental liability and to control site cleanup costs.

As in other commercial insurance divisions, AIG Environmental, which practically invented this business, looks at the market in three segments: the middle market, the commercial market and national accounts. The division was started a few years after the 1980 authorization of Superfund and picked up its main impetus in 1985 with the advent of the absolute pollution exclusion clause making it easier to underwrite the risk and manage the exposure.

Until a few years ago, much of the funding earmarked for toxic site remediation was spent on studies and not on cleanups. Now that the shovels have gone into the ground, the costs are less severe than initially estimated, partly because the definition of clean has been modified depending on the anticipated post-cleanup use of the site. Also, the technology has improved. Today it might cost $150,000 to clean up a gas station, down from $500,000 in 1986 (in 1986 dollars).

Meanwhile, the demand for environmental coverage has grown in the wake of high-profile environmental disasters of yore. Starting in 1996, the Securities and Exchange Commission explicitly began requiring detailed disclosure of potential pollution losses as well as a company's plan to cover those losses. No longer was it permissible for a polluter not to disclose a loss simply because it believed that its insurance would cover it.

Insurers had already established policy language that specifically excluded pollution losses, hence giving rise to the need to create carefully priced and designed policies that specifically covered pollution losses. That opportunity brought in AIG and a handful of other insurers. A market also has emerged for post-cleanup site insurance, and insurance is being sold to businesses looking to secure loans from financial institutions that otherwise would require Phase I engineering studies, which can take inordinate amounts of time.

AIG positioned itself from the beginning in this line of business by staffing up not so much with underwriters who could learn the engineering process, but with engineers who could learn the underwriting process. The challenge for AIG Environmental is to find ways to market to the middle and commercial segments that are just now beginning to recognize the need for "sleep" insurance. Such coverage addresses seemingly minor exposures such as a heating-oil tank rupture for a reasonable price based on an informed review of the business and its location. As with many other AIG divisions, the goal is to find better ways to distribute the coverage, including educating the traditional brokers and agents who might not otherwise understand the product well enough to see where the market is. In addition, management noted at the March 2000 Fireside Chat that new entrants to this market are pricing very competitively.

AIG Risk Management (AIGRM) provides custom casualty and risk management programs to *Fortune* 1000 and large regional companies under an array of financial arrangements. It also provides risk management and risk transfer coverages to foreign-based multinationals operating in the U.S., as well as specialty programs for the transportation, construction and energy industries and for public entities. In 1999, AIGRM saw strong growth in large construction "wrap-up" projects.

AIG Risk Finance (AIGRF) designs and implements creative risk financing solutions drawing on AIG's worldwide resources of insurance and financial services companies on behalf of clients requiring the most advanced risk management skills. This group structures programs that blend financial, insurance and capital markets strategies to strengthen balance sheets, to address solvency and liquidity concerns, and to help manage strategic risks. By year-end 1998, AIGRF had established offices in London, Paris, Tokyo, Sydney and Johannesburg.

This group, formed in 1996, specializes in converting nonfinancial assets into asset-backed vehicles using insurance to facilitate the transaction. It also creates insurance-type products to take on asset-backed financial risks from banks. When a bank needs to get certain assets off its books in order to comply with risk-based capital regulations, AIGRF can act as a bridge and provide tax relief through structured finance, insuring the asset's cash flow rather than the asset itself.

This division designs and markets AIG's finite insurance products—essentially structured-finance arrangements in which AIG retains 20% or less of the risk in order for the full value of the financial protection to qualify as insurance, allowing the insured to deduct the amount as premium. This produces all of the financial, tax and accounting benefits of insurance in a risk-sharing arrangement between the customer and AIG.

Loss portfolio transfers are another growing market. AIG will analyze a book of known losses and buy them at a discount. This is essentially the same service the AIG Mergers & Acquisition division provides, but without an impending transaction as the catalyst. AIGRF has growth potential internationally in this area, because many of the trends that drive the business in the U.S.—the strong appetite for litigation, costlier insurance and higher retentions—are migrating to Europe, in particular. AIGRF is a hothouse of entrepreneurial financial engineers, creatively looking for ways to blend tax, capital markets, insurance and accounting strategies to reduce a large commercial client's risk and uncertainty; solve a balance sheet problem; and free up capital and human resources to pursue earnings growth.

AIGRF also is active in insurance securitization—a way for insurers and reinsurers to hedge their high-severity, low-frequency risks by transforming them into debt securities that can be sold. Through AIG Risk Finance's B FIRST program, a client can acquire coverage with higher limits, longer terms, less credit risk and more liquidity than is possible through traditional insurance.

The division's Environmental Protection Programs custom-design insurance to manage a company's known environmental liabilities, combining insurance with discounted funding techniques and environmental consulting to manage a specific exposure. The programs are developed in a joint effort of AIG Environmental, AIG Risk Finance and the Environmental Management division of AIG Consultants Inc.

This is an important example of one of AIG's key competitive advantages. Its array of specialized capabilities and its flat organization structure enable it to marshal resources from more than one profit center to solve a customer's unique problem quickly in a way that would be hard for many competitors to match. Yet management is able to closely monitor its businesses on a profit center basis with traditional subsidiary company structures and accountability. One of the challenges the company does face with this structure is motivating a subsidiary's management that is singularly focused on hitting its own performance targets to help steer business to divisions like AIGRF and AIGM&A—and vice versa—that won't directly benefit the referring subsidiary.

AIG's Mergers & Acquisitions Division exemplifies the company's aggressive approach to distribution: Don't wait for brokers to bring business to you. Instead, the division looks to investment bankers and M&A lawyers to increase the flow of submissions.

AIG M&A, like Marsh Inc. and Aon, is providing tailored risk-management solutions to clients involved in mergers and acquisitions. The goal is to clear the way for a deal by walling off the post-deal entity from unresolved liabilities, or at least putting a reasonable cap on them.

AIGM&A was formed in response to the success Marsh and Aon had in the late 1980s with this concept when leveraged buyouts were prevalent. The product protects directors and officers or a target company against lawsuits for product liability and similar risks. By fixing a worst-case amount at which to adjust an acquisition price to reflect unresolved liabilities, "finality" is provided to the buyer and seller at a reasonable price. The transactions can be structured to provide cash flow protection as well, controlling the timing of liability payouts.

These transactions generally produce a large amount of up-front "float" for AIG to invest, which it can do more profitably than the insured, given its investment capabilities. In addition, AIG has earned considerable respect for its workout skills for these types of liabilities over the years because it can often produce an underwriting profit on the business. For example, consider a health care facility with numerous open medical-malpractice claims. Using an aggressive alternate dispute resolution strategy, AIG stands a good chance of successfully reaching quicker, cheaper settlements for less than the premium it receives, reflecting its claims-handling expertise and carefully nurtured relationships with particularly effective trial lawyers and claims groups.

Relying on generating business through M&A lawyers isn't the only nontraditional element in this operation. The division is currently headed by a former investment banker from Goldman Sachs, as opposed to someone with a traditional underwriting background. This is an example of AIG's practice of recruiting talent from the market it is targeting, not from within the insurance industry, which often produces an unexpected edge in a particular market. The flexibility of having traditional business subsidiaries like National Union and American Home operating literally down the hall from cross-divisional operations like AIGRF and AIGM&A clearly is another advantage for AIG, in our opinion. In evaluating a client's risks and known but open-ended exposures, AIGM&A frequently learns about the client's other coverages—or lack of coverages—for more traditional risks and can refer the client to other AIG divisions to solicit bids.

Domestic Personal Lines

These operations consist largely of auto insurance operations, including the consolidated results of 21st Century Insurance Group, the Woodland Hills, California-based West Coast auto insurer that recently hired former Progressive executive Bruce Marlow. 21st Century is a low-cost mass-marketer of private passenger auto insurance in California and Arizona and just completed its first full year of operations in three additional states, Nevada, Oregon and Washington. In 1999, the division, including the consolidated results of majority-owned 21st Century, grew net written premiums 52.0%, to $2.16 billion, with a combined ratio of 96.3%. The group consists of:

- Mass Marketing Division, including direct marketing to consumers and affinity marketing such as the MBNA America Bank joint auto-insurance marketing operation

- Specialty Auto Division, primarily the agent-driven nonstandard line

- 21st Century Insurance Group

The personal lines division generated 13.3% of AIG's total net written premium from general insurance operations and $189.1 million of income before realized capital gains, or 5.9% of the total for the general insurance segment. The company sees this line as a major area for growth and has a multiple-channel strategy in place to accomplish that. The hiring of Mr. Marlow earlier this year after a brief stay at Allstate is an indication of AIG's commitment and willingness to grow the business rapidly. Its ambition is not so much to become the number one or two auto insurer as to use its direct-sales strategy to challenge the market positions of companies like GEICO and Progressive and to do so profitably. 21st Century has been showing the impact of price competition in its results, reporting a 103.8% first-quarter 2000 combined ratio. We believe AIG's goal is to restore profitability, yet remain a market leader in growth.

Exhibit 32: Domestic Personal Lines Operations

	1999	Diff	1998	Diff	1997
Net Premiums Written	$2,162.0	52.0%	$1,422.0	75.1%	$812.0
Net Premiums Earned	$2,079.0	62.4%	$1,280.0	62.0%	$790.0
Loss Ratio	80.7%	1.9	78.8%	-1.8	80.6%
Expense Ratio	15.6%	0.2	15.4%	-1.5	16.9%
Combined Ratio	96.3%	2.1	94.2%	-3.3	97.5%
Investment Income	$112.8	29.7%	$87.0	68.2%	$51.7

Source: Company financial statements and PaineWebber estimates.

Mr. Marlow posted a valentine to GEICO at the Auto Insurance Report national conference on April 2, saying that GEICO is the "absolute poster child" of today's insurance market (a "friendly institution" that is teaching customers that shopping is "smart, natural, fun, relaxed and easy") and predicting that GEICO would have a "titanic impact" on the industry. He cited Berkshire Hathaway's ownership of GEICO as a powerful message to consumers that direct sales is a respectable way to buy insurance, because everyone knows Warren Buffett can be trusted to pay claims. Finally, Mr. Marlow predicted that direct sales in various forms could represent half the market by 2010 (a very lofty goal), and proclaimed an ambitious Internet strategy.

21st Century's sales method is the same as GEICO's, but the company has not leveraged its connection to AIG. We believe that Mr. Marlow's arrival at 21st Century is the advent of a period of aggressive growth within the bounds permitted by profitability, using a strategy that is very similar to GEICO's.

Exhibit 33: 21st Century Insurance Operations

	1999	Diff	1998	Diff	1997
Net Premiums Written	$2,162.0	52.0%	$1,422.0	75.1%	$812.0
Net Premiums Earned	$2,079.0	62.4%	$1,280.0	62.0%	$790.0
Loss Ratio	80.7%	1.9	78.8%	-1.8	80.6%
Expense Ratio	15.6%	0.2	15.4%	-1.5	16.9%
Combined Ratio	96.3%	2.1	94.2%	-3.3	97.5%
Investment Income	$112.8	29.7%	$87.0	68.2%	$51.7

Source: Company financial statements and PaineWebber estimates.

Exhibit 34: Top 20 Auto Liability Insurers

Company	1998		1997	
	NPW	Mkt Shr	NPW	Mkt Shr
State Farm	$14,143,464	20.0%	$14,816,230	20.9%
Allstate	$8,529,229	12.1%	$8,464,732	12.0%
Farmers	$4,139,407	5.9%	$4,192,914	5.9%
Progressive	$3,047,093	4.3%	$2,764,163	3.9%
Nationwide	$2,980,177	4.2%	$2,823,337	4.0%
Berkshire Hathaway	$2,511,047	3.6%	$2,228,862	3.2%
USAA	$2,077,972	2.9%	$2,193,807	3.1%
AIG	$1,523,325	2.2%	$1,009,600	1.4%
Citigroup	$1,520,361	2.1%	$0	0.0%
The Hartford	$1,311,674	1.9%	$1,039,190	1.5%
American Family	$1,295,934	1.8%	$1,212,926	1.7%
Liberty Mutual	$1,273,458	1.8%	$1,259,627	1.8%
SAFECO	$1,033,712	1.5%	$1,032,048	1.5%
American Financial	$858,298	1.2%	$941,574	1.3%
California State Auto	$835,282	1.2%	$910,182	1.3%
CNA	$771,725	1.1%	$787,558	1.1%
ERIE	$759,186	1.1%	$764,325	1.1%
Metropolitan	$732,840	1.0%	$740,243	1.0%
Prudential of America	$703,724	1.0%	$843,799	1.2%
Mercury General	$657,378	0.9%	$663,446	0.9%
Top 20 Total	$50,705,286	71.7%	$49,993,135	70.7%
Top 30 Total	$55,886,572	79.0%	$54,954,847	77.7%
Total	**$70,722,782**		**$70,742,912**	
% Change	**0.0%**			

Source: Statutory financial statements and PW estimates.

Exhibit 35: Top 20 Auto PPD Insurers

Company	1998		1997	
	NPW	Mkt Shr	NPW	Mkt Shr
State Farm	$10,009,037	19.3%	$9,641,509	19.9%
Allstate	$6,025,406	11.6%	$5,638,657	11.6%
Farmers	$2,721,360	5.3%	$2,148,247	4.4%
Progressive	$1,917,437	3.7%	$1,603,862	3.3%
Nationwide	$1,870,531	3.6%	$1,681,667	3.5%
USAA	$1,567,800	3.0%	$1,434,757	3.0%
Berkshire Hathaway	$1,554,560	3.0%	$1,292,136	2.7%
Citigroup	$986,208	1.9%	$0	0.0%
American Family	$964,955	1.9%	$840,734	1.7%
Liberty Mutual	$915,285	1.8%	$804,619	1.7%
AIG	$828,828	1.6%	$584,692	1.2%
SAFECO	$806,863	1.6%	$734,347	1.5%
The Hartford	$682,950	1.3%	$550,486	1.1%
CNA	$679,818	1.3%	$648,040	1.3%
California State Auto	$588,906	1.1%	$536,295	1.1%
GMAC	$587,283	1.1%	$0	0.0%
Auto Club of Michigan	$584,204	1.1%	$563,607	1.2%
St Paul	$551,295	1.1%	$302,369	0.6%
ERIE	$534,878	1.0%	$504,665	1.0%
Allmerica Financial	$488,501	0.9%	$473,578	1.0%
Top 20 Total	$34,815,435	67.2%	$31,418,565	64.7%
Top 30 Total	$38,788,029	74.8%	$34,953,556	72.0%
Total	**$51,829,652**		**$48,527,098**	
% Change	**6.8%**			

Source: Statutory financial statements and PW estimates.

The Mass Marketing Division provides coverage for preferred and standard auto risks and has expanded its direct-to-consumer programs to 47 states plus Washington, D.C. It continues to strengthen its affinity business, one of the largest such programs and one of the division's original businesses. A fifth call center was added. The Specialty Auto Division features nonstandard auto programs, produced by independent agents, with operations in 30 states. More than two-thirds of AIG's personal-lines business is produced through the Mass Marketing Division. The personal lines group writes business through an eight-member group led by American International Insurance Co.

Included in AIG's auto operations are some sales generated through aigdirect.com, an Internet auto insurance distribution channel, though not on the scale of the affinity marketing program. The company has placed a high priority on developing the Internet channel, but remains conservative in its outlook for the ultimate potential volume of auto policies that can be sold via the Internet. The focus has been on simplifying the application process without compromising the quality of underwriting. Management believes that it is still too early to say for sure whether loss experience on

Internet-generated business is higher than on policies generated through other channels. The extent of the potential for Internet sales volume is the subject of debate throughout the industry and even within AIG. The company is placing increasing emphasis in its overall Internet strategy on business-to-business as well as on business-to-consumer.

In 1999, the Mass Marketing and Specialty Auto divisions boosted voluntary auto premiums by 34%, pushing total net premiums to $1.3 billion and increasing the number of preferred and standard policyholders by 50%. The Specialty Auto Division increased the number of autos insured by 28%. Also in 1999, the company began marketing insurance through MBNA to the bank's customers. Premiums for 21st Century declined because of intense competition in California, the nation's largest auto insurance market. However, 21st Century grew the number of autos insured in Arizona by 37% and doubled the number of policies sold via the Internet.

Exhibit 36: Top 20 California Auto Liability Insurers

Company	1998		1997	
	DPW	Mkt Shr	DPW	Mkt Shr
State Farm	$1,295	15.3%	$1,419	16.2%
Farmers	$1,201	14.2%	$1,279	14.6%
California State Auto	$785	9.3%	$864	9.8%
Allstate	$699	8.3%	$737	8.4%
Interins Exch of Auto	$625	7.4%	$644	7.3%
Mercury General	$620	7.3%	$630	7.2%
21st Century	$536	6.3%	$547	6.2%
USAA	$219	2.6%	$271	3.1%
Progressive	$185	2.2%	$169	1.9%
American Financial	$150	1.8%	$151	1.7%
SAFECO	$142	1.7%	$152	1.7%
Clarendon	$135	1.6%	$70	0.8%
Orion Capital	$130	1.5%	$126	1.4%
Berkshire Hathaway	$127	1.5%	$102	1.2%
Bristal West Ins	$124	1.5%	$142	1.6%
TIG Holdings	$94	1.1%	$79	0.9%
Nationwide	$91	1.1%	$93	1.1%
CNA	$82	1.0%	$74	0.8%
Allianz	$75	0.9%	$39	0.4%
The Hartford	$72	0.8%	$58	0.7%
Top 20 Total	$7,387	87.4%	$7,647	87.1%
Top 30 Total	$7,881	93.2%	$8,230	93.7%
Total	$8,453		$8,784	
% Change	-3.8%			

Source: Statutory financial statements and PW estimates.

Exhibit 37: Top 20 California Auto PPD Insurers

Company	1998		1997	
	DPW	Mkt Shr	DPW	Mkt Shr
Farmers	$742	14.6%	$743	15.3%
State Farm	$741	14.6%	$764	15.7%
California State Auto	$576	11.3%	$537	11.1%
Interins Exch of Auto	$432	8.5%	$367	7.6%
Allstate	$411	8.1%	$386	7.9%
Mercury General	$372	7.3%	$310	6.4%
21st Century	$322	6.3%	$325	6.7%
USAA	$185	3.6%	$178	3.7%
Progressive	$98	1.9%	$66	1.4%
SAFECO	$92	1.8%	$88	1.8%
Berkshire Hathaway	$87	1.7%	$58	1.2%
American Financial	$63	1.2%	$52	1.1%
Nationwide	$56	1.1%	$54	1.1%
Allianz	$52	1.0%	$29	0.6%
GMAC	$49	1.0%	$52	1.1%
Wawanesa	$49	1.0%	$46	0.9%
California Casualty	$46	0.9%	$52	1.1%
Bristol West Ins	$39	0.8%	$31	0.6%
The Hartford	$38	0.8%	$27	0.6%
CNA	$37	0.7%	$30	0.6%
Top 20 Total	$4,488	88.2%	$4,193	86.4%
Top 30 Total	$4,771	93.7%	$4,506	92.9%
Total	$5,090		$4,852	
% Change	4.9%			

Source: Statutory financial statements and PW estimates.

United Guaranty Corp.

United Guaranty Corp. (UGC) is the third part of AIG Domestic General Insurance group. The core product is residential mortgage loan insurance—private mortgage insurance, or PMI—against default on conventional first-mortgage loans on single-family homes as well as on home-equity loans. Mortgage lenders usually require the coverage on first mortgages with down payments of less than 20%. Formed in 1963 and acquired by AIG in 1981, UGC increased operating income by 35.7%, to $301.1 million, in 1999, despite a decline in total U.S. mortgage volume.

UGC's largest subsidiary, United Guaranty Residential Insurance Co., grew its annual new insurance written to $27.2 billion, up 11% from the 1998 total. The unit's 1999 total represents 14.4% of the combined total for the seven active U.S. PMI writers. In aggregate, the seven wrote a total of $188.9 billion of new insurance, up just 0.8% from 1998.

The growth reflects new e-business initiatives aimed at giving mortgage lenders and servicers a streamlined way to transact business via the Internet rather than through dial-up online services. It also reflects new mortgage insurance programs, including RateXchange for borrowers with good credit histories to lower interest rates. UGC also created Centre Capital Group Inc. to create market demand for high-quality niche loans by buying and selling these mortgages to create liquidity for loan programs that need higher levels of insurance coverage.

The company continues to expand internationally. In 1998, it launched E.M.I.-Ezer Mortgage Insurance Co. Ltd. in Israel. UGC also has established a branch in Hong Kong to reinsure loans purchased by the government's Hong Kong Mortgage Corp. The PMI industry in general expects to cultivate growth outside the U.S., especially in Europe, where the concept of insurance to increase the population of eligible first-time homebuyers is just beginning to catch on. In our opinion, AIG's established international presence in many other financial services gives UGC a clear path to exploit this growth potential.

An estimated $950 billion of new home mortgages will be originated in the U.S. in 2000. In 1999, as noted, the PMI industry insured $188.9 billion of new mortgages. The number one and two leaders in this business are Mortgage Guaranty Insurance Corp. and PMI Group Inc., respectively.

Exhibit 38: Private Mortgage Insurance Companies

Companies	1998 DPW	Mkt. Shr	1997 DPW	Mkt. Shr
Mortgage Guaranty Ins Corp	$682,676	34.7%	$644,179	35.7%
PMI Mortgage Guaranty Co [1]	$387,999	19.7%	$348,745	19.3%
United Guaranty Residential	$317,282	16.1%	$304,267	16.9%
Radian Guaranty Inc	$261,782	13.3%	$218,461	12.1%
Republic Mortgage Ins Co	$241,816	12.3%	$222,415	12.3%
Triad Guaranty Ins Corp	$50,060	2.5%	$36,623	2.0%
GE Capital Mortgage Ins	$25,211	1.3%	$30,905	1.7%
Market Total	$1,966,826	100.0%	$1,805,595	100.0%

[1] Includes Commonwealth Mortgage Insurance Company results.

Source: AM Best, Mortgage Insurance Companies of America, and PW estimates.

PMI yields among the most attractive combined ratios in the insurance business—typically in the 60% area. Such an attractive underwriting margin, however, not only leads to more competition, but also makes PMI an easy target for state insurance regulators and consumer activists who view any insurance against minimal risk as potentially predatory.

Indeed, in the late 1990s, the PMI industry, after decades of praise for offering a cheaper alternative to government programs to increase home ownership, came under attack for collecting premiums long after the policyholder's equity surpassed 20%, rendering PMI unnecessary. This led to federal legislation, passed in 1998, mandating cancellation once a borrower's equity reaches a certain level and requiring the insurer to tell the borrower how to cancel the coverage.

The industry's lead trade group, the Mortgage Insurance Companies of America, is responding with a coordinated public relations campaign to repair the industry's image and to refocus attention on the virtues of PMI as a way to encourage new homebuyers to enter the market sooner. This is an important effort for an industry that is subject to the effects of interest rate changes as well. For example, declining rates can pressure this market, because homeowners frequently find when they refinance to take advantage of lower rates, that they have built up enough equity—more than 20% of the property value—not to require PMI. Rising interest also can hurt the industry by slowing home sales and therefore mortgage originations, the best leading short-term indicator for industry performance. Offsetting that is less refinancing and greater renewal premium. United Guaranty has responded in typical AIG fashion to these market conditions. It is developing new products, new efficiencies and new markets around the world. Clearly, in 1999, UGC benefited.

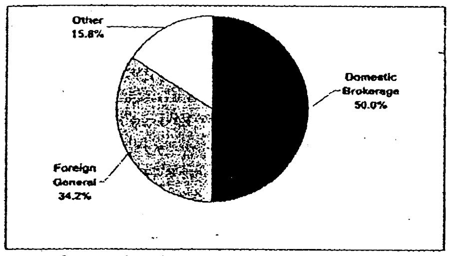
Foreign General Insurance Group

AIG's Foreign General Insurance Group generated 34.2% of AIG's total non-life insurance revenue in 1999, up from 32.9% a year earlier, and 11% of AIG's 1999 pretax income. The group, with operations in more than 70 countries, writes business primarily through American International Underwriters (AIU), the heart of AIG's foreign non-life operations. AIU is a marketing unit that consists of subsidiary agencies and insurance companies, and foreign-based insurance units that write business for their own accounts. The business, including both commercial and personal coverages, generated $5.55 billion of net premiums in 1999, compared with $4.8 billion in 1998. Therefore, Foreign General Insurance is 68% as large as DBG, which, unlike Foreign General, doesn't offer personal lines.

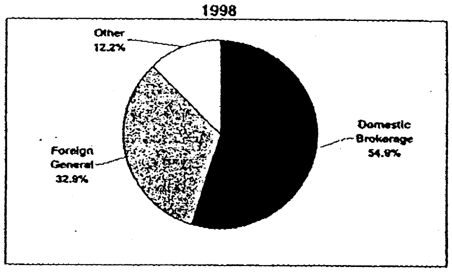
Foreign General's results in 1999 reflected 15.6% growth worldwide, reflecting the full-year consolidation of Transatlantic in 1999 vs. the final two quarters of 1998, and the economic recovery in Asia. Catastrophe losses, however, accounted for 2.4 points of the 1999 Foreign General combined ratio of 94.2%, which was up from 88.6% in 1998. This group includes the foreign business of Transatlantic Holdings, which posted $60 million of catastrophe (cat) losses in the fourth quarter. An additional $23 million of cat losses were reported through AIG. At the same time, however, the spike in foreign catastrophe losses has driven rates sharply higher in lines affected by such losses. Transatlantic derives about half of its business from non-U.S. sources.

Exhibit 39: General Insurance NPW Distribution, 1999 and 1998

1999



1998



Source: Company financial statements and PaineWebber estimates.

AIU serves the non-U.S. insurance property/casualty needs of multinational clients—both U.S. and foreign-based. It also markets to local commercial companies and consumers. AIU divides the world into ten regions for distribution purposes, each with its own president responsible for five product areas: accident and health, energy, personal lines, commercial lines and marine. The division operates under a matrix management system that prevents underwriting excesses, promotes compromise, fosters an entrepreneurial approach, sharpens decision-making, and focuses on results. As with all AIG units, the organizational structure is very flat.

Exhibit 40: Foreign General Insurance Operations

	1999	Diff	1998	Diff	1997	Diff	1996	Diff	1995
Net premiums written	$5,546	15.6%	$4,799	9.8%	$4,370	1.0%	$4,325	2.9%	$4,203
Net premiums earned	$5,461	18.0%	$4,627	13.7%	$4,069	0.9%	$4,033	-1.2%	$4,083
Losses & LAE	$3,519	31.4%	$2,678	16.2%	$2,304	-1.2%	$2,332	-3.9%	$2,428
Underwriting expenses	$1,632	14.4%	$1,427	12.5%	$1,268	-2.7%	$1,303	-4.6%	$1,366
Underwriting profit/(loss)	$310	-40.6%	$522	5.0%	$497	24.9%	$398	37.7%	$289
Loss Ratio	64.4%	6.6	57.9%	1.3	56.6%	-1.2	57.8%	-1.6	59.5%
Expense Ratio	29.8%	-1.0	30.8%	-0.4	31.2%	-0.6	31.8%	-0.7	32.5%
Combined Ratio	94.2%	5.6	88.6%	0.9	87.8%	-1.8	89.6%	-2.4	92.0%
Net investment income	$522	19.2%	$438	18.7%	$369	8.8%	$339	11.0%	$306
Operating income	$832	-13.3%	$960	10.9%	$866	17.5%	$737	20.9%	$610

Source: Company financial statements and PW estimates.

The focus in Foreign General insurance is on launching new products and distribution initiatives stemming from technology advances, increased privatization, growing affluence in emerging markets, infrastructure development, and AIG's global network of financial services. For example, AIG Europe specializes in asset protection for major and multinational companies, along the lines of the services offered through AIG Risk Finance in the U.S., including customized packages of insurance, risk management programs and financing alternatives.

In Japan, as part of an effort to expand distribution channels, AIU formed a joint venture with ORIX Co. Ltd., a Japanese nonbank financial institution, to market AIG products to small to mid-sized companies. In 1997, through American Home Assurance's branch in Japan, AIG also launched the country's first rate-differentiated direct-marketed auto policy. Management indicated that direct auto sales in Japan are 15–20% of the personal auto business, and the market will likely grow faster than in the United States.

AIU traces its roots to the company's inception in 1919, when U.S. Army veteran Cornelius Vander Starr, a former ice-cream parlor owner from California, opened a small property/casualty insurance agency, American Asiatic Underwriters, in Shanghai. The agency started out representing several U.S. insurers offering fire and marine coverages. Mr. Starr entered the life insurance market two years later, setting up Asia Life Insurance Co. to market to the Chinese. After ten years, the organization had offices and agencies across China and had expanded into Hong Kong, Indochina, Indonesia (Jakarta), Malaysia (Kuala Lumpur) and the Philippines. The key to the agency's early growth—a local strategy of hiring, training and promoting indigenous people to manage the operations—was established by Mr. Starr and remains a fundamental principle of AIG's operations worldwide.

Exhibit 41: Estimated International Non-Life Premiums

Location	1998 $, millions	% of Total	1993/1998 Mkt. Gwth
Japan	$2,234.32	32.4%	-4.7%
United Kingdom	$1,580.49	22.9%	7.6%
Europe	$1,051.18	15.2%	3.3%
Other	$2,039.96	29.5%	2.3%
Total [1]	$6,905.94	100.0%	1.7%
International [1]	$6,905.94	33.4%	1.7%
U.S.	$13,778.35	66.6%	3.3%
Total Premiums	$20,684.30	100.0%	2.4%

[1] 1998 AIG International DPW is a PW estimate.

Source: AXCO, Sigma and PW estimates.

Mr. Starr opened AIU offices in 1926 to underwrite American risks abroad as a general agent for U.S. insurers. Just prior to World War II, Mr. Starr moved his headquarters to New York City. He entered the Latin America market in the 1930s, and was poised to take market share in the void left by European insurers hampered by the outbreak of war in Europe. Eventually, AIU's premium volume in Latin America exceeded that in Asia. Soon after World War II, Mr. Starr returned to China, but along with other insurers was forced out of Shanghai in 1950 by the Communist government. The company retreated to its already-established headquarters in Hong Kong.

Not until 1993 did AIG reestablish a licensed presence in China, after decades of working to overcome the opposition of the state-owned monopoly. CEO Maurice "Hank" Greenberg, who took the reins of AIG in 1968 shortly after Mr. Starr's death, leveraged the company's cultural legacy as a historically Chinese company to pave its way back into China. He did this through tireless relationship-building with Chinese leaders beginning before the U.S. established diplomatic relations with China. He also worked to enhance U.S. lawmakers' understanding of China, ultimately clearing the way for AIG to receive the first foreign license to enter the Chinese market. As a result of these efforts and in keeping with its origins, AIG is considered a domestic company and has been grandfathered from restrictions on foreign ownership in China.

In the wake of World War II, AIU established footholds in Japan and Germany, primarily by selling property coverage to American soldiers. The company's presence in Japan positioned it for rapid growth when the country lifted its ban on foreign companies' underwriting general insurance in 1951. AIG is now the largest foreign non-life insurer in Japan, and Japan is now AIU's largest non-U.S. market by a wide margin, with more than 30% of AIG's total foreign non-life premiums in 1998.

Before the war, AIU's European operations consisted of small agencies in Belgium, France and the Netherlands, but tight capacity in the post-World War II insurance market created a market opportunity in Europe that AIU was quick to exploit. The company expanded throughout Europe, and has continued to expand into Eastern Europe in the wake of the fall of the Iron Curtain.

AIU's continuous search for new regional opportunities is part of a long-term growth strategy. At year-end 1999, AIG was granted a general insurance license in Sri Lanka. Just since the beginning of 2000 alone, it has established new beachheads (though presently on the life side only) in India and Vietnam, in keeping with a kind of "crop-rotation" approach to growth that calls for planting seeds in emerging markets that less nimble companies are more cautious about entering. AIU's approach amounts to a mix of speed and patience; the company is quick to get its foot in the door of any new market with potential, no matter how small, and is willing to wait years to see tangible results. It has the confidence to make these moves without forming committees and hiring consultants because of its flat organizational structure and its adherence, through decades of growth, to its original culture as an entrepreneurial enterprise focused on emerging markets.

The recent linkup of AIG and the Tata Group in India is a prime example of how the company approaches emerging-market opportunities in a focused, aggressive manner. Tata, India's largest industrial conglomerate, and AIG plan to set up two separate companies under separate licenses and with separate managements to sell general and life insurance. The arrangement is a role model of the strategy typical of AIG's highly effective approach to non-U.S. markets:

- In 1997, the AIG board of directors appointed the outgoing Ambassador to India, Frank Wisner, as Vice Chairman, External Relations.

- AIG demonstrated its financial might and commitment to India by investing capital for infrastructure development in the country, with the promise of more to come—after its insurance operations are licensed, which is expected in 2001, and firmly established. AIG already had invested $300 million of its $5 billion Asia Fund in telecommunications, information technology, power and transportation projects in the country and plans to raise that amount to $1 billion after it begins its insurance operations.

- AIG established a partnership with a premium local organization, the Tata Group, which has a wide distribution network selling a broad range of products and services, including cars, steel, tea and coffee, and financial services. Tata represents instant access to a commercial-client base as well as a means to distribute personal-lines and life insurance products.

- The company is recruiting and training local talent to run the operations, but with the hands-on support of the parent company in the form of expertise in product design, marketing and expense management as well as in the form of capital.

The India joint venture also exemplifies how AIG adapts existing products to potential niches that can become springboards to broader-based growth in terms of types of coverages and markets for those lines of business. Directors & officers (D&O) liability coverage, a mainstay of AIG's domestic operation, is being pitched to India's hottest industries, including information technology and pharmaceuticals, some of which have succeeded in launching IPOs. Already AIG's India managers are actively cultivating relationships with potential customers whose initial business might be small and narrow, but that may lead to broader coverages years hence.

Two other critical elements drive AIG's success outside the U.S.:

- Unlike most geographically diversified companies, AIG enjoys even less bureaucracy overseas than in the United States. While a flat organization structure is a hallmark of the company, 70 Pine Street, AIG's world headquarters in New York City, allows its far-flung outposts, which are smaller, more streamlined operations, to operate as flexibly and entrepreneurially as possible.

- Very much related to this level of decentralization is a strategy built on AIG's practice of selecting bright, energetic locals to run its start-ups and, equally important, giving these individuals a wide berth to make their own decisions on what needs to be done to succeed. AIG management is known for its willingness to give promising people the latitude they need to win—as well as to change course quickly when a strategy clearly is failing.

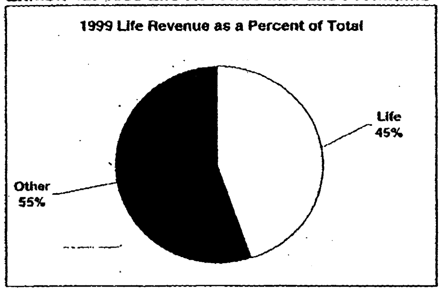
AIG builds these hothouses wherever it sees potential for a market to develop, no matter how far out into the future it might bear fruit. It has seen some slow starts—for example, in some of the former Soviet Bloc countries—but the amount of capital required to establish an outpost is minimal, and the philosophy of establishing relationships well in advance means that to date AIG has never been an opportunistic "Johnny-come-lately" trying to enter a new market. This is one of the benefits of scale; the company's vast size allows it to plan far into the future and to make these commitments without hobbling its current financial results.

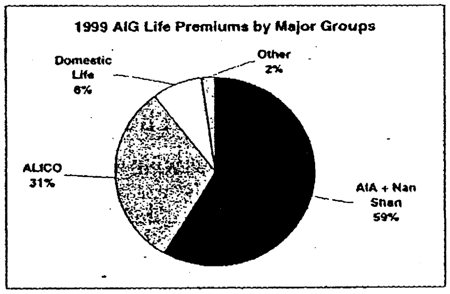
This kind of strategy works for AIG, in particular, because of a unique blend of flexibility and control that can best be characterized as decentralized business management with centralized financial control. Its managers have a free hand with which to build their businesses, but the parent company requires that they closely track their financial performance and cash flow on a daily basis and measure those ongoing results against established targets and benchmarks. As in all of AIG's operations, things usually can't go wrong for very long before top management detects it and acts, even in the smallest corners of the empire.

Life Insurance Operations

Life insurance revenues in 1999 were 44.8% of AIG's total; further, of the company's earnings, 39.6% were derived from AIG's life business compared with 39.2% in 1998. And until the acquisition last year of SunAmerica Inc., the vast majority of AIG's life insurance revenue originated outside the U.S. and was concentrated in a relatively small number of countries, as shown in Exhibit 42. In turn, the vast majority of life revenue comes from Asia and the Far East, with Japan and Taiwan representing the company's two largest single-country sources of revenue.

Exhibit 42: 1999 Life Revenue and Life Premiums





Source: Company financials statements and PaineWebber estimates.

In 1999, pretax income before realized capital losses for AIG's global life operations rose 22.8%, to $3.01 billion from $2.45 billion in 1998. Domestic life operating income before realized capital gains in 1999 totaled $1.062 billion versus $782 million in 1998 (restated to include SunAmerica results).

Premium income rose 16% in 1999, to $11.94 billion from $10.29 billion. Life insurance net investment income rose 19.3%, to $6.21 billion from $5.20 billion. In 1998, prior to restatement to reflect the SunAmerica acquisition, non-U.S. sources generated 92.8% of AIG's life premium income and 91.7% of pretax operating income. In 1999, those numbers shifted to 92.1% and 64.7%. SunAmerica was pooled in 1998 so this is an apples-to-apples comparison, reflecting the high growth in SunAmerica's fee and spread income stream from retirement products. Before SunAmerica, AIG's U.S. life operations generated $150 million of operating income in 1998.

With SunAmerica on the team, AIG's global life strategy takes on a new dimension, the ultimate potential of which is hard to estimate because of the many "soft" variables relating to competitor response, savings trends in emerging economies, and regional political and economic stability. Clearly, however, SunAmerica gains tremendous competitive advantages by virtue of AIG's top credit ratings and global presence, and we expect AIG to ultimately see its ROE benefit as a result. At the same time, SunAmerica's international growth potential will be enhanced by AIG's command of the nuances of local markets, unparalleled international distribution, and hands-on day-to-day management approach to sales, marketing and product innovation. So far, this appears to be one of those rarities in which two plus two really can equal five, and not simply because of one-time cost reductions. Indeed, employment at SunAmerica has risen since it became part of AIG.

Exhibit 43: Five-Year Summary of AIG's Life Operations

	1999	% Chg	1998	% Chg	1997	% Chg	1996	% Chg	1995	% Chg
Premiums										
Domestic[1]	$947.0	20.8%	$784.0	34.5%	$583.0	9.0%	$535.0	15.3%	$464.0	25.4%
Foreign	$10,995.0	15.6%	$9,509.0	1.5%	$9,373.0	11.0%	$8,443.0	11.5%	$7,575.0	19.2%
Total	$11,942.0	16.0%	$10,293.0	3.4%	$9,956.0	10.9%	$8,978.0	11.7%	$8,039.0	19.6%
Earnings										
Domestic[1]	$1,062.0	35.8%	$782.0	23.7%	$632.0	532.0%	$100.0	69.5%	$59.0	55.3%
Foreign	$1,944.0	16.8%	$1,665.0	16.8%	$1,425.0	19.8%	$1,189.0	19.0%	$999.0	20.7%
Total	$3,006.0	22.8%	$2,447.0	19.0%	$2,057.0	59.6%	$1,289.0	21.8%	$1,058.0	22.2%
Assets										
Domestic	$72,358.0	31.9%	$54,869.0	10.3%	$49,729.0	N/A	N/A	N/A	N/A	N/A
Foreign	$56,339.0	15.6%	$48,742.0	28.2%	$38,018.0	N/A	N/A	N/A	N/A	N/A
Total[2]	$128,697.0	24.2%	$103,611.0	18.1%	$87,747.0	21.4%	$72,275.0	20.2%	$60,125.0	74.3%

[1] 1996 and 1995 data are not restated for the SunAmerica acquisition.

[2] 1995 % chg is computed using 1994 life assets that have not been restated for the SunAmerica acquisition.

Source: Company financial statements and PaineWebber estimates.

International Life Insurance

AIG's international life insurance operations represent one of the company's greatest sources of long-term revenue and earnings growth potential. In Asia alone, it has about 115,000 agents. Two key elements power this growth potential. First, favorable regulatory and economic changes are sweeping through the non-U.S. markets where AIG over the past several decades has worked hard to establish and maintain a presence. Second, the acquisition of SunAmerica provides AIG with a proven platform for quickly launching innovative retirement-saving products that are just now catching on, especially in the Asian and Far Eastern countries where AIG's penetration is deepest.

Finally, a potentially significant source of growth for AIG lies in liberalization of foreign ownership rules in certain countries. AIG already owns controlling stakes in the vast majority of its foreign operations. It generally favors 100%-owned branches. With liberalization, however, AIG could decide to take advantage of opportunities to acquire additional properties in addition to buying the portion of any overseas investment and joint venture it does not already own 100%.

AIG's ability to buy in outstanding shares of joint ventures would depend on the local partner's interest in maintaining a long-term insurance market presence. We would expect that in Brazil, for example, Unibanco would not sell AIG the other half of its joint venture because Unibanco is a major player in the bancassurance market. However, in countries like India where AIG is partnering with an industrial company that may have less long-term interest in the business, there could be the potential to eventually increase the level of investment if rules are liberalized to allow more than the current 26% ownership.

It should be noted that AIG's international business is relatively concentrated. One reason the company has such outstanding growth opportunities is that 65% of its pure life business today comes from only four countries—Japan, Taiwan, Hong Kong and Singapore (although its deposit premium and premium products are more diversified). Markets like India, China and Indonesia barely show up on the radar screen, but should be important growth drivers in the future.

Exhibit 44: Estimated International Life Premiums

Location	1998 $, millions	% of Total	1993/1998 Mkt. Gwth
Japan	$2,234.32	23.5%	-3.5%
Taiwan	$2,203.21	23.2%	9.4%
Hong Kong	$1,138.80	12.0%	21.7%
Singapore	$836.65	8.8%	18.4%
Thailand	$628.00	6.6%	-0.4%
Other	$2,468.30	26.0%	9.9%
Total	$9,509.3	100.0%	3.4%
International	$9,509.3	92.8%	3.4%
U.S.	$737.4	7.2%	8.2%
Total Premiums	$10,246.67	100.0%	4.6%

Source: AXCO, Sigma and PW estimates.

American Life Insurance Co. (ALICO) operates in approximately 50 countries, including Japan, Europe, the Middle East, South Asia, Latin America and the Caribbean, through approximately 24,000 licensed agents and brokers, an increase of 2,000 from a year earlier, reflecting greater emphasis on hiring and training in Japan. ALICO's products include traditional life, accident and health, and group insurance for large and small organizations, pensions and annuities. Notably, in select markets in 1999 where AIG name recognition is high, ALICO began to co-brand its products as "AIG Life." This appears to be the first step in what may become a long-term strategy of global branding.

ALICO's largest volume of premium comes from Japan, where we estimate that AIG wrote more than $2.2 billion of life premiums in 1998, making it the second-largest foreign company in the market and about half the size of AFLAC, the dominant foreign life/health insurer in Japan. In 1999, ALICO posted double-digit premium growth in Japan, helping ALICO as a whole to report a 15.6% rise in premium income for the year, to approximately $2.5 billion. Management has indicated that the rate and form approval process has improved recently under Japan's market liberalization, which should benefit AIG over time because of its ability to quickly develop and market new products. The slow approval system has until now benefited the least innovative insurers at the expense of the more entrepreneurial.

Market share of all foreign companies in Japan is relatively low due to governmental restrictions on sales by non-Japanese insurers. The vast size of the market helps compensate; the Japanese are prolific buyers of life insurance products, with total life assets estimated at $1.6 trillion at the end of 1998. Japan has a life insurance penetration rate of 11.71%, far higher than the U.S. and making Japan the largest life insurance market in the world.

ALICO was one of the first foreign insurers to be licensed in Japan, and its reputation for innovative products, along with its AAA credit ratings during a period of recession and extreme stress on the financial system, has contributed to its ongoing growth during a period in which the market shrank 13.3% in 1998 from 1997. ALICO's business mix is about two-thirds whole life and one-third accident and health coverages.

How well SunAmerica products will penetrate this market is hard to determine, but AIG is staging a marketing effort aimed at positioning ALICO as "The Retirement Specialists." A bill is pending that would allow group defined contribution plans for the first time beginning in 2001. This is expected to boost mutual fund sales, similar to the development of the 401(K) market in the U.S. Individuals in some occupations in Japan receive lump-sum pension payouts on retirement, making them natural customers for an annuity product. A major selling point is the company's AAA ratings, which helps in convincing Japanese savers to trust their capital to these kinds of products. The Japanese generally are gun-shy about insurers in the wake of recent company failures and policy-churning by producers. In addition, defined contribution products will have to penetrate Japanese risk aversion.

Another outstanding issue in Japan is the extent to which bankrupt insurers will be allowed to retroactively cut guaranteed crediting rates on *existing* policies, though the possibility of widespread retroactive cuts is considered slight. Such a trend, however, would erode the element of trust implicit in insurance, which would be detrimental to market growth. While AIG's unblemished reputation of stability and financial strength should enable it to grow, and especially to grow relative share, despite these factors, an increasing confidence in the insurance product would allow faster market penetration by SunAmerica. Therefore, we considered the issue of consumer trust in the insurance industry as a variable in our growth forecasts for Japan.

American International Assurance Company, Ltd. (AIA) is the leading life insurer in Southeast Asia. Subsidiaries, branches and affiliates operate in China, Thailand, Malaysia, Singapore, Hong Kong, Indonesia, Brunei, Macao, South Korea, Australia and New Zealand. Thailand alone has 28,000 career agents and posted a 48% increase in first-year premiums in 1999. In China, at year-end 1998, AIA also had offices in Shanghai and Guangzhou, and by year-end 1999, it employed nearly 9,000 agents in those two cities. During 1999, Foshan became the third Chinese city in which AIG has wholly owned life and non-life insurance operations. The company's Shenzhen office opened early this year (see People's Republic of China overview in Appendix 1).

With these additional cities, AIA now has approximately 10,000 agents in China. Even before Shenzhen, AIA was well along in the process of preparing to open for business in these markets. Practically from the day its license was granted, Shenzhen, for example, was up and running. In the agent recruiting process, the company brings in candidates from other cities throughout China, anticipating one day being licensed to operate in those cities as well. If and when that day comes, AIA will have trained locals ready to return to their hometowns to cultivate new markets. AIG anticipates receiving ten new licenses in the next two years, if World Trade Organization (WTO) membership is approved.

Based on our discussions with management, we anticipate that AIG's volume in China is likely to rise some tenfold over the next decade, from a current 2000 base of about more than $250 million of premium. Opening of the two new markets in 1999 and 2000, as many as ten new licenses in the next few years if WTO passes, an estimated long-term 7% GDP growth rate, and a rapid increase in the insurance penetration rate from today's 1.5% will be the drivers of this change.

Demand for life insurance in China is expected to grow faster than GDP for many reasons, including:

- The need for private insurance savings to supplement and replace the rapidly diminishing state-owned enterprise "pay as you go" benefits;
- The impact of the one-child policy on the ability of children to care for their elders in the traditional manner;
- Rapid population migration to the cities (China's eastern cities are experiencing approximately 65% growth due to migration each year). Urban markets have a critical mass of salaried workers with an income to protect;
- The attractiveness of insurance as a savings vehicle has increased dramatically due to lower inflation rates, the advent of participating policies beginning in 2000, and the ability of insurers to invest in equities, also beginning in 2000. We anticipate that other asset classes will be added fairly soon;
- The development of agency sales, which is educating Chinese consumers about the benefits of the product.

In addition, China has begun issuing longer-term bonds, which has helped to significantly reduce the asset-liability mismatch issue insurers were faced with when they were allowed to invest in only very short-term securities such as bank deposits.

In general, the Chinese are instituting product reforms quickly, being very forward-looking in understanding the importance of insurance to an economy, its potential use for capital investment, and its other beneficial social effects. Because AIG has been in China so long and has so much experience selling in those markets, we believe it is likely that AIG will be competing more with Chinese insurers such as Ping An than with U.S. and European insurers.

We believe the major variable in China is normalization of U.S./Chinese trade relations and U.S. ratification of the WTO agreement. While we expect AIG to obtain more licenses relatively soon under almost any scenario short of China engaging in war with Taiwan, the pace of expansion will be affected by the outcome of the trade/WTO issues. Management has indicated that its growth is not constrained by hiring and training needs, as it begins that process long before licensing. Therefore, licensing is the critical constraint.

Nan Shan Life Insurance Co. is the second-largest life insurer in Taiwan, the third-largest market in Asia at $14.6 billion of premiums. With 38,000 agents, AIG is a major writer of all life coverages. In personal accident coverages, the most popular form of life/health insurance, AIG has approximately one-quarter of the total market share. In life coverages, where endowment policies predominate, AIG was the third-largest writer in 1996, with a 16% market share.

The total Taiwanese life market has grown by an average of 18% over the past decade. AIG grew 10% in 1999 and surpassed its next-largest rival in 1998 in overall market share, despite the lingering shadow of the Asian crisis. Today, the company is second only to Cathay Life in total share. Life insurance penetration in Taiwan is only 3.98%. In addition, minimum capital standards have been raised sharply, making consolidation likely. This is a market in which we believe AIG may make acquisitions or at least take share from others.

Philippine American Life and General Insurance Co. (Philamlife) is the largest life insurer in the Philippines. It has extended its market reach via direct mail, telemarketing and bancassurance, and expanded its personal lines business in auto. PhilamLife maintains more than 150 offices throughout the country with at least 6,000 agents, and controls more than 30% of the Philippines life insurance market—by far the largest market share. Yet market penetration is the Philippines is only 0.7%, with plenty of room to expand. PhilamLife is a leader, particularly in the individual life and employee benefit markets; personal accident is a line presenting significant opportunity. PhilamLife's reputation is deliberately local, as is the case with many of AIG's non-U.S. operations.

Also in 1999, AIG agreed to acquire 70% of Lippo Life, renaming it **AIG Lippo Life**, in Indonesia, to sell life, pension and health products through multiple channels. Lippo was the third-largest life insurer in Indonesia in 1997, with premium volume of approximately $185 million and a market share of 14.8%. Therefore, we estimate that in terms of importance to AIG, Lippo will be about the same as PhilamLife. AIG and Lippo combined should be the largest life insurer in Indonesia. The Indonesian market has great long-term potential, with an estimated population of more than 200 million, more than two-thirds the size of the United States. Despite strong double-digit growth of the life insurance market throughout its "Asian Tiger" period, this country, more than any other, is struggling to recover from the currency crisis, and suffers from a depleted economy and mistrust in financial institutions. In addition, Indonesia is a challenging market, comprising a polyglot population spread over a vast archipelago speaking more than 500 languages and dialects. However, the population is relatively concentrated and life products were deregulated in 1999 to allow 20% of assets to be invested overseas. AIG expects to grow 20% annually in Indonesia. Therefore, AIG's investment here may not lead to quick organic growth but represents a major stake in an important long-term market.

Outside Asia: Units of AIG, AMPLICO Life and ALICO, launched a pension company in Poland last year to take advantage of the newly privatized social security system, and have already sold products to 900,000 people in the initial enrollment period. Also last year, the company launched AIG Life Bulgaria, marketing through Bulgaria Post Bank, in which AIG has a major investment. Along with AIG Life Romania, the company views these two countries as particularly promising growth prospects.

ALICO also saw strong profit growth in its guaranteed-investment bond product line in the United Kingdom. Results also were good in AIG VIE's primary lines in France. AIG views the rest of Western Europe as a strong location for future growth, partly because of the banking system's open architecture, making it easier for consumers to invest in all manner of products. The company believes Italy is one of the most promising locales because pension privatization is driving rapid growth of the life product as a savings vehicle in that country.

In Latin America, ALICO expanded its marketing efforts through its 50% joint venture with UniBanco Seguros, including a successful effort to cross-market pension products to multinational clients in Brazil. Brazil is Latin America's largest market; management believes AIG will also continue to grow its accident and health and related products rapidly in this country.

Unibanco is the third-largest insurer in Brazil, with a major branch network selling personal accident and other bancassurance products. The joint venture with Unibanco is a major reason for AIG's 27% growth in accident and health business in 1999. Among Unibanco's popular offerings is a variation of an insurance savings scheme (capitalizacao), which includes a lottery feature awarding a prize such as a car or an apartment.

Individual life and retirement products are not popular in the Brazilian market due to tax disincentives and a history of inflation and high interest rates. However, AIG is seeing some improvement as the economy has begun to stabilize, and at some point, if the necessary tax law changes were made, this could be a very important market for SunAmerica. With an aging population and a strained social security system, there is a long-term incentive for pension reform to take place in Brazil.

Finally, in 1999, AIG formed, through AIA, a joint-venture company with the Tata Group, India's largest industrial organization. India passed the Insurance Regulatory and Development Authority (IRDA) bill in December 1999, deregulating its market and allowing foreign ownership of up to 26% of insurers, formerly a state-owned industry. AIG plans to introduce an extensive menu of insurance products when it commences operations in late 2000 or early 2001. In addition, AIG has earmarked close to $1 billion for investment in India through its Asia Infrastructure Fund. The company also runs the India Sectoral Equity Fund in a partnership with India's Infrastructure Leasing and Financial Services, a $110 million commitment. In total, no other company is making as significant a commitment to India. The chief executive officer of AIG's Indian operations, Dalip Verma, indicated recently that the company is targeting $500 million of premium volume in five years.

Domestic Life Operations

AIG's Life Companies: Prior to the acquisition of SunAmerica, AIG's life companies included **AIG Life Insurance Co.** (AIG Life), **American International Life Assurance Company of New York** (AI Life), **Delaware American Insurance Co.** and **Pacific Union Assurance Co.** The domestic life business is marketed primarily through AIG Life and AI Life of New York. Slightly more than half of AIG Life's business and a higher proportion of AI Life of New York's business were in the form of annuities in 1998. The dominant distribution channel has been an independent general agency system. AI Life of New York distributes mainly through brokers and general agencies and provides life coverages as a supplemental service through general insurance units American Home Assurance and American International Underwriters.

AIG's life companies saw strong sales in 1999 in annuity, pension, accident and health, variable and employee benefits products, and introduced new products, including variable terminal funding annuities, vision care programs and critical illness coverage.

With these companies and now SunAmerica, the product mix also includes a much higher proportion of annuities and financial and investment products, including single-premium annuities, variable annuities, guaranteed investment contracts and universal life. AIG was the 13th ranked life insurer domestically before acquiring SunAmerica, and the company was building its presence rapidly—especially in the annuities area—with a 1994-98 compounded annual growth rate of approximately 16%.

AIG's Asset Management Group, created after the acquisition of SunAmerica, is a unit of SunAmerica and includes the investment management businesses of AIG, SunAmerica and John McStay Investment Counsel, as well as AIG's own direct investment funds. AIG now treats this as a fourth revenue segment, which is discussed in greater detail elsewhere in this report.

SunAmerica Inc.: SunAmerica Inc., which AIG acquired for about $18 billion in a pooling-of-interests transaction effective January 1, 1999, is a leader in one of the country's fastest-growing markets: retirement savings. In 1998, its last year as an independent company, SunAmerica earned fees or investment income on approximately $110 billion of assets. In its 1998 fiscal year (ended September 30), SunAmerica's total sales increased 60%, to $8.5 billion, powered by improving fund performance and broker-dealer network effectiveness.

SunAmerica posted a spectacular 43.4% rise in 1999 operating income, to $1.12 billion. As a retirement-products manufacturer and marketer, the company reports its results through both the Life Insurance and Asset Management segments. SunAmerica's operating income represented 2.4% of AIG's total operating earnings.

The SunAmerica major life companies are **Anchor National**, **SunAmerica Life**, **SunAmerica National**, and **First SunAmerica**. As a group, they collectively rank among the largest issuers of fixed and variable annuities and guaranteed investment contracts in the United States. SunAmerica Asset Management Corp. manages a family of 25 retail mutual funds. Mutual fund assets alone reached $6 billion by the end of 1999, versus just $2 billion in 1995 before the company began to build a new management team focused on hiring top money managers.

The engine behind SunAmerica's growth is a collection of mutual fund and annuity products that over the past three years has been particularly well placed competitively. The key products are the Style Select Funds, which combine exceptional investment performance with simplicity to generate strong sales. The Dogs of Wall Street fund also has been a strong performer, which the company attributes to a skilled management team put in place over the past three years.

Exhibit 45: Top 20 Companies Ranked by 1999 Variable Annuity Sales

	1999		1998		1997	
Company	**Sales**	**Mkt Shr**	**Sales**	**Mkt Shr**	**Sales**	**Mkt Shr**
Hartford	$10,586	8.8%	$9,873	10.0%	$9,734	11.0%
TIAA - CREF	$9,289	7.7%	$8,186	8.3%	$7,097	8.1%
American Skandia	$6,759	5.6%	$4,121	4.2%	$3,731	4.2%
Equitable	$6,346	5.3%	$5,379	5.4%	$4,003	4.5%
American General	$6,087	5.0%	$5,421	5.5%	$4,880	5.5%
Nationwide	$5,857	4.9%	$5,726	5.8%	$4,978	5.7%
AIG/SunAmerica	**$5,828**	**4.8%**	**$4,126**	**4.2%**	**$3,101**	**3.5%**
Pacific Life	$4,573	3.8%	$2,160	2.2%	$1,850	2.1%
Lincoln Financial	$4,392	3.6%	$3,155	3.2%	$3,170	3.6%
Travelers Life	$4,088	3.4%	$2,631	2.7%	$1,836	2.1%
Met Life	$4,002	3.3%	$2,899	2.9%	$2,687	3.1%
ING Group	$3,511	2.9%	$2,586	2.6%	$1,236	1.4%
Manulife	$3,462	2.9%	$2,409	2.4%	$2,091	2.4%
Prudential	$3,417	2.8%	$3,261	3.3%	$2,615	3.0%
AEGON	$3,402	2.8%	$0	0.0%	$0	0.0%
Aetna Life	$2,844	2.4%	$2,352	2.4%	$2,465	2.8%
Allmerica Financial	$2,705	2.2%	$3,172	3.2%	$2,370	2.7%
AllState	$2,698	2.2%	$1,865	1.9%	$1,934	2.2%
GE Life Insurance Company	$2,647	2.2%	$908	0.9%	$0	0.0%
Sun Life	$2,552	2.1%	$2,112	2.1%	$2,177	2.5%
Top 20	$95,045	78.7%	$72,342	73.2%	$61,954	70.3%
Total Industry	$120,700	100.0%	$98,800	100.0%	$88,100	100.0%

Source: VARDS.

The SunAmerica Financial Network is the largest network of independent financial planners in the United States. The network consists of six broker-dealers, with representatives operating in all 50 states: Advantage Capital Corporation (Houston); FSC Securities (Atlanta); Royal Alliance Associates (New York); Sentra Securities Corporation (San Diego); Spelman & Co., Inc. (San Diego); and SunAmerica Securities (Phoenix). The network currently has 9,000 representatives and hopes to expand that number to 15,000 by 2003. Since SunAmerica's acquisition by AIG, the number of representatives has declined from 9,700 at year-end 1998 because SunAmerica stopped counting or eliminated low-performing producers whose numbers reflected insignificant or even nonexistent production. Despite the nominal drop in the population of broker/dealers, however, production rose 16% in 1999, to $900 million in revenue. Accordingly, business produced per representative rose 25%.

Exhibit 46: Top 20 Fund Families Ranked by 1999 Percentile Performance

Fund Family	Total Net Assets	Average Return	Percent. Perf.	U.S. Stk Funds	Int'l Funds	Balanced Funds	Taxable Bnd Fnds	T-Exempt Bnd Fnds
Janus Capital	$163,817	55.7%	18.78	1	6	2	23	74
Strong Capital	$23,203	32.8%	20.18	4	2	17	9	12
Sit Investment	$1,780	37.9%	21.41	2	17	4	26	68
Fortis Advisors	$3,425	32.3%	26.36	3	10	5	63	63
Morgan Stanley DW	$9,791	31.3%	28.03	6	74	15	3	17
SunAmerica	**$4,486**	**29.7%**	**28.92**	**5**	**56**	**3**	**20**	**46**
Credit Suisse	$8,590	40.7%	30.33	7	16	20	37	32
AIM Advisors	$102,734	31.1%	30.49	8	15	19	34	16
Washington Mutual	$6,765	25.7%	32.71	9	20	27	30	71
American Century	$93,295	21.0%	34.20	11	5	36	82	27
Putnam Investment	$225,814	28.2%	36.21	15	8	51	25	51
Van Kempen	$43,538	20.9%	37.91	12	76	1	56	61
Atlas Advisers	$1,069	20.0%	37.99	10	12	92	33	78
Stein Roe & Farnham	$7,771	22.3%	38.42	16	57	35	18	35
Phoenix Invest.	$13,489	22.4%	39.27	13	86	47	7	58
Guardian	$4,749	25.4%	39.58	14	36	32	74	50
Waddell & Reed	$23,474	24.2%	40.18	28	9	6	21	83
Invesco Funds	$18,755	28.7%	41.02	17	50	79	17	41
First Investors	$3,843	12.0%	41.21	21	66	24	10	53
MFS Investment	$85,595	24.9%	42.31	18	45	77	32	45

Source: Barron's.

SunAmerica's primary revenue sources are the following:

- Investment income from the spread between income collected on invested assets and interest paid on fixed annuities and other interest-bearing liabilities, including guaranteed investment contracts;
- Variable annuity fees; net retained commissions from the sale of nonproprietary investment products by SunAmerica broker-dealers;
- Early-withdrawal surrender charges on fixed and variable annuities; and
- Fees from asset management, loan-servicing and trust administration.

As its size builds, SunAmerica's domestic growth rate will naturally slow from last year's 43% increase in operating income, but the company, in an innovative relationship with its new parent, is positioning itself to grow outside the U.S. in partnership with AIG's overseas life insurers. In 1999, the company created a division for this purpose, AIG Asset Management International, and began designing variable annuities specifically for sale in selected Asian markets.

These annuities are modeled after the company's successful Style Select and SunAmerica Polaris annuities. As mentioned above, they have been launched in Japan and Hong Kong and are slated for launch in Singapore during the second quarter of 2000. In this coordinated international effort, SunAmerica is taking the narrower role of product manufacturer, essentially leaving the marketing to AIG's already extensive and well-established distribution networks, which include over 10,000 agents in Japan, 9,000 in Hong Kong and 8,000 in Singapore. The annuities' underlying investment portfolios are registered in Dublin, Ireland, allowing investors to buy the products under several pricing options and to choose among the funds. Having these products registered offshore also shortens the time it takes to introduce them.

SunAmerica products should play well in countries where wealth protection is a growing concern because of increasing affluence and privatization of retirement programs. Down the road, countries such as Taiwan and China, where AIG has an important market presence already, should present sizeable opportunities for SunAmerica. In these countries, insurers currently can essentially invest only in local securities and with other significant restrictions. For example, in Taiwan, there has been a ceiling of 10% of assets in foreign securities, and in China, participating policies and investing in anything other than bank deposits—including equities—was forbidden. The Taiwanese have just raised the ceiling on foreign assets, and in China, up to 5% of assets may now be invested in equities with participating-type policies now permitted. Management expects this trend of liberalization to continue around the world; for example, China appears likely to permit investment in mortgages, infrastructure projects, and even direct loans to business.

The company also stands to grow from being able to sell retirement products through AIG's relationships with banks, including its Swiss private bank, as AIG presses forward aggressively with its asset accumulation efforts in Europe. We understand that AIG has been successfully targeting high-net-worth clients in Europe and sees this as an important growth market.

SunAmerica faces formidable competitors, such as Hartford Life and Sun Life Assurance of Canada, both in the U.S. and abroad. Massachusetts Mutual, Citigroup, New York Life and MONY are all building offshore operations to sell variable universal life and variable annuity products outside the United States. However, SunAmerica has considerable advantages as part of AIG in the race for growth in Asian annuity sales: an army of established local AIG agents in Asia, an already dominant market position, triple-A ratings, a uniquely sophisticated understanding of local market requirements, and the customers' perception of AIG as a local company.

Singapore, Hong Kong and Japan all make for good starting points for the SunAmerica strategy. AIG already has deep market penetration in Singapore, where Central Provident Fund benefits are paid out in a lump sum at retirement and usually annuitized in the private market. The new Mandatory Provident Fund in Hong Kong—where AIG is now the territory's largest life insurer—requires that employers and the self-employed set up specific private retirement savings plans to begin accepting contributions by December 1, 2000, creating tremendous new growth potential for insurers. In Japan, where AIG does its largest volume, defined contribution plans are on the way in 2001 and a prohibition against testamentary inheritances is making offshore annuities an attractive alternative for transferring wealth to survivors.

AIG has no immediate plans to rush into additional markets with SunAmerica products. The strategy is to see how the product launches fare in the first three countries before deciding if, when and where to expand. Taiwan would be an obvious candidate because of the size of the market, its liberalizing insurance investment rules, and AIG's current penetration, but tax laws would have to change before SunAmerica retirement products become viable there.

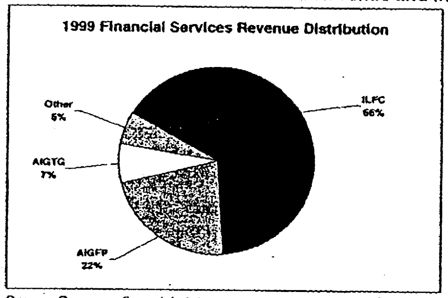
From a regulatory perspective, India, China, Singapore and Malaysia are all poised to see insurance industry growth, especially for foreign companies. India will allow foreign investment in the industry, with AIG's joint venture with the Tata Group expected to be licensed in fall 2000 or spring 2001. Singapore and Malaysia have made moves to increase competition in their insurance markets, with Singapore recently removing its 49% ceiling on foreign investment, which would permit AIG to look at acquisitions in that market.

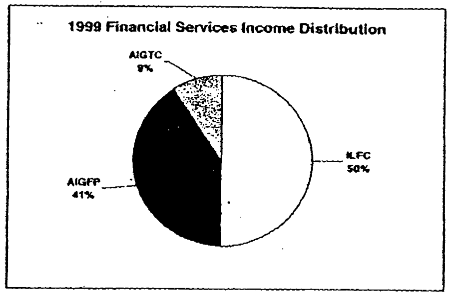
While these actions may mean more competition than AIG was used to, they also mean more opportunity for AIG in markets where it has a lesser presence. In those developing markets AIG already has penetrated, an increasing number of competitors should coincide with a growing insurance market. The risk is more players entering the market than it can support, in which case, profit margins would come under pressure. However, this scenario appears unlikely in key markets due to government controls over the pace of market liberalization. In addition, AIG's formidable cultural, organization, political and market advantages suggest that it is not seriously threatened by additional competition in markets with good growth prospects.

AIG Financial Services

AIG Financial Services is a collection of worldwide operations that complement AIG's core insurance operations. It is the combination of these businesses that we believe justifies us viewing AIG to be as much a global investment banker as anything else. All of these businesses actively feed into and off of one another and often are synergistic with AIG's insurance operations as well.

Exhibit 47: 1999 Financial Services Revenue and Income Distribution





Source: Company financial statements and PaineWebber estimates.

In 1999, the Financial Services group had operating income of $1.08 billion, 14.9% of AIG's total. This was an increase of 24.4% from the 1998 level of $868.9 million, which, in turn, grew at a faster 30% clip from 1997.

The three major segments are:

- International Lease Finance Corp. (ILFC).
- AIG Financial Products Corp. (AIGFP).
- AIG Trading Group Inc. (AIGTG).

International Lease Finance Corporation

The group's single biggest revenue source is International Lease Finance Corporation (ILFC), the world's largest lessor and remarketer of advanced-technology commercial jets, both new and used, to airlines. Its 1999 revenue of $2.19 billion accounted for nearly two-thirds of the group's total, yet ILFC maintains a total staff of only 95 people. ILFC's operating earnings were 54.6% of total Financial Services earnings in 1999, or 8.1% of AIG's total.

ILFC's revenue grew 9.6% in 1999, up slightly from the year-earlier growth rate of 7.8%. Operating profit rose 19% versus a 29.6% increase in 1998. The total portfolio of aircraft stood at 448 (359 owned and 89 managed), up 8.7% from the 1998 year-end total of 412 (352 owned and 60 managed). The bigger jump in managed aircraft reflects increasing investor interest in securities backed by aircraft.

Exhibit 48: Financial Services Operations

	1999	Diff	1998	Diff	1997
Comm.+Other Fees	$3,340	9.7%	$3,044	0.1%	$3,042
Interest Revenue	$1,381	14.8%	$1,203	21.3%	$992
Interest Expense	$2,042	11.3%	$1,835	9.1%	$1,682
Depreciation Expense	$743	12.2%	$662	1.8%	$650
Operating Income	$1,081	24.4%	$869	29.5%	$671
ILFC	$590	19.0%	$496	29.6%	$382
AIG Financial Products	$482	49.4%	$323	34.0%	$241
AIG Trading Group	$109	-11.4%	$123	-2.4%	$127
Capital Expeditures	$3,453	6.8%	$3,233	-8.0%	$3,515
Assets	$66,567	12.4%	$59,198	15.8%	$51,110

Source: Company financial statements and PaineWebber estimates.

ILFC, which AIG acquired in 1990, benefited in 1999 from a rebound in Asian business, growth in the Middle East, and sustained strong demand in Europe and North America. ILFC is also capitalizing on a trend among airlines to increasingly favor leasing over owning. The world's aircraft fleets currently are 20% financed through operating leases; that proportion is expected to reach 30% by 2004. Management notes that AIG's other lines of business gain from ILFC's worldwide presence.

In 1999, 88.5% of ILFC's flight equipment rental revenue was derived from foreign airlines. Wherever ILFC has customers, AIG's insurance and financial operations have an automatic source of leads as well as an organizational presence and acceptance.

Exhibit 49: ILFC's Customers—A Representative List

Alaska Airlines	Asiana Airlines	LANChile
America West	Austrian Airlines	Lotus Air
Continental Airlines	Avianca	Lufthansa
Frontier Airlines	BWIA	Mandarin Airlines
JetBlue	Caledonian	Mexicana
National Airlines	Canadian Airlines	Olympic Airways
Southwest Airlines	Cathay Pacific	Oman Aviation
TWA	China Airlines	QANTAS
Aer Lingus	China Eastern	Royal Jordanian
Aeroflot	China Northwest	Sabena
Aeromexico	China Southern	Shanghai
Air Afrique	China Southwest	Shenzhen
Air Canada	China Colours	Sichuan Airlines
Air Europa	Garuda Indonesia	Spanair
Air France	Hapag-Lloyd Flug	Swissair
Air Jamaica	Dragonair	TAP Air Portugal
Air Macau	Iberia	Transavia
Air Madagascar	Icelandair	Transbrasil
Air New Zealand	Kenya Airways	Varig
Air Seychelles	KLM Royal Dutch	VASP
Air Vanuatu	L'Aeropostale	Virgin Atlantic
Alitalia	Lithuanian	Yemenia

Source: Company financial statements and PaineWebber estimates.

ILFC, which created the aviation operating-lease market, is the largest aircraft lessor in the world, as measured by fleet value, and its fleet, with an average aircraft age of 3.84 years at year-end 1999, is the industry's youngest. Its largest competitor is GE Capital Aviation Services, a company with global advantages similar to those of ILFC. As a whole, the expectation of growth in operating leases has attracted investors to securitized bonds of aircraft investments. ILFC has benefited from this trend by being able to more easily increase the number of managed aircraft—in one recent case, for example, through the sale of 27 aircraft to Morgan Stanley Aircraft Finance.

The driver behind this business is expected growth in air traffic because of the integration and growth of economies throughout the world. The worldwide fleet of passenger planes is expected to nearly double to about 19,000 in 2018 (growing slightly less than 4% annually); freighter business is expected to grow at a somewhat faster pace, more than doubling to 3,400 planes by 2018, according to industry estimates. Growth rates are expected to be especially high in Asia and Europe. ILFC currently has lease commitments to purchase a total of 331 aircraft deliverable through 2007 at an estimated total purchase price of $16.4 billion, with options for an additional 83 aircraft at an aggregate purchase price of $3.9 billion. Almost half of its purchase commitments have already been leased.

Exhibit 50: ILFC Lease Commitments and Options

	2000	2001	2002	2003	2004	2005	2006	2007	Total
Purchase commitments	51	54	47	55	52	45	22	5	331
Options	0	1	8	8	6	10	22	28	83
Total	51	55	55	63	58	55	44	33	414
Lease contracts	51	52	26	18	4	0	0	0	151
% commitments leased	100.0	96.3%	55.3%	32.7%	7.7%	0.0%	0.0%	0.0%	45.6%

Source: Company financial statements and PaineWebber estimates.

Behind the willingness of investors to participate in aircraft asset-backed securities and lease participation partnerships is the unique nature of aircraft. Airliners are long-lived and highly movable assets. Their maintenance is so closely regulated that the threat of devaluation because of misuse is minimal. Investor interest, however, also is based on the assumption that recession is nowhere in sight. Aircraft demand is vulnerable in severe economic downturns, which can create severe liquidity crunches in the market. Notably, however, ILFC did not suffer measurably during the Asian currency crisis, and has historically weathered economic cyclicality with little effect. The company structures most of its contracts in U.S. dollars, requires written governmental approval for currency remittances before entering into foreign leases, and has repossession rights written into its contracts. When aircraft have been repossessed, the company has consistently been able to remarket the plane. It should be noted that AIG's insurance operations are major players in the political-risk insurance arena; the skills required for this business, as well as the strong relations AIG has forged with governments around the world, are an asset in the aircraft leasing business should there be a problem enforcing contractual terms.

AIG Financial Products Corp.

AIGFP provides standard and customized interest-rate, currency, equity and credit products to large corporations, financial institutions, governments, agencies and institutional investors worldwide. The company helps clients raise domestic and cross-border capital, manage debt, hedge foreign exchange exposures, and optimize investments in global equity markets.

Operating income generated by AIGFP jumped 49.2% in 1999, as changes in the capital markets created new opportunities for financial products. The rise in U.S. interest rates and in the dollar versus the yen and the euro increased demand for new ways to hedge asset/liability risks. Major corporations and fund managers further added to the opportunities because of efforts to improve credit quality and increase liquidity.

While AIGFP has been an extremely profitable and growing business for AIG, and appears to have some synergies with AIG's operating businesses, such as AIG Risk Finance, in our opinion investors do not value the earnings from this business at multiples comparable to those of AIG's other operations due to their transactional nature and potential volatility. Because AIGFP is a relatively small portion of AIG's earnings, and has been managed well, this has not affected AIG's stock price. We believe, however, that the increasing diversification of AIG's earnings stream into businesses such as asset management is a positive from an investor standpoint.

Investors often wonder whether AIG would enter the financial guarantee business, viewing its credit ratings and its desire for stable growing earnings as reasons why this would be a good fit. We believe this business is not attractive to management, as the competition from offshore companies able to earn higher returns by investing in a tax-free environment, and, more importantly, the potential impact on capital and credit ratings in a period of severe economic volatility, do not fit AIG's criteria or objectives. However, we believe that the company would invest opportunistically in unusual transactions when its ability to enhance credit, create liquidity, or securitize assets or liabilities would produce exceptionally high returns. The company's proposed joint bid for the assets of Long-Term Capital Management (with Berkshire Hathaway) was an example of such an opportunistic situation.

AIG Trading Group

AIGTG is a worldwide operation that engages in hedged trading and makes markets in foreign exchange, interest rates, and base and precious metals. AIGTG also provides risk management services to multinational companies, financial institutions, institutional investors and sovereign entities. The division's operating income fell 11.4% in 1999 from 1998 on a 39.3% drop in revenue, reflecting soft market conditions and unusual volatility in some of the markets in which it trades. It was the second year in a row that AIGTG posted declines in this inherently volatile business.

AIG International Inc. is the AIGTG arm through which the company conducts its foreign exchange, interest-rate and metals businesses. AIG International is a first-tier market maker in the spot, forward and options markets. In 1999, the unit launched the Dow Jones-AIG Commodity Index that now appears daily in *The Wall Street Journal.*

Another AIGTG unit, AIG International Asset Management Inc., manages over $1 billion on behalf of such investors as central banks, commercial banks and pension funds from 30 countries. Its focus is on alternative investments outside the traditional debt and equity universe. AIG International Asset Management should not be confused with the recently created AIG Asset Management International unit of SunAmerica.

AIG Consumer Finance Group Inc. (AIGCFG), a fourth Financial Services segment, doesn't break out its results separately but represents a promising new growth area, in our opinion. AIGCFG is developing worldwide consumer finance businesses in emerging markets where AIG already has a presence and enjoys market acceptance.

- In 1999, the division introduced credit cards in Hong Kong and Taiwan, following the establishment of a card business in the Philippines and in Argentina, the latter through an acquisition.
- In 1998, it acquired Credit Leasing Assistance S.A., a marketing intermediary, and Bank Podlaski S.A. in Poland, now renamed AIG Bank Polska S.A.
- In Argentina, it bought a majority stake in Compania Financiera Argentina S.A., a finance company.
- AIG also bought a majority stake in Bangkok Investment Public Company Ltd., a consumer finance company with a large share of the auto finance market, and renamed it AIG Finance (Thailand) Public Company Ltd.
- AIG has owned SPC Finance Credit Ltd. in Hong Kong since 1997.

Other financial services businesses include premium finance, along with AIGCFG.

AIG is often viewed as a potential acquirer of a domestic credit card company (such as MBNA, due to its personal lines marketing arrangement with MBNA, or American Express). At the March 2000 "Fireside Chat," Mr. Greenberg said that he has no interest in acquiring a domestic credit card company. We note that:

- The domestic credit card business is mature and likely to come under earnings pressure from charge-offs in an economic downturn (nonperforming consumer loans have been rising, and consumer debt is high);
- AIG has increasingly been co-branding its life products outside the U.S. as "AIG Life," as well as building a domestic personal lines brand under its own name—and would be more likely to launch its own brand rather than incur goodwill for someone else's.

Mr. Greenberg has also said that he has no interest in acquiring a large investment bank (i.e., Merrill Lynch).

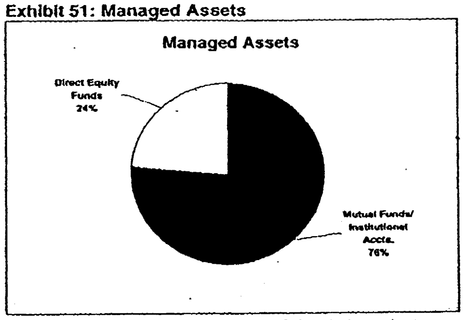
Asset Management

AIG created this fourth business segment as it expanded its asset management operations, including its acquisition in 1999 of SunAmerica Inc. Over the year, the company has folded into it certain AIG operations along with those of SunAmerica. Part of SunAmerica's operations is reflected in the Life Insurance segment.

The group's 1999 operating income rose 64.3%, to $314.1 million from $191.2 million in 1998. It had $34 billion under management in retail mutual funds and institutional accounts, including $8 billion of direct equity funds, at year-end 1999. Products include investment vehicles and services, including variable annuities, mutual funds and investment asset management, and are aimed at individuals and institutions both domestically and internationally. This segment also includes AIG's investments with the Blackstone Group and the Emerging Markets Partnership and its real estate investment management operations. The group comprises:

- AIG Global Investment Group Inc. (AIGGIG)
- John McStay Investment Counsel, L.P.
- SunAmerica Asset Management Corp. (SAAMCo)
- AIG Asset Management International Inc. (AIGAMI)
- SunAmerica Financial Network
- AIG Private Bank Ltd.

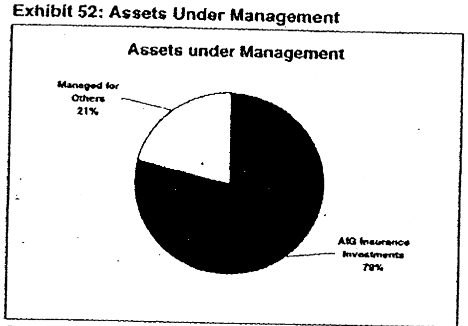
Exhibit 51: Managed Assets



Source: Company financial statements and PaineWebber estimates.

AIGGIG, along with other AIG investment management subsidiaries, manages $34 billion of assets for third-party institutional, retail and private-equity funds. It also manages AIG insurance invested assets totaling $126.5 billion. CapVest Limited, launched last year in London, is a private equity business jointly owned by AIGGIG and private equity professionals in Europe to launch a $500 million fund, AIG's first major direct involvement in the private equity market in Europe.

Exhibit 52: Assets Under Management



Source: Company financial statements and PaineWebber estimates.

The division is also responsible for AIG's role as a sponsor of private equity funds targeting capital for emerging economies, an activity that has been growing steadily over the past six years.

Exhibit 53: Emerging Market Funds

Direct Equity Funds	
New Offerings	
Developed Markets	$187
African Infrastructure *	$357
Emerging Europe *	$525
Southern Cone (S. America)	$132
Existing Infrastructure Funds	
Asia Infrastructure I	$1,100
Asia Infrastructure II	$2,000
Latin-America Infrastructure	$1,000
Asian Opportunity	$750
Brunswick Millennium (Russia)	$300
China Retail	$187
Asia Direct Investment	$100
Indian Sectoral	$110
Silk Road Fund	$70
Total	$6,818

*funds committed
Source: Company data and PW estimates.

The main focus countries of the Asia Infrastructure funds are China, Indonesia, Thailand, Malaysia, the Philippines, Taiwan and Vietnam, with 35–50% of the capital going into China and India. Other AIG funds in the development stage include:

- AIG Asia Infrastructure Fund III.
- A second Latin America fund.
- A U.S. infrastructure fund.
- A developed-markets fund of funds.

The primary purpose of these funds is to generate exceptional returns for investors, including those in AIG, which typically takes a stake of about 10% of the fund. At the same time, AIG also stands to benefit by virtue of the fact that these funds cultivate economic growth in the markets in which AIG operates or hopes to operate. These funds encourage investment in all kinds of infrastructure, industrial and commercial enterprises that might become major commercial insurance customers and/or speed a region's economic growth, in turn expanding the market for personal insurance and investment products. Management indicates that wherever these funds invest, AIG insurance companies are first in line to gain access to the emerging insurance and financial services market—and the first in line to underwrite the coverages for the companies receiving the investments.

As a sponsor of these infrastructure funds, AIG gains an additional advantage for its other businesses. An investment in a cellular telephone company, for example, can give AIG access to that company's subscriber list for marketing any of AIG's consumer-oriented insurance and financial services products, including credit cards. And as one of the earliest adopters of this strategy, AIG has a longer history of established relationships with local businesses and governments—and demonstrates its commitment to the growth of the local economy, an important competitive advantage in emerging markets financial services.

AIGIG specializes in listed equity and fixed-income management in developed and emerging markets as well as in private equity. As always, the company staffs itself with locals who are intimately familiar with their region's culture, business customs and politics. Maintaining portfolio management teams that invest where they live and work gives AIG early access to investment opportunities as well as an intelligence source for other AIG revenue opportunities in its insurance operations.

Thailand stands as a prime example of how AIG cultivates local relationships to solidify and expand its market position. First, its American International Assurance Co. Ltd. division stayed invested throughout the economic crisis in Thailand, where it controls more than 50% of the life insurance market.

Leveraging off that strength, AIG last year boosted its investment advisory arm, AIA Capital Corporation (Thailand) Ltd., hiring Tri Kanchanadul as managing director to take advantage of investment opportunities. A related entity, AIG Global Investment Group (Asia), actively participated in Financial Sector Restructuring Agency auctions, purchased a troubled finance company, and was a principal equity participant in the restructuring of troubled high-tech company Alphatec. The managing director of this business, an executive director from Warburg Dillon Read, has strong business, political and family connections—including relatives who are executives in the banking industry—that could be helpful in identifying investment ideas and investment banking and advisory opportunities.

Another example of how AIG cultivates local relationships to solidify and expand its market position occurred in 1998, when Malaysia decided to reduce the percentage of insurance companies that could be held by a foreign insurer from 100% to 51%. At the time, AIG had more than 1 million policyholders and 8,000 agents involved in its Malaysian subsidiary. Shortly after the announcement, AIG announced a $1 billion

Southeast Asian recovery fund, including $150 million of AIG's own capital. A few days later, the change in investment rules was postponed for five years.

In 1999, AIA Capital joined with the Blackstone Group to offer restructuring, acquisition and financing services. The Blackstone Group is a private investment bank specializing in private equity investing, private mezzanine investing, and advising on mergers, acquisitions, restructurings and reorganizations. AIG is part owner of the Blackstone Group as well as an investor in its equity funds, and earlier this year formed a three-way venture with Blackstone and Kissinger Associates, chaired by former U.S. Secretary of State Henry Kissinger, who is chairman of AIG's international advisory board and of several AIG infrastructure-fund advisory boards. The mission is loosely defined as: "to provide financial advisory services to corporations seeking high-level independent strategic advice." The chemistry it seeks to exploit is AIG's global presence, Blackstone's global M&A expertise and Mr. Kissinger's global political connections.

AIGGIG includes several strategic investment groups outside the private equity area:

- The Global Emerging Markets Equity strategy: long-term capital appreciation in growth stocks in the emerging markets of Asia, Latin America, Eastern Europe, the Middle East and Africa.

- The Global Emerging Markets Fixed Income strategy: long-term total return in the debt markets of central and eastern Europe, Latin America, Southeast Asia, India, Pakistan, the Middle East and Africa, via government or government-guaranteed debt and high-quality corporate bonds.

- The International Small Companies Equity strategy: long-term capital appreciation via investments in non-U.S. companies with less than $1 billion in capitalization.

- The Southeast Asia Equity strategy: stocks of larger, well-established companies, with a portion of the strategy invested in smaller-capitalized companies, based in Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, China, Singapore, the Philippines, Sri Lanka, Taiwan, Thailand, and, to a lesser extent, Australia and New Zealand.

- A Southeast Asia Fixed Income fund: mostly short-term debt of governments, supranational corporations and financial institutions.

- The Global Fixed Income fund: a fixed-income strategy based on cross-border inefficiencies in real yields, government policies and capital flows.

AIGGIG also conducts real estate investments and management activities through AIG Global Real Estate Investment Corp., providing investment and management services for AIG, as well as for external clients. AIG Real Estate oversees the management of more than 400 properties owned by AIG entities around the world, in areas of Asia, Western and Eastern Europe, and South America, in addition to the United States.

John McStay: AIG acquired a majority in this Dallas-based money manager in 1999. It specializes in smaller- and mid-cap growth stocks and real-estate securities. Its clients include endowments, universities, foundations, public funds and pension plans as well as individuals. It manages the Brazos family of mutual funds with a similar focus. Since the acquisition by AIG, assets under management have increased 260%, to $1.3 billion.

SunAmerica's variable annuity business reports its results through the Asset Management Group. It issued a record $5 billion of variable annuities in 1999. Total assets in these annuities grew 45%, to $23 billion, in 1999. The Polaris annuities, a multi-manager product, include funds managed by nine investment advisors. These include funds managed by SunAmerica Asset Management Corp. (SAAMCo), which manages 25 retail mutual funds in the U.S., with more than $6 billion under management. SunAmerica mutual fund sales jumped 65%, to $1.48 billion, in 1999. SunAmerica contributed $1.12 billion, or 14.9%, of AIG's total 1999 operating income before realized capital gains/losses. The bulk of this income is reported through AIG's Domestic Life Segment.

AIG Asset Management International Inc., a new subsidiary of SAAMCo, was formed to coordinate all non-U.S. operations to develop, distribute and manage retail mutual funds. (This division is not to be confused with the similarly named AIG International Asset Management, part of AIG Financial Services' AIG Trading Group unit.) This new SunAmerica entity was set up to more efficiently operate numerous units throughout the world. SunAmerica's resources focus on the development of products and back-office operations while AIG's non-U.S. insurance companies handle all sales, marketing and distribution. More details on this strategy are covered in the Life Insurance Segment discussion in this report.

AIG Private Bank Ltd., based in Zurich, provides asset management and private banking services for a worldwide clientele. It launched a closed-end investment company through a $140 million initial public offering to give the bank's clients access to the private equity market. The bank has offices in Geneva, Lugano, Hong Kong and Singapore. The company has been making a major push into wealth management in Europe, contributing further to AIG's managed asset base.

Additional information available upon request.
Prices of companies mentioned as of May 5, 2000:

21st Century Insurance Group		TW	$21.06
Acceptance Insurance Cos Inc		AIF	$3.94
ACE Limited	3	ACL	$24.81
Aegon N.V.		AEG	$70.75
Aetna Inc	3	AET	$56.38
AFLAC Inc.		AFL	$45.50
Alaska Air Group Inc.		ALK	$30.13
Alliance Capital Management Holding L.P.		AC	$42.25
Allmerica Financial Corp		AFC	$53.69
Allstate Corp	3	ALL	$22.88
America West Holdings Corp.		AWA	$14.75
American Finl Group Inc		AFG	$25.88
American International Group		AIG	$111.56
Aon Corp		AOC	$29.56
AXA Financial		AXF	$34.75
Berkley (W R) Corp		BKLY	$22.13
Berkshire Hathaway -Cl A		BRKA	$56,000.00
Chubb Corp		CB	$60.69
CIGNA Corp		CI	$75.94
Cincinnati Financial Corp		CINF	$39.94
Citigroup Inc	3	C	$59.56
CNA Financial Corp		CNA	$29.38
Continental Airlines Inc.	3	CAL	$42.88
E*Trade Group	2	EGRP	$19 13/16
Erie Indemnity Co -Cl A		ERIE	$28.25
Everest Re Group		RE	$32.06
Fremont General Corp		FMT	$5.94
Frontier Insurance Grp Inc.		FTR	$15/16
General Electric Co	3,6	GE	$52.13
Goldman Sachs Group Inc	3	GS	$89.88
Hartford Financial Services Grp Inc.		HIG	$51.44
HSBC Holdings Plc		HBC	$55 9/16
ING Group N.V.	3	ING	$54 1/8
Invesco Glbl Hlth Science Fd	3	GHS	$15.88
John Hancock Financial Services Inc.		JHF	$20
Lincoln National Corp.	3	LNC	$33.50
Manulife Financial Corp.		MFC	$15 5/8
Markel Corp		MKL	$139.69
Marsh & McLennan Cos.	3	MMC	$98.31
MBNA Corp		KRB	$24.56
Medical Assurance, Inc.		MAI	$12.19
Mercury General Corp		MCY	$24.75
Merrill Lynch & Co	3	MER	$104.88
MetLife, Inc.		MET	$17 9/16
MIIX Grp		MHU	$10 5/8
Morg Stan Dean Wttr & Co	3	MWD	$71.13
Nationwide Financial Services Inc.	3	NFS	$26.81
Priceline.com	2	PCLN	$57 7/16
PMI Group Inc.		PMI	$48.75
Progressive Corp		PGR	$67.38
Protective Life Corp.		PL	$25
Radian Group Inc		RDN	$51.44
Reinsurance Group of America		RGA	$26.50
Reliance Group Hldgs		REL	$2.81
SAFECO Corp	2	SAFC	$19.94
St. Paul Companies		SPC	$33.69
Scpie Holdings Inc		SKP	$24.19
Sony Corp.		SNE	$221 3/8
Southwest Airlines Co.		LUV	$21.44
Trans World Airlines	3	TWA	$2.00
Transatlantic Holdings Inc		TRH	$82.56
Triad Guaranty Inc		TGIC	$21.88
Washington Mutual Inc		WM	$24.69
XL Capital		XL	$50.25
Zenith National Insurance Corp		ZNT	$24.75

2. PaineWebber Incorporated makes a market in this security.
3. PaineWebber Incorporated has acted in an investment banking capacity for this company.
6. General Electric owns over 20% of the outstanding stock of PaineWebber Group and has a representative on the board. General Electric has agreed to certain voting limitations. PaineWebber Group is the parent of PaineWebber Incorporated.

Non-U.S.-traded companies mentioned:

Air Canada 1
Alitalia 1
Allianz 1
AMP General Insurance Ltd. 1
Asiana Airlines 1
BWIA (British West Indian Air) 1
Assicurazioni Generali 1
Banco Santander 1
Cathay Pacific Airway 1
CGU Plc 1
China Airlines International 1
China Northwest 1
China Colours 1
Dragonair 1
Fairfax Financial Corp. 1
Gerling Global Re 1
Hapag-Lloyd Flug 1
Kenya Airways 1
L'Aeropostale 1
Mandarin Airlines 1
Mitsui & Co. 1
Mortgage Guaranty Insurance Corp. 1
PICOM 1
QBE Insurance Ltd. 1
Qantas Airways Ltd. 1
Scor 1
Sun Life Financial 1,3
Swissair 1
Swiss Re 1
TAP Air Portugal 1
Transavia 1

[1] These securities can only be offered in such states as may be legally permissible.
[3] PaineWebber Incorporated has acted in an investment banking capacity for this company.

Appendices

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Appendix 1: Country Profiles

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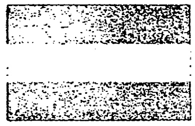
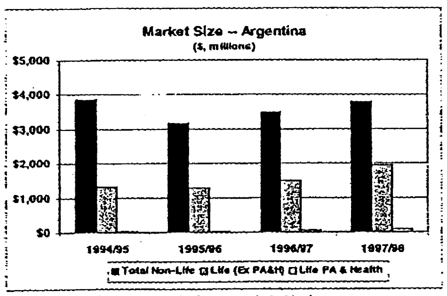
Republic of Argentina



Population: 37 million, growing at 1.2% per year. Life expectancy is 70 for males, and 78 for females.

Government: Democratic federal republic.



Source: Superintendencia de Seguros de la Nacion.

Market ease of entry: There are no restrictions on foreign-owned companies, which can take 100% ownership stakes. There is a straight-forward application process, identical for foreign and local companies. There are no state-owned insurance companies.

Market opportunity: The Argentine market is the second largest in Latin America. The non-life market accounts for 65% of insurance premium volume. Life insurance has been, and is expected to continue, growing significantly faster than the non-life market. Life insurance penetration is very low at 0.7% of GDP. The population is underinsured, with approximately 15% having a life policy. The life insurance market has grown at a 16.9% annual rate from 1993-1998, while non-life has increased by 2.6% during this period. Motor insurance accounts for 56% of non-life premiums.

At mid-year 1998, there were 264 insurers, 71 writing life insurance only, 31 writing retirement insurances, 142 wrote non-life only or were composites, 15 wrote workmen's compensation, and five specialist insurers writing obligatory motor for the public sector. The top 10 groups control 50% of the market.

The total Argentine insurance market grew 10% in 1999. Solid growth occurred across several lines. The two largest non-life lines, motor and workmen's compensation, increased 8% and 11%, respectively. Motor premiums doubled over the past 10 years. It is estimated that only 50% of auto owners buy motor insurance.

Several insurance companies have gone out of business as a result of intense competition, particularly on the non-life side, and due to the origin of certain players, which historically performed the role of a broker and ceded business, on an obligatory basis, to the state reinsurer, before it went bankrupt. Steps are being taken by the Superintendencia to restore consumer confidence in the insurance industry.

Top 10 Non-Life Insurers – 1997/98

Company	DWP	Mkt. Share
Caja Seguros	271.3	7.2%
Omega Coop	247.95	6.5%
San Cristobal	159.83	4.2%
Buenos Aires	152.38	4.0%
Provincia	113.43	3.0%
Federacion Patronal	107.37	2.8%
Mapfre Aconcagua	103.84	2.7%
Segur Coop	98.35	2.6%
Segunda Coop	97.95	2.6%
Vision	80.14	2.1%
Top 10	$1,432.5	37.8%
Total	$3,793.0	100.0%

Source: Superintendencia de Seguros de la Nacion

Top 10 Life Insurers – 1997/98

Company	DWP	Mkt. Share
Caja Seguros Vida	$280.3	14.4%
Buenos Aires-NYL	$57.0	2.9%
Sur Vida	$44.3	2.3%
Internacional Vida	$37.5	1.9%
Nacion Vida	$35.3	1.8%
Alico	$29.0	1.5%
ITT Hartford	$22.0	1.1%
Galicia	$20.6	1.1%
Generali Vida	$19.1	1.0%
Juncal Vida	$18.6	1.0%
Top 10	$563.5	28.9%
Total	$1,950.0	100.0%

Source: Superintendencia de Seguros de la Nacion

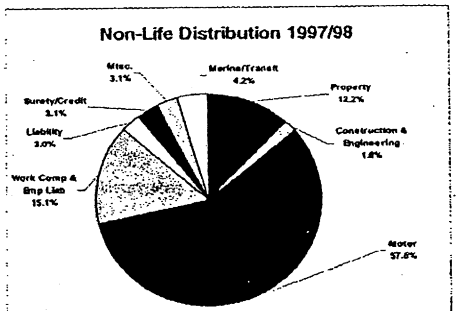
Heavy consolidation activity is expected to continue, as higher capitalization requirements have left many companies below the minimum required level.

Group insurance represents the largest portion of the life market in Argentina. Foreign insurers have a meaningful participation in this line.

Efforts to deregulate and good economic conditions have helped support strong growth in the life insurance market. In 1994, changes in legislation allowed private pension fund administrators to compete with the state-run pay-as-you-go state pension system due to the latter's underfunded status. As of 1998, the private system had captured a 75% market share. This market is competitive and AIG recently sold its stake in a pension company to Banco Santaner. The annuity market has also benefited handsomely from these shifts. The potential for a deregulated health care system may also generate substantial development of insurance products.

Risk management is growing in importance in Argentina, with much of this activity being assumed by insurance intermediaries. Few companies have risk management officers.

Household insurance, a very profitable line in Argentina, accounts for less than 5% of non-life premiums. Approximately 20% of private houses carry household insurance. Earthquakes are not a major peril in the country. However, burglary is a major problem, and is the main cause of loss in the household insurance market.



Source: Superintendencia de Seguros de la Nacion.

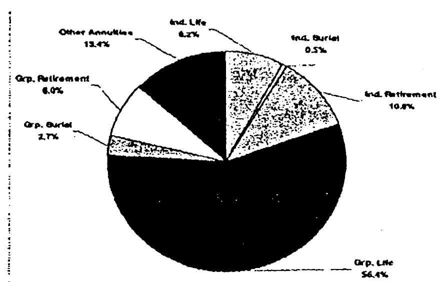
Insurance regulation: This is handled by Superintendencia de Seguros de la Nacion (SSN), under the Ministry of Economy, Works, and Public Services. The SSN's six divisions regulate the insurance market. The SSN is aiming to raise solvency margin requirements, given several insurance company closures over the past few years. There is no guarantee fund except in workmen's compensation insurance.

Compulsory insurance: This includes motor third-party liability (TPL), motor TPL for passengers on public transportation systems, and workmen's compensation, which is compulsory for all employees in the private sector. Life compulsory classes include life insurance for all employed persons (covering death only), and pensions, which must be provided either through the state scheme or through the Administratradoras de Fondas de Jublicaniones y Pensiones (AFJP).

Product regulation: Nontariff rates. Policies must be issued in Spanish. There is a VAT at rates from 21% to 30% for all classes except life, pensions and workmen's compensation. There is an internal tax of 8.5%, which is being gradually lowered to 2% over the next few years; 0.6% of premium also is payable to finance the Superintendency of Insurance. Proposals seeking lower taxes have been submitted.

Distribution: Brokers dominate the market, but there is an increasing presence of banks distributing all types of insurance classes (there is no distinction between agent and broker in Argentina). Additionally, direct writers began forming a few years ago on the non-life side, primarily writing motor business through telephone operators. As of 1998, approximately 10% of the non-life market was distributed on a direct basis.

Life Premium Distribution 1997/98



Source: ISC & APRA.

Degree of reinsurance: The reinsurance market is completely non-Argentinian in character. Most of the market consists of foreign reinsurers with representative offices. Only one reinsurer, General & Cologne Re, is incorporated locally in Argentina and is the market share leader. Approximately 15% of life and non-life premiums are ceded to reinsurers. Insurers of property business favor proportional reinsurance arrangements, while casualty classes are ceded primarily on an excess-of-loss basis.

Constraints on placement with foreign insurers: Historically, direct business was not allowed to be placed with foreign companies. These rules have recently been relaxed.

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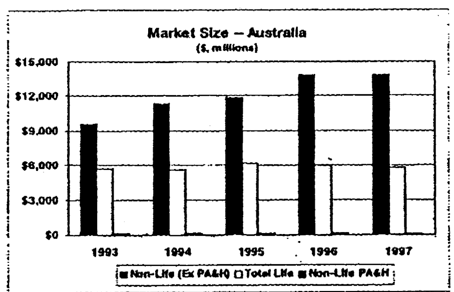
Australia

Population: At June 30, 1996, the population was 18.3 million, increasing 1.18% annually. Average life expectancy: 75 for males and 81 for females.

Government: Federal democracy.

Market ease of entry: No restrictions on foreign ownership and large parts of the industry are foreign owned. One insurer, the Export Finance and Insurance Corporation (EFIC), is owned by the state. There are 15 other public sector insurers, mainly owned by individual states and territories. Most of these companies write motor third-party (CTP) and workmen's compensation insurance. The public companies' share of the market has diminished significantly over the past decade, and only represents about one-quarter of the market.



Source: ISC and APRA.

Market opportunity: The Australian insurance industry has too many small insurers. There are 136 private sector insurers, 16 private sector direct insurers, 27 reinsurers and 45 health benefits organizations writing private medical expenses business. The market has a high degree of concentration at the top, with the top-ten accounting for about two-thirds of the market. Seven of the top 20 insurers are foreign owned, and accounted for 36% of the market's premiums in 1997.

Top 10 Non-Life Insurers – 1996

Company	DWP	Mrkt. Share	Percent Change
NRMA Insurance	$1,196.9	15.7%	23.3%
Royal & SunAlliance	$614.1	8.0%	25.4%
HIH Winterthur Group	$603.1	7.9%	8.7%
Commercial Union	$569.5	7.5%	9.6%
GIO Australia Group	$481.3	6.3%	-5.7%
QBE Group	$414.1	5.4%	17.0%
MMI Group	$368.0	4.8%	10.3%
FAI Group	$366.4	4.8%	-0.4%
NZI Insurance Group	$346.1	4.5%	1.1%
Zurich Group	$346.1	4.5%	4.5%
Top 10	$5,305.5	69.5%	11.1%
Total	$7,634.4	100.0%	11.4%

Source: ISC &APRA

Industry consolidation is expected to continue as insurers seek efficiency in a highly competitive market. Non-life premiums have been under extreme pressure over the past few years.

Premium growth in both life and non-life has lagged the economy. We do not expect the insurance market to expand much faster than the projected 3% GDP growth rate.

Insurance regulation: The Australian Prudential Regulatory Authority (APRA) is responsible for regulating financial institutions. The Australian Securities and Investment Commission (ASIC) regulates the consumer side, including licensing of intermediaries, policy wording and industry codes.

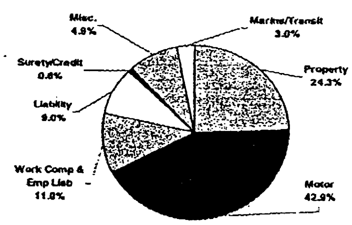
Top 10 Life Insurers – 1997

Company	DWP	Mrkt. Share	Percent Change
AMP	$1,909.9	32.8%	0.9%
National Mutual	$797.8	13.7%	-3.9%
Mercantile Mutual	$441.8	7.6%	14.5%
Prudential	$347.2	6.0%	6.2%
MLC	$287.3	4.9%	-10.8%
Colonial	$279.0	4.8%	-5.8%
Legal & General	$188.2	3.2%	-0.2%
Zurich	$188.1	3.2%	-1.7%
National Australia	$149.3	2.6%	25.8%
Tower	$138.8	2.4%	9.7%
Top 10	$4,588.7	78.9%	1.0%
Total	$5,815.0	100.0%	0.8%

Source: ISC &APRA

Compulsory insurance: This includes workmen's compensation, motor third party (also known as compulsory third-party or CTP), aviation passenger liability, and insurance brokers' professional liability.

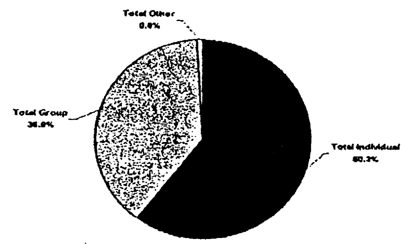
Non-Life Premium Distribution 1998



Source: ISC & APRA.

Product regulation: Outside of workmen's compensation and CTP, there are no tariffs. State governments collect revenue from the insurance industry in the form of stamp duties and fire brigade levies. There are variations in each state, which imposes an administrative burden on policyholders and insurers. The stamp duties range from 8% to 11%, and the fire brigade levies vary significantly, but can run as high as 43%.

Life Premium Distribution 1997



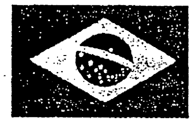
Source: ISC & APRA.

Distribution: About 80% of personal lines business is direct, while 90% of commercial lines business is broker controlled. On the life side, the main distribution channel has been the tied agent.

Degree of reinsurance: Approximately 25% of direct premiums are placed with reinsurers.

Constraints on placement with foreign insurers: Insurers are free to place business overseas.

Federal Republic of Brazil



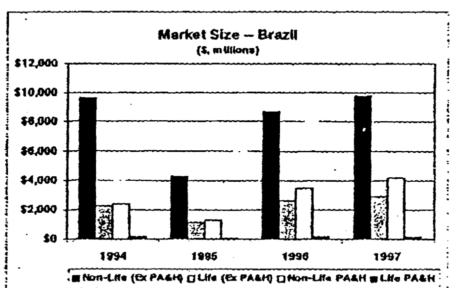
Population: 170 million, growing at 1.9%. Life expectancy: 61.1 male, 69.8 female.

Government: Constitutional, democratic presidential republic. Brazil was under military rule from 1964-1984; its current constitution was proclaimed in 1988.

Market ease of entry: Foreign insurers must comply with documentation requirements but there are essentially no restrictions to establishing a local company. Full foreign ownership is allowed.

While reinsurance has been the monopoly of the IRB for the past 50 years, privatization legislation was passed in 1996, and in preparation for privatization, the IRB was converted into a stock company and renamed IRB Brasil Reasseguros S.A. Sale of a 50% stake of IRB is pending.

Market opportunity: Brazil is the largest Latin American market, dominated by personal accident, group life/health, and property insurance, but with a poorly developed individual life market. Brazil also has a small but rapidly growing private pension market.



Source: FENASEG/SUSEP.

President Fernando Henrique Cardoso is credited with widespread economic reforms that eliminated hyperinflation (which peaked at 2,076% in 1994), dismantled state monopolies, and reduced the effect of the "Asian Contagion" on Brazil. GDP grew 0.2% in 1999 and is projected to recover to a growth rate of 3.1% in 2000 and 3.9% in 2001. Market penetration is now 2.2% compared to 1% five years ago.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
BRADESCO SEGUROS S/A	$335.5	11.5%	40.4%
SUL AMERICA AETNA SEG.	$251.7	8.6%	N/A
UNIBANCO SEGUROS S/A	$208.5	7.2%	5.2%
ITAU SEGUROS S/A	$190.8	6.6%	49.5%
CIA DE SEGUROS MINAS	$166.0	5.7%	6.9%
BRASILSEG SEGURADORA	$154.8	5.3%	283.0%
CIA DE SEGUROS DO EST	$130.5	4.5%	19.7%
AGF BRASIL SEGUROS S/A	$103.7	3.6%	49.5%
VERA CRUZ VIDA	$96.0	3.3%	N/A
ICATU HARTFORD SEGUROS	$79.7	2.7%	49.1%
Top 10	$1,717.2	59.0%	73.0%
Total	$2,912.1	100.0%	19.2%

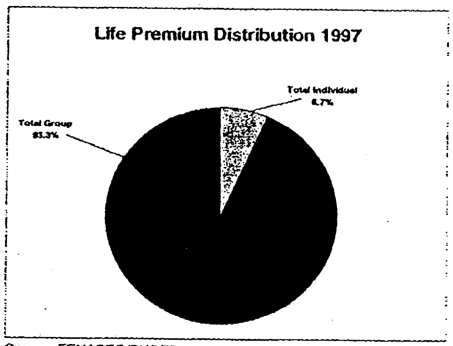
Source: FENASEG/SUSEP

Foreign companies have about 25% of all market share; the Brazilian market is competitive. Liberty Mutual entered in 1996 through an acquisition of Paulista to capitalize on liberalization of the workers' compensation market, and has lost premium and had unexpected losses.

Economic problems and high interest rates, along with tax disincentives, have retarded the use of life insurance as a savings vehicle. Another problem in the life market has been misselling and subsequent high lapsation rates. The life market shrank slightly during 1999 as customers defaulted on premiums due to a poor economy.

Brazil's population is aging, and the federal social security system is expected to be strained in the future. While privatization is not anticipated, supplemental private savings should eventually play a larger role in support, and this creates an opportunity for annuities and savings-oriented life products. We estimate that AIG's premiums in 1999, including Unibanco, approached $1 billion.

Individual pensions are bought primarily by self-employed professionals. Demand for individual pensions is limited because most of the contribution is not tax deductible.



Source: FENASEG/SUSEP.

When the IRB is fully privatized, mandatory cessions are expected to cease, allowing foreign insurers to retain more business.

AIG & Unibanco: AIG greatly expanded its presence in the Brazilian market through its 50% joint venture with Unibanco Seguros, which is a major player in the large personal accident market through its extensive branch network. AIG/Unibanco is the fifth-largest insurer in the market. Among Unibanco's offerings is a personal accident product that is a variation of a popular type of insurance savings scheme (capitalizacao), which includes a lottery feature awarding a prize, such as a car or an apartment.

In 1999, the Unibanco joint venture expanded its marketing initiatives, introduced several new products and streamlined its operations. Unibanco has been focusing on moving its image toward a younger demographic, age 32-35, with a savings rather than mortality orientation. Also in 1999 AIG and Unibanco bought a 50% interest in Prever S.A. Seguros y Previdencia, the second-largest private pension company in Brazil.

AIG and Unibanco launched the first online insurance company, selling auto insurance, in January 2000, at www.unibancoseguros.com.

Because Unibanco has a large strategic stake in the insurance market through its bancassurance operations, it is unlikely that AIG would ever gain more than its current 50% ownership in this venture.

Insurance regulation: Insurance has been a developed and regulated industry in Brazil since 1869. The current Insurance Control Law governs products other than pensions. The Conselho Nacional de Seguros Privados, (National Council for Private Insurance or CNSP) regulates the market, reporting to the Ministry of Finance. The Council includes representatives of the Central Bank, the Ministry for Economic Rights and Justice, various other government bodies, and four representatives from the private insurance market.

The Council delegates its day-to-day responsibilities to SUSEP (Superintendencia de Seguros Privados), which approves policy terms, companies' business plans, monitors reserving levels and controls licensing. Insurers must file quarterly, and, in some classes, monthly, returns. SUSEP also responds to customer complaints and can impose fines. Pensions are also regulated by SUSEP. Reserving assumptions are regulated.

History: Brazil was introduced to insurance in 1808 through Boa Fe, a marine insurer founded by local merchants. The Sun set up an agency in 1825, the Royal entered the market in 1864, and other insurers followed. The Instituto de Resseguros do Brasil (IRB), a monopoly government reinsurer, was formed in 1939.

Special issues: Policies must be issued in Brazil and written in Portuguese, and for most classes, may not be issued in foreign currencies without the approval of the Central Bank. Insurers' annual financial returns are required to be published in the *Diario Oficial* (official gazette) and two major daily circulation newspapers. The statute of limitations in liability cases can be as much as 20 years.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
BRADESCO SEG.	$1,741.0	12.3%	32.5%
SUL AMERICA AETNA	$1,022.7	7.2%	N/A
ITAU SEGUROS S/A	$1,001.2	7.1%	40.6%
PORTO SEGURO CIA	$961.6	6.8%	20.1%
HSBC BAMERINDUS	$644.8	4.6%	N/A
SUL AMERICA TERR MER	$530.3	3.8%	8.9%
UNIBANCO SEGUROS S/A	$514.1	3.6%	70.0%
GOLDEN CROSS SEG.	$496.0	3.5%	14.3%
SUL AMERICA CIA NACIONAL	$440.7	3.1%	-50.1%
CIA PAULISTA DE SEGUROS	$439.5	3.1%	22.5%
Top 10	$7,792.0	55.2%	47.2%
Total	$14,120.4	100.0%	22.3%

Source: FENASEG/SUSEP

Compulsory insurance: Motor liability, builders' liability, aviation liability, fire, workers' compensation, marine, and marine liability including jet skis. No mandatory life classes.

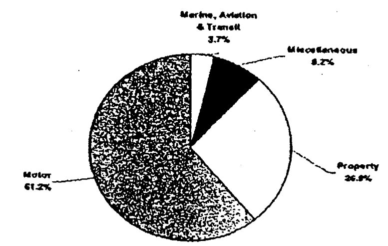
Product regulation: Compulsory rating began to be eliminated in 1988 with the abolition of the Fire Tariff. By 1992, all products were fully deregulated.

Distribution: By law, insurance must be placed through registered brokers; agents are not permitted and direct sales are uncommon. Bancassurance of personal accident and other life products is a well-developed market, with banks using in-house brokers in order to meet compulsory brokerage requirements.

Degree of reinsurance: Compulsory cession of all business to the IRB; privatization is in process. Post-privatization, compulsory cessions may be reduced or eliminated. The proposed sale price of the IRB was recently lowered.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited without exception unless local product is not available, and even then permission must be sought.

Investment restrictions: The government restricts investment allocations of private pension funds.



Source: FENASEG/SUSEP.

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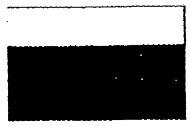
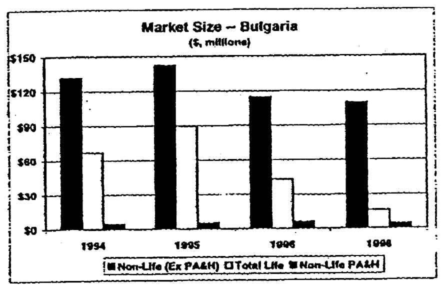
Republic of Bulgaria



Population: 8.3 million and declining. Life expectation: 67 male, 74 female. Insurance premiums per capita are $20 per year.

Government: Democratic republic.

Market ease of entry: Foreign companies are allowed to own any percentage of a Bulgarian company and may be established as a branch, joint venture or stock company. The process of establishing an insurer in Bulgaria is straightforward.



Source: Insurance Supervision Directorate.

Market opportunity: Insurance penetration is barely more than 1%, with only 0.2% life penetration. Bulgarians are not insurance-minded, with auto insurance the only form of protection bought by most people.

The life business was only $10.4 million in 1998, while non-life premiums totaled $130 million, including about $8.4 million of personal accident insurance. Life premiums per capita are less than $2.

Insurance was privatized in 1989; in 1995, foreign companies were allowed to enter the market. AIG was the first foreign entrant in 1997, through the AIG Bulgaria Insurance and Reinsurance Company. AIG owns 90% of AIG Bulgaria Insurance and also has licensed AIG Life (Bulgaria) Insurance. Allianz, Munich Re, QBE and Interamerican are also in the market.

Most industrial assets are owned by the state. However, unlike many developing markets, motor insurance was demonopolized in 1997. In addition, physical damage coverage is extremely common due to high theft rates.

Earthquake is the only significant natural peril. Earthquake insurance is booming following the Turkish earthquake, and the government has formed a commission to study the need for public catastrophe reinsurance and deductible catastrophe reserves.

In the year 2000, the life premium tax is to be reduced from 5% to 3%, increasing the attractiveness of this product. In addition, employers are now able to deduct premiums for insuring their employees. This should promote development of personal accident business, which is normally sold through employers.

History: Bulgaria was part of the Ottoman Empire until 1877. Its well-developed insurance market was nationalized under Communism and a state monopoly company, State Insurance Institute (SII or DZI), was formed. DZI had a market share of 33% in 1998 and is currently awaiting privatization. A second state insurer, Bulstrad, was formed in 1961 to write international business. A 31% stake in Bulstrad was sold to TBI, an Israeli company, in 1999. The economy struggled under Communism, which ended permanently in 1991. Subsequently, Bulgaria suffered the most difficult transition to a market economy of any Eastern Bloc country. The current government is committed to privatization and reform.

The market was demonopolized in 1989 and more than 100 insurers were immediately set up. These subsequently shook out to 26 stock companies and five mutuals. After privatization, several "security" insurance companies were set up that combined "protection" for cars with insurance. These companies reportedly had ties with the local Mafia and, not surprisingly, drivers who did not "insure" with them were more likely to find their cars stolen. Many of the "security" insurance companies were run by former Communist government ministers, so efforts to reform the market stalled until the ex-Communist BSP party lost power in 1996. When the new insurance law passed, all companies had to relicense, and at that time, the "security" companies lost their licenses.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Bulstrad	$24.7	21.5%	-1.5%
Royal & SunAlliance	$23.1	20.1%	30.1%
DZI - General Ins.	$16.4	14.3%	N/A
Commercial Union	$15.5	13.4%	-25.2%
Vitosha	$8.2	7.1%	43.2%
Orel	$7.6	6.6%	100.1%
Energia	$5.0	4.4%	-28.3%
Bul Ins	$4.5	3.9%	1872.7%
Jupiter	$2.6	2.3%	1089.2%
Bulgarski Imoti	$2.2	1.9%	43.8%
Top 10	$109.7	95.4%	33.9%
Total	$120.3	100.0%	N/A

Source: Insurance Supervision Directorate

Insurance regulation: The major regulator is the National Insurance Council, which oversees licensing, approves mergers, initiates bankruptcies and permit investments over 5% in an insurance company. The Insurance Supervision Directorate conducts audits, establishes motor liability rates, and approves life policy rates and forms.

Compulsory insurance: Motor/aircraft liability, and a few other niche classes. Workers' compensation is provided by the government, although many employers buy private liability insurance.

Product regulation: Nontariff rates in non-life insurance except for motor liability. There is no regulation of policy forms. There is a non-life insurance premium tax of 7%; the life tax is being lowered from 5% to 3%. Life insurance rates and forms require prior approval.

Top 5 Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
DZI EAD	$11.8	74.3%	9.4%
Phoenix	$1.5	9.4%	8.2%
Bulgaria Zhivot	$1.3	8.2%	2.1%
Medik Center	$0.3	2.1%	2.1%
Vitosha Zhivot	$0.3	2.1%	1.9%
Top 5	$15.3	96.1%	59.7%
Total	$15.9	100.0%	N/A

Source: Insurance Supervision Directorate

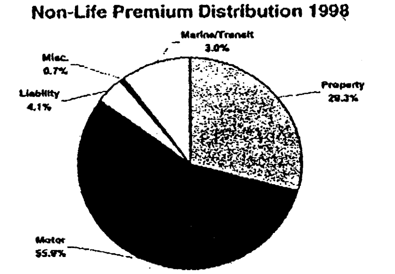
Distribution: It is primarily through tied agents and direct selling; international brokers have recently entered the market along with some independent agents.

In 1998, AIG acquired, through a joint venture, an 85.64% stake in Bulgaria Post Bank. The Post Bank branch system is distributing AIG's products. AIG increased Post Bank's capital by $20 million in early 2000. Post Bank is developing retail and corporate banking, consumer finance, debit cards, and already has a product that gives customers a free life/disability policy in exchange for a minimum deposit at the bank.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited and a prohibition against fronting is strictly enforced. The Russian company Jupiter Insurance lost its license due to unauthorized fronting.

Degree of reinsurance: Foreign reinsurance is freely permitted. There is no local company; Bulgarian Reinsurance Company is in runoff. Although a domestic reinsurance market exists, 95% of reinsurance is ceded abroad.

Non-Life Premium Distribution 1998



Source: Insurance Supervision Directorate.

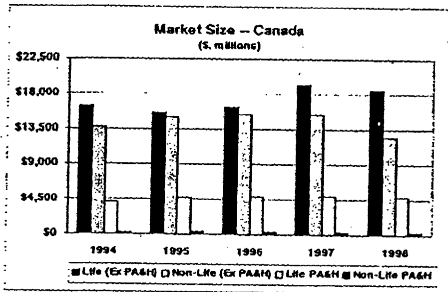
Dominion of Canada

Population: 29 million with growth of only 5.7% since 1991. Approximately 75% of the population lived in urban areas in 1991. Life expectancy is one of the world's highest with a 77-year average (women: 81, men: 75).

Government: Canada is an independent constitutional monarchy and a member of the British Commonwealth.

Market ease of entry: No major barriers to entry. Foreign companies are permitted to form or own local insurance companies. Foreign companies that establish branch offices must register on a federal basis.

Market opportunity: As of 1996, Canada was the seventh-largest non-life market and the 12-largest life market in the world. Non-life premiums would be considerably higher if it were not for premiums lost to some government provincial motor insurers, captive insurance companies, and to the fact that the accident and sickness classes are written predominantly by life companies (93%). The market still retains certain socialistic tendencies.



Source: Stone & Cox.

Premiums per capita are high by world standards at $709 for non-life and $501 for life insurance. The market is fragmented, with over 400 insurance companies. The leading company had only a 5.9% market share, and the top ten insurers account for only a 37% market share. The market, however, contains several companies that dominate within particular geographic localities, encouraged by the broad diversity of Canada, with a land area twice the size of Europe (excluding the former USSR). The market share of foreign companies is growing, while Canadian companies' share is shrinking.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
CGU Group	$1,096.0	8.7%	N/A
ING Canada	$995.8	7.9%	31.8%
Co-operators Group	$785.6	6.3%	3.5%
Royal & Sun	$772.6	6.2%	2.2%
AXA Canada Inc.	$570.4	4.5%	-2.7%
State Farm Ins. Co's	$546.0	4.4%	-1.0%
Economical Ins. Grp.	$512.4	4.1%	10.5%
Wawanesa Mutual	$431.2	3.4%	-0.8%
Liberty Mutual Grp.	$384.2	3.1%	-1.1%
Dominion of Canada	$366.8	2.9%	-0.3%
Top 10	$6,461.0	51.5%	27.6%
Total	$12,544.5	100.0%	-12.8%

Source: Stone & Cox

The life market is much more concentrated than the non-life market, being dominated by five large companies. Canada is a net exporter of life insurance, with more life business written by Canadian companies outside of Canada than written by foreign companies in Canada.

The market is split as follows: Canadian domestic companies have a 30% market share; British companies, 21%; American and foreign companies, 36%; and provincial government

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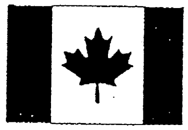

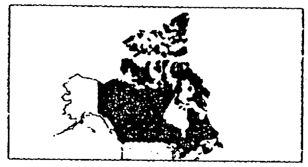

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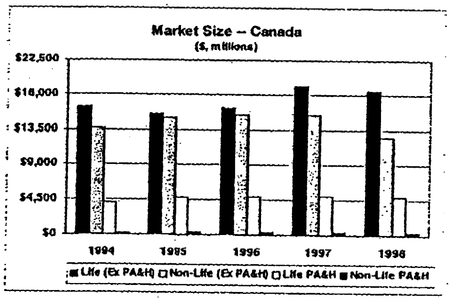

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The market is split as follows: Canadian domestic companies have a 30% market share; British companies, 21%; American and foreign companies, 36%; and provincial government insurers, 13%. AIG's non-life direct written premium was $317 million in 1998, giving it an approximate 2.4% market share. A considerable amount of consolidation is occurring on the non-life side.

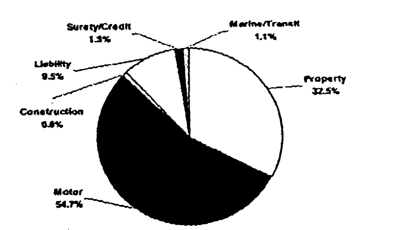
Top 10 Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
The Mutual Life	$1,168.8	12.8%	36.1%
London Life Ins.	$1,111.8	12.1%	-6.6%
Manufacturers Life	$1,032.9	11.3%	-0.5%
Sun Life Assurance	$796.9	8.7%	-2.6%
The Canada Life Ins.	$791.4	8.6%	17.1%
The National Life	$396.4	4.3%	41.4%
Desjardins-Laurentian	$381.3	4.2%	-18.3%
Great-West Life	$367.1	4.0%	5.8%
Industrial-Alliance Life	$325.9	3.6%	-39.9%
The Maritime Life	$216.8	2.4%	-6.7%
Top 10	$5,420.4	59.2%	2.2%
Total	$9,153.7	100.0%	-1.1%

Source: Stone & Cox

Although health care is administered by the government, additional private medical insurance protects large numbers of the public. This occurs primarily through group insurance schemes provided via employers.

Non-Life Premium Distribution 1998



Source: Stone & Cox.

Insurance regulation: Government control operates on two levels: regulations depend on whether a company is incorporated federally or provincially. Most companies are federally incorporated, and come under the jurisdiction of the Office of the Superintendent of Financial Institutions (OSFI). OSFI also regulates other financial services industries, including banks. Certain provinces, including Ontario and Quebec, have insurance commissions for companies that are incorporated provincially. There is a strong provincial influence in the industry.

In 1996, the government announced that it would allow the four largest mutual life companies to demutualize; two insurers, Sun Life and Manufacturers Life (Manulife), have done so to date.

Compulsory insurance: Motor third-party liability for bodily injury (BI) and property damage (PD). Workers' compensation, although currently provided by the Federal and Provincial governments. The market is deregulated, with the exception of compulsory motor in some provinces. There is a consumer movement toward privatization in British Columbia, but this is not a high priority for the province. There are no compulsory insurance or any tariffs on the life side.

If the Ottoman Empire had run a motor insurance market, it would probably resemble Canada's. In British Columbia, Saskatchewan and Manitoba, basic third-party liability cover is provided provincially, while both the government and private insurers compete for excess covers and other non-life business. Even more Byzantine, in Quebec, the system is split, so that personal injury claims are covered under a government compensation scheme, while PD claims for accidents that occur in Quebec and BI and PD claims for accidents occurring outside of Quebec are covered by private insurers. In Ontario, private companies write both standard and nonstandard coverages.

Product regulation: Nontariff rates. In motor, insurers must file rates with each provincial rating board and adhere to the filed rates. In heavily taxed Canada, premium taxes vary by province, averaging 3.5%. Most of the provinces have a fire tax averaging 1%. A sales tax paid by the insured exists in Ontario (8%), Quebec (9%) and Newfoundland (15%). The corporate tax rate is 38%.

Distribution: Brokers continue to be used extensively as a distribution channel, with Marsh

Inc. as the market share leader. It is estimated that 75% of insurance premiums are placed via brokers in Canada. Agents handle about 20% of the pie.

Direct sales represents a small portion of business in Canada but is gaining in importance. Most direct sales are handled via the telephone or over the Internet. Banks' involvement is limited to their ownership of insurance companies. Banks cannot use their own databases to sell insurance products.

Top Non-Life Reinsurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Munich Reinsurance	$146.1	16.6%	3.6%
Swiss Re Canada	$92.3	10.5%	-15.5%
SCOR Canada Reins.	$63.5	7.2%	5.2%
AXA Reassurance	$61.0	6.9%	-1.3%
Everest Reinsurance	$47.0	5.3%	-11.3%
General Reinsurance	$46.7	5.3%	-1.1%
Promutuel Re	$38.3	4.3%	-1.4%
Farm Mutual Reins.	$33.6	3.8%	-8.3%
Rhine Reinsurance	$23.2	2.6%	145.1%
Hannover R.A.	$22.0	2.5%	-23.4%
Total	$882.7	100.0%	-3.0%

Source: Stone & Cox

On the life side, agents represent the primary distribution channel. Less than 8% of life business is reinsured and is ceded primarily on a direct basis.

On the reinsurance side for the non-life market, most of the business is transacted through three brokers, Aon Re, Guy Carpenter (MMC) and Towers Perrin Re. As in the U.S., reinsurance brokers have developed extensive capabilities with which to handle a broad scope of risk-related activities.

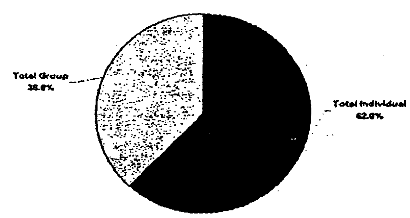
Top Life Reinsurers – 1998

Company	DWP	Mrkt. Share	Percent Change
RGA Life Reinsurance	$253.0	64.6%	249.3%
Munich Reinsurance	$119.5	30.5%	10.6%
Optimum Re	$9.5	2.4%	7.5%
SAFR	$5.6	1.4%	53.6%
AXA Reassurance	$2.7	0.7%	373.0%
ERC Frankona R.A.	$1.1	0.3%	170.1%
Total	$391.3	100.0%	101.8%

Source: Stone & Cox

Constraints on placement with foreign insurers: Insurers must pay a 10% excise tax for insurance on nonadmitted paper; this varies by province. In Ontario, motor and certain commercial classes must be purchased from a local insurer of the same province. In Alberta, business placed outside of the province is subject to a 40% tax. There is no restriction on reinsurance placement with foreign insurers.

Life Premium Distribution 1998



Source: Stone & Cox.

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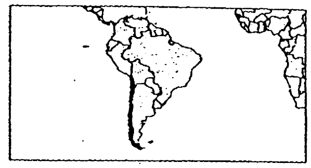
Republic of Chile



Population: 14.9 million, growing at 1.5% annually. Life expectancy: 76 female, 69 male.

Government: Democratic republic.

Market ease of entry: Rules for investment of foreign capital are identical to those for local investors. Many foreign insurers have shareholdings in local companies. Companies may not combine their life and non-life business, although personal accident and health insurance may be written by either sector. There is no state ownership of any insurance company. Branches of foreign insurers are not permitted.

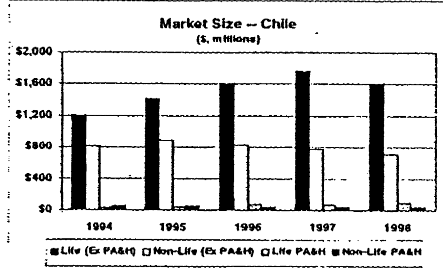
Market opportunity: Chile's economy has developed satisfactorily. Although GDP flattened in 1999 due to slower global economic conditions and lower demand for exports in the Far East, it is expected to return to the 5% area for 2000 and 2001.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Cruz del Sur	$104.8	13.8%	-2.0%
Chilena Consolidada	$76.0	10.0%	5.9%
Aetna Chile	$66.4	8.7%	-9.6%
Republica	$63.2	8.3%	-2.3%
Euroamerica	$62.4	8.2%	9.6%
Consorcio Allianz	$59.7	7.9%	-8.4%
Las Americas	$50.5	6.6%	4.1%
Interamericana	$47.5	6.3%	6.6%
Aseg. Magallanes	$45.6	6.0%	23.4%
Allianz	$34.8	4.6%	-3.3%
Top 10	$610.7	80.4%	1.0%
Total	$759.4	100.0%	1.0%

Source: Asociacion de Aseguradores de Chile A.G.

Non-life premiums have remained relatively flat over the past five years, while life premiums have increased steadily, or by about 11% per year from 1993-98. The life market accounts for close to 70% of the insurance market, up from 60% six years ago. Non-life penetration is 0.9% of GDP, while life is 2.2%, the highest in Latin America. Swiss Re predicts that life insurance penetration will rise to 3.0% by 2005.



Source: Asociacion de Aseguradores de Chile A.G.

Foreign insurers have been increasing their involvement in the market. AIG operates as Interamericana, with a 6.3% share of the non-life insurance market. On the life side, the combination of AIG's two Chilean subsidiaries, Interamericana, La S.A., and Interamerica Rentas S.A., total $116 million of premium volume, for a fifth-ranking market share as of 1998.

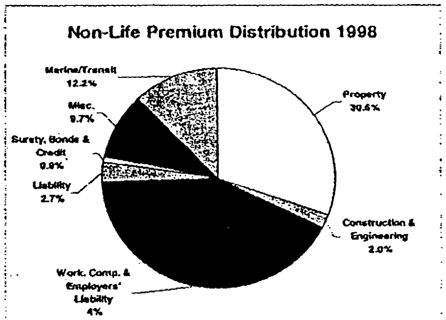
Non-life motor accounts for 40% of non-life premium volume.

Insurance regulation: Insurance and reinsurance activities are controlled by the Superintendencia de Valores y Seguros.

Top 10 Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Consorcio Nacional	$233.9	13.7%	-13.3%
Construccion, S.A.	$149.3	8.7%	41.8%
Chilena Consolidada	$135.6	7.9%	21.8%
Santander S.A.	$118.8	6.9%	2.6%
Aetna Chile S.A.	$106.6	6.2%	-13.4%
Principal Compania	$99.0	5.8%	N/A
Euroamerica S.A.	$96.3	5.6%	49.2%
Compania de Seguros	$78.9	4.6%	3.7%
Mass Seguros de Vida	$77.7	4.5%	19.8%
Allianz-Bice S.A.	$60.6	3.5%	35.9%
Top 10	$1,156.7	67.6%	18.6%
Total	$1,711.9	100.0%	2.1%

Source: Asociacion de Aseguradores de Chile A.G.



Source: Asociacion de Aseguradores de Chile A.G.

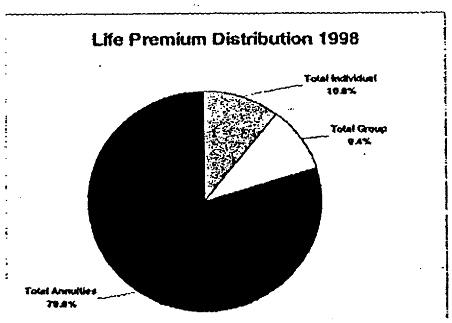
Compulsory insurance: Workers' compensation, arranged through specialized mutuals, and third-party liability insurance for motor vehicles, known as SOAP. There are no compulsory coverages in the life sector.

Product regulation: Tariffs were eliminated in 1980, when the insurance market was deregulated. An 18% value-added tax was levied on the insured's premium, with the exception of premiums for earthquake, marine and aviation hull, import and export cargo, SAOP coverage, and life insurance contracts with adjustable sums assured. There is no pooling scheme or state catastrophe fund, yet Chile is considered a high-risk earthquake zone.

Distribution: Distribution is dominated by corporate and individual brokers, and banks are seeking to increase market share, by acquiring houses and cross-selling with bank customers. Banks' involvement in insurance distribution is primarily in life products. Direct marketing is not a significant feature of the market. Marsh is the largest broker in Chile.

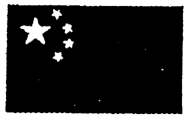
Degree of reinsurance: No obligatory reinsurance cessions and no reinsurance pools. Approximately half of gross written premium is ceded to reinsurers. A 2% tax is levied on reinsurance premium ceded overseas, with the exception of marine cargo import/exports, and commercial hull and aviation.

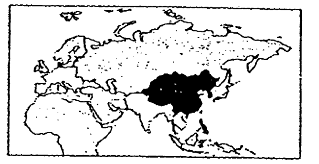
Constraints on placement with foreign insurers: None. However, direct business placed overseas is levied a 22% VAT versus the 18% VAT normally charged.



Source: Asociacion de Aseguradores de Chile A.G.

People's Republic of China

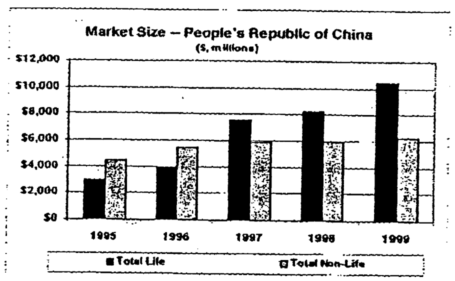




Population: 1.3 billion (22% of the world's total), growth rate 1.0% annually, life expectancy: 67 male, 70 female. 1998 GDP was approximately $775 per capita. Insurance premiums per capita were $12. 130 million people are over age 60; few have a pension entitlement.

Government: Authoritarian one-party state.

Special comment: Axco notes: "There are no official market statistics and [all data] have been gleaned from partial or unreliable sources. The operations of the Chinese market are extremely obscure . . . all information must therefore be treated with caution." Sigma and Guy Carpenter estimate the size of the non-life market in 1998 at $5.9 billion. Sigma estimates the 1998 life market at $8.3 billion. The official state estimate of the total market is $17 billion.



Source: Sigma.

History: Insurance arrived in China in 1805 with the formation by British insurers of Jiandan Marine Insurance Co. in Guangzhou. The first local company was the Shanghai Yihe Insurance company, established in 1865. China became a republic after Sun Yat-Sen overthrew its empire in 1911. C. V. Starr founded AIG shortly after the Republican revolution in Shanghai in 1919.

After the Communists overthrew the Republic, all insurers were nationalized in 1949 and on October 22 of that year, replaced by the state-owned People's Insurance Company of China (PICC). Foreign insurers were expelled from the country, and AIG relocated to Hong Kong.

From 1958 to 1980, insurance was banned, except for a limited amount of foreign business written through the People's Insurance Company[1]. However, AIG established a relationship with PICC and negotiated a claims settlement and reinsurance agreement with PICC in 1975. In 1976, Mao Zedong died, and China began to modernize. Finally, AIG could accelerate plans for its reentry to the market.

In 1980, the PICC was formally separated from the People's Bank of China (PBOC), and resumed domestic insurance writing. AIG opened a representative office in Beijing and worked to educate and assist the PICC and its de facto owner, the PBOC, about the industry. The company also set up a joint venture with the PICC companies, Sino-American Holdings Company (now China American Insurance Holdings), with operations in Delaware and Hong Kong.

The Agricultural Insurance Company of the Xingjiang Construction Regiment Corporation was the first to break the PICC's monopoly, in 1986. However, as a specialty insurer confined to one province, its business never developed significantly and today it is a fraction of AIG's size. Ping An, today the second-largest insurer, was formed next in 1988 in Shenzhen[2].

1 This included long-tailed liability reinsurance, which subsequently proved to cover U.S. asbestos and environmental impairment liability claims.

2 Morgan Stanley Dean Witter and Goldman Sachs each have 5% investments in Ping An. China Pacific has investors from Hong Kong. In total, foreign investment is currently limited to 25%, but should be raised to 50% under the WTO agreement.

AIG in China—A Chronology

1919	C. V. Starr founds American Asiatic Underwriters, Shanghai
1920s	Branches established throughout China
1950	AIG moves headquarters to Hong Kong after Communist revolution
1968	Mr. Greenberg becomes CEO of AIG
1975	AIG negotiates first claims settlement and reinsurance agreement with PICC
1976	Mao Zedong dies; U.S. – China relations begin to normalize
1980	AIG and PICC form China American Insurance Holdings joint venture
1980	AIG opens first representative office in Beijing of a U.S. financial institution
1990	Zhu Ronghi, Mayor of Shanghai, appoints Mr. Greenberg first Chairman, International Business Leaders' Advisory Council for the Mayor of Shanghai
1990	AIG's Shanghai Center real estate development completed
1992	AIG receives first foreign life and nonlife insurance licenses issued in China, for the AIA Shanghai branch
1994	Mr. Greenberg becomes first Senior Economic Advisor to the Beijing Municipal Government
1994	AIG raises $1.1 billion Asian Infrastructure Fund I
1994	AIA-Fudan Actuarial Center established in Shanghai
1995	AIG receives life and nonlife licenses in Guangzhou
1996	AIA-Zhongshan Actuarial Center established in Guangzhou
1996	AIG signs a 30-year lease for No. 17, the Bund, its original Shanghai headquarters, now known as the AIA Building.
1997	Mr. Greenberg becomes "Honorary Citizen of Shanghai"
1997	General Insurance Division of AIA renamed and established as AIU Shanghai Branch
1998	AIG raises $1.7 Asian Infrastructure Fund II
1998	Zhu Ronghi becomes Premier of China
1998	Renovation complete, AIG moves into the highly visible and historic AIA Building in Shanghai
1998	S&P assigns triple-A ratings to Shanghai and Guangzhou branches
1999	AIG receives life and nonlife licenses in Shenzhen and Foshan

Source: Company documents.

After tireless work to establish relationships in China, the first international license was granted in 1992 to AIG's AIA subsidiary in Shanghai. AIG now operates under both companies—AIA [life] and AIU [non-life]. Mr. Nysco Shu became General Manager of AIG's office in Shanghai, building life premium volume in that city from zero to approximately $150 million over an eight-year period through 1998.

AIG's return to Shanghai restored the company's roots in the city of its founding in 1919 by Cornelius Vander Starr, and the granting of this license was regarded by the Chinese government as restoring a historical right—reflecting the unique relationship between AIG and China.

In March 1999, the PICC was further separated into three companies, renamed China Life, China Property and China Re. China's market is developing rapidly, with 12 foreign licensed companies today and a total of about 100 companies represented in the market, through approximately 200 representative offices.

In a recent move that may have a transformative effect on the market, Ping An, Dazhong and China Pacific (CPIC) have applied to file for public equity offerings, which are expected to take place as early as 2001. Other insurers are seeking to raise private equity capital, now that size and capital strength have become a marketing consideration in China.

AIG's role in China: As the first American company to enter the market during a period when the rules for foreign insurers were still being established, and with a long history in China, AIG established certain prerogatives. AIG is the only insurance company:

- That has both a life and a non-life license;

- To own 100% of its life company, as opposed to the 50% limit subsequently imposed on foreign insurers;

- That may use its own policy forms and wordings;

- With no territorial scope limitations in its licenses.

Over and over in discussing AIG with Chinese market participants, we heard about AIG's "special relationship" with China. This was consistently attributed to the following factors:

- Roots. As an historically Chinese company, there is a legitimate reason for China to treat AIG differently than a "foreign" insurer, perpetuating the advantages described above. AIG's strategy in China has capitalized on this unique advantage;

- Being early. Mr. Greenberg's foresight in focusing on this nascent market more than two decades ago;

- Consistency of relationships. Year in and year out, whatever the state of U.S.-China relations, Mr. Greenberg traveled to China, building relationships. Competitors frequently commented to us about the frequency of Mr. Greenberg's trips to China;

- Knowledge transfer. AIG still spends considerable time in educating regulators, the government and even competitors. The company reasons that, in addition to relationship value, the best way to create a successful market is to help China avoid problems such as mis-selling that can destroy consumer trust in the industry. While other insurers, such as Chubb, also have made important contributions in this regard, AIG began the process long before the market opened by working with the People's Bank of China, the CIRC's predecessor, to help it understand insurance. AIG also has established two actuarial training centers at local universities in Shanghai and Guangzhou;

- Exceptional on-the-ground presence. It would not be unfair to say that AIG invented the Chinese life insurance business. Local management successfully applied first-class agency recruitment, sales and management techniques for the first time, creating product awareness. Due to its rapid expansion, AIA has now created a special China Division, divided into northern and southern regions, to handle the anticipated demands of the market; and

- Being a good corporate citizen. AIG voluntarily paid premium taxes from which it was exempt, insists that its agents and employees meet their own tax obligations to "invest in the country" rather than evading income taxes as is commonly done, and of course, is involved in raising billions in infrastructure capital for China.

AIG's ties to China are much deeper and broader than insurance. For example, the company recently set up a software company, AIA Everlasting, in Beijing. Edmund Tse, Vice Chairman of AIG, noted this was AIG's first move into the high-technology business, which diversifies AIG's sources of income, although "we have no intention of making high-technology one of our core businesses." AIG also has substantial real estate investments in projects such as the Shanghai Center. It raised $2.8 billion in AIG Asian Infrastructure Funds I and II. And Air Macau, Cathay Pacific, China Hainan Airlines, China Southern Airlines, China Southwest Airlines, China Xinjiang Airlines, Dragonair, Shanghai Airlines, Shenzhen Airlines, Sichuan Airlines, Wuhan Airlines, and Xiamen Airlines are all clients of ILFC.

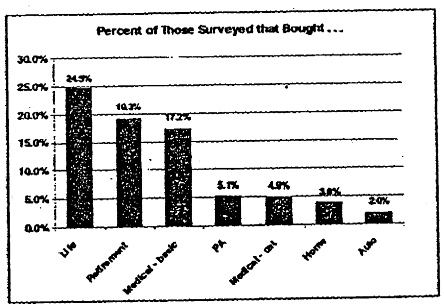
AIG's attitude toward local competitors is benign, if not encouraging. Because insurance is "sold not bought," the growth of a quality market driven by responsible competitors is in the company's best interest.

Finally, AIG's success in China can be attributed to another cultural factor that permeates the company. As Deputy General Manager Kevin Chia told us, the China Division operates on the standard AIG "zero budgeting" principle: "You have no money, don't spend it."

Market opportunity: With 20% of the world's population, a rapidly growing economy and an insurance penetration rate of only 1.5%, the potential of China is obvious. However, today, the market is relatively small—around $15 billion.

A study conducted in late 1999 by Beijing Meilande Information in 14 cities found that 40% of those surveyed had purchased insurance, and the rate of population growth in urban areas—where insurance is much more likely to be purchased—is expected to be 64.7% in 2000.

Types of products purchased are shown in the exhibit following. The life market produced an officially estimated $10.5 billion of premium in 1999; the non-life market, $6.25 billion. Beijing and Shanghai represent about 20% of the total insurance market today.



Source: Beijing Mellande Information.

Life insurance: The life and savings market has much better economic characteristics than the non-life market, and like personal accident is expected to grow significantly faster. The Chinese are aggressive savers, with a savings rate equal to 40% of income—one of the world's highest—and with the average urban household having savings of 1.5x annual income in 1998.

The development of a universal government social security system is expected to provide only a portion of retirement benefits, and an employer-run system has only begun to develop. Beijing is strongly encouraging individual savings. The "one child" policy also is pushing the Chinese toward providing for retirement individually rather than relying on the traditional family support system. Life insurance is the chosen vehicle.

Most Chinese savings currently is held in low-return bank deposits, giving insurers an opportunity to promote more efficient savings products. Inflation has been a problem in the past, but its decline has led to the rapid growth of the life insurance product. Recent moves to loosen asset classes available for investment also should boost the attractiveness of life products as a savings vehicle over time. We estimate that in 2000 AIG will write more than $200 million in life business alone in China.

Non-life insurance: The non-life insurance market is fairly small. We estimate that it represents less than one-third of AIG's premium volume; under the conditions of its license, all of AIG's non-life business must be foreign currency-denominated, often insurance for Chinese operations of multinational clients, although it is not uncommon for local companies to pay insurance premiums in foreign currency. Eventually, however, foreign companies may also be able to compete in the local currency non-life market.

Relatively few Chinese buy homeowners' insurance, although mortgage insurance is increasingly being required by banks. Auto liability insurance is mandatory but can only be sold by domestic companies. The non-life market is expected to grow more slowly than the life market—barely double-digit, if that—because of cutthroat competition in lines other than auto and because the average Chinese owns little property.

Awareness of even commercial property insurance is low. Our understanding is that only about 30% of commercial property owners buy it, and even they typically insure only 30% of the property value. Thus, in total, less than 10% of commercial property values may be insured.

The Chinese regulators recently reiterated a ban on earthquake insurance coverage in recognition that potential accumulations in the market are excessive. Even if 100% of earthquake-exposed business were written in the private market rather than by China Property, the government is still enormously exposed because of the mandatory 20% cession all insurers must give to its reinsurer, China Re. While the property market is severely underinsured, as it grows, accumulations will become very high and antiselection would also be likely.

Gerling has completed an earthquake study for the government, noting that China experienced more than 200 earthquakes involving fatalities in the 20th century. Five of these temblors produced a death toll higher than 500,000. There is talk that China will obtain catastrophe reinsurance for its earthquake exposures in the private market. E. W. Blanch, lead broker for the California Earthquake Authority, is consulting with the CIRC on this project.

Flood risk in China is even higher than earthquake, although there appear to be no near-term plans to address this risk.

The motor insurance market is developing slowly. In 1996, there were fewer than 5 million cars in China. Every province has its own licensing system; in relatively wealthy Shanghai, a limited number of licenses are sold at auction each year, not unlike the New York City taxi medallion system. As a result, in this metropolitan area of 17 million people, the streets are remarkably free of traffic. The local currency motor market, as a strict tariff market, is attractive but inaccessible to foreign insurers.

Liability classes are tiny, but this market's likely direction can be inferred by the recent introduction by China Property and TianAn of medical malpractice insurance coverages.

As a whole, the non-life insurance market, except for auto liability insurance, is intensely competitive, characterized by undisciplined pricing. Based on our interviews, at least some local insurers are not aware of the basic principles of underwriting, and price risks simply to gain market share.

Because by many accounts the market was overpriced before it was demonopolized, the consequences of rate-cutting have not been fully felt. It is unclear what will happen in deregulated classes if prices fall to a level that threatens insurers' solvency.

Personal accident and health: The personal accident market, which AIG entered in 1998, is growing rapidly. We estimate that this business represents about 10% of AIG's volume in China, and is growing at more than 100% annually from a very small base.

About 80% of the Chinese population has no health insurance. This is an important potential market, but without a developed health care system, insurers cannot capitalize on it.

Market ease of entry: Currently, China imposes a protracted licensing process for one municipality at a time. As a CIRC representative euphemistically told us, "Market access is a very complicated process," with "special conditions." The pace of market liberalization has been deliberately slow so as to protect domestic market development and to prevent exploitation by foreign insurers.

The process is administratively simple but politicized. Favored insurers can "jump the queue," and licenses are viewed by the Chinese as akin to a gift to a foreign government, with licensing sometimes apparently linked to diplomatic actions (such as the licensing of British insurer Royal SunAlliance in 1997 after the handover of Hong Kong to China).

Licensed Insurers in China:

Company	License Year	Type	Dom./ Foreign
China Life (formerly PICC)	1949	National; life	D
China Property (formerly PICC)	1949	National; nonlife	D
China Re (formerly PICC)	1949	National; reinsurance	D
Ming An Insurance (Hong Kong)*	1982	Property branch; Shenzhen; Hainan	D
Xinjiang Construction Regiment	1986	Composite; Xinjiang	D
Ping An Insurance Co.	1988	National; composite	D
China Pacific	1991	National ; composite	D
AIG (AIA and AIU)	1992	Shanghai, Guangdong, Shenzhen, Foshan	D
Tokio Marine & Fire (Japan)	1994	Property; Shanghai	F
TianAn Insurance Co.	1994	Property; Shanghai; Guanzhou,	D
Dazhong Insurance	1995	Property; Shanghai	D
Huaan Ins. (SinoSafe)	1996	Composite; Guangdong, Guangxi, Hainan, Hunan, Fujian	D
Taikang Life	1996	Beijing; Guangzhou, Wuhan	D
New China Life Ins. Co. Ltd.	1996	National; life (formerly Xinhua Life)	D
Huatai Ins. Co. of China	1996	National; essentially a captive; property	D
Zhonghon Life (Manulife - Canada)	1996	Life; JV with Sinochem; Shanghai	F
Yongan Ins. Co.	1996	Property; Shaanxi	D
Kongtai Life	1996	Life; National	D
Winterthur (Switzerland)	1996	Property; Shanghai	F
Allianz Dazhong (Germany)	1997	JV with Dazhong; life; Shanghai	F
Aetna (U.S.)	1997	JV with China Pacific; life; Shanghai	F
Royal & SunAlliance (UK)	1997	Property; Shanghai	F
Colonial Mutual (Australia)	1998	JV with China Life; life; Shanghai	F
AXA-UAP (France)	1998	JV with China Metals; life; Shanghai	F
Chubb	1999	Property	F
John Hancock	1999	Life	F
Sun Life	1999	JV with Everbright; life; Tianjin (pending)	F
Prudential	1999	Life	F

*ultimately owned by China Property.

Because an important objective of licensing has been to allow the domestic market time to develop, insurers routinely invest in "knowledge transfer" for local insurance professionals to ease the way. Insurers make other goodwill gestures such as donations for flood relief. However, money alone is not enough; building relationships, including relationships at the governmental level, is more important.

Chubb, John Hancock, Sun Life and Prudential, the most recent licensees, were approved in April 1999. Of these, only Sun has submitted the necessary business plan to commence operations. Recently, Liberty Mutual, which maintains representative offices in Shanghai and Chongquing, made an investment valued at $57 million in the China National Petroleum Corporation and stated that it plans to invest more funds in western China's industry, utility and infrastructure projects. Liberty is seeking a license in Chongquing, China's largest city.

WTO agreement: The World Trade Organization (WTO) agreement should loosen the licensing process. Its most important reforms are to remove geographic restrictions on insurers over five years and to ease the granting of new licenses. While the CIRC chairman said in a recent interview that the number of new licenses granted during that period "may be five, may be less, may be more"—suggesting that the pace of liberalization in practice will remain slow—others believe that five or so new licenses will be issued quickly if WTO passes. More than 100 insurers, reinsurers and brokers are rumored to be waiting for licenses (no official number has been disclosed).

Under the WTO agreement, foreign companies would be allowed to set up subsidiaries for the first time rather than branches, and geographic restraints would be eased, with life insurers able to sell policies anywhere in the country within three years of China joining the WTO. Large-scale commercial risks could be insured nationally immediately upon WTO passage. Eligible companies would be those having maintained a representative office for two years, with 30 years in the insurance business and three years of profitability. Insurers have scrambled to set up representative offices in order to start the eligibility clock.

Licensing would be based on "prudential" criteria, and the process should, theoretically, be less complex and byzantine in practice than formerly. Details are still unclear, however.

Foreign *life insurers* would still be required to partner with a Chinese company; their ownership would be limited to 50%. But onerous joint-venture requirements would be abolished, and the insurer would be able to choose its own partner. For the first time, foreign companies would be able to offer group life, health and pension coverage, which represent the vast majority (estimated at 85%) of all Chinese insurance premiums.

In *non-life insurance*, foreign insurers may have 51% majority ownership, rising to 100% in two years. Insurers would theoretically be able to operate throughout the country within five years; the reinsurance sector is to be opened up completely.

If WTO passes, the country's economy is expected to grow faster than the current 7% GPD growth forecast. That would accelerate growth of both the life and non-life markets, benefiting AIG and other insurers. In addition, the licensing process would go faster.

The latter would not be an entirely unmixed blessing, however. AIG has a tremendous lead over its competitors now, having a total of five licenses already in three provinces. While market growth would be slower without WTO, we believe AIG would exploit its existing lead and continue to receive licenses and widen its relative advantage if WTO does not pass. Nevertheless, the company clearly prefers that WTO pass because 1) its potential impact on overall market growth is so significant and 2) AIG's real competition is domestic insurers such as Ping An, rather than new foreign entrants.

Growth factors: Factors that could affect growth include the degree of market stability as economic liberalization progresses, other types of political risk, and market conduct. The status of the WTO agreement, as described previously, should have a more significant impact on the market than any other factor.

China's life market grew at more than a 34% annual rate between 1993 and 1999, and increased 26% in 1999. CIRC's official forecast is that the life market (including group and individual products) will grow at 14% for the next five years, double the World Bank's anticipated rate of GDP growth, and the non-life market will grow at 9%. Most unofficial estimates of the life market growth rate are considerably higher, averaging 15-25% with some as high as 35%. Sources of growth:

- Because "life insurance is sold, not bought," and China is beginning to be blanketed with an army of insurance agents, demand is rising rapidly.
- Urban areas in which sales are concentrated are growing their economies faster than the national average (e.g., Shenzhen, where AIG is licensed, expects to triple its GDP over the next decade, for greater than an 11.5% compounded annual growth rate).

AIG's own growth should be higher than market growth rates in the areas it is entering, due to the licensing process—which has given it a significant head start—and due to its precise, coordinated and lightning-fast approach to entering a market.

If WTO passes, AIG expects to enter as many as ten new markets in the next two years. These could include huge cities such as Chongquing, which has a population even larger than metro Shanghai's 17 million.

Our growth estimates are mid-range; that is, we assume that WTO passes, but are estimating at the more conservative end of the range of possible growth rates under that scenario.

- AIG is planning to increase the number of Shanghai-area agents by more than 60% to 10,000 agents in 2000 alone.
- AIG has applied for a dozen new licenses. We believe no insurance company has worked more visibly and tirelessly than AIG for passage of WTO, and the company will be rewarded for its efforts if WTO is successful.
- With three new branches now and ten more projected in two years under WTO, we are conservatively assuming that AIG can grow its life business 28% annually between 2000 and 2005, or slightly faster than the market, and 27% thereafter.
- This pattern appears realistic considering that the 1999 base of business is essentially derived from only one market, Shanghai. Under our projection, AIG would write about $3.2 billion of life business throughout China by 2010.
- The major risk factor in this estimate is sustaining growth in 2006-10. If AIG simply grew at our higher projection of the market rate during that period, it would write about $3.0 billion of life premiums in China in 2010. If the market grew at the lowest end of the consensus projected rate *and* AIG merely matched the market growth, it would write about $2.0 billion of life premiums in 2010.
- We believe AIG can grow above 20% even if WTO does not pass, because of: 1) of its small starting base of premium; and 2) its efforts on behalf of China, which make it likely that AIG will obtain some additional licenses even without WTO. Under this scenario, AIG would also write more than $1.5 billion of premiums in China by 2010.

How they do it: In establishing its beachheads in China, AIG forms a business development group made up of its most experienced professionals from all relevant disciplines. This team begins recruiting, hiring and training agents long before a license is granted in a particular city. The business development group consists of units responsible for functions such as marketing, IT and agent recruitment.

Once licensing is approved, an army of trained agents can begin selling immediately. New products can be launched by pre-training agents in a similar manner.

AIG is able to plan this far in advance because it has many more experienced insurance professionals in China than any other foreign company. Staffing for the business development groups also is drawn from different parts of the country, not just Shanghai. The Shanghai market, while extremely important, is not representative of China, and the company believes a broader approach is more successful.

Local competitors: Despite recent and proposed liberalization, the former PICC companies retain significant advantages, including their image of implicit governmental support and their enormous distribution networks (which include almost 250,000 agents and 3,000 branches).

In 1997, China Life had a 61.7% market share in life insurance and China Property a 78.1% market share in the non-life market, for a total 68.8% market share. The state-owned companies have said that they do not intend to rest on their laurels. However, competitors to China Life and China Property are growing faster, eroding their share. In addition, China is considering adding an anti-monopoly regulation, and forming some specialty insurers to cover hazards such as flood and earthquake. The former PICC companies are planning to restructure, lower costs and add technology to become more competitive.

A large proportion of the insurance professionals we met in China were PICC alumnae. The PICC is sometimes jokingly referred to as the "People's Insurance College of China."

The other two major companies in the market are Ping An and China Pacific (CPIC). These companies have foreign investors and are large and relatively sophisticated. Many other smaller competitors also are fighting for market share.

Insurance regulation: China is developing a sophisticated regulatory regime very quickly. The China Insurance Regulatory Commission assumed responsibility for licensing from the People's Bank of China in 1999. It currently has about 110 staff and is establishing branches in major insurance centers. At the end of 2000, branches should be operational in Beijing, Guanzhou and Shanghai. The CIRC regulates solvency and market conduct as well as licenses; it oversees statutory filings, rate/form regulation and solvency regulation.

By all accounts, the CIRC is responsive, pragmatic, a very quick study, and determined to create a quality insurance market. The CIRC's priorities are:

- Ensuring that new market entrants are high-caliber, world-class companies;
- Solvency supervision and regulation;
- Oversight of investments;
- Reforming accounting standards (currently the CIRC must analyze financial statements prepared under other countries' accounting standards, but it expects to establish standards in harmony with International Accounting Standards Committee rules as soon as possible);
- Actuarial licensing—the first national examinations were held in 1999, and 40 new life/health actuaries were certified at that time;
- Joining the International Association of Insurance Supervisors and generally aligning Chinese insurance regulations with international standards.

The CIRC has been cracking down on unauthorized activity by conducting audits and by enforcing, for both domestic and foreign insurers, restrictions against operating outside their licensed territories and product authorizations. The CIRC issued new regulations for domestic insurers March 1 that addressed minimum capital. The CIRC is also continuing to make progress toward requiring domestic companies to operate as either life or non-life companies, eliminating the risk inherent in intermingling in a composite company the capital used for long- and short-tail insurance.

Market conduct is an important issue in the life market. In 1998, certain companies were offering unusually high guaranteed crediting rates on life products (e.g., 11-14%). When the central bank cut interest rates, these crediting rates became unsustainable. In one extreme response to the rate cuts, Ping An tried to force its employees to surrender their own insurance policies. However, the CIRC stepped in to enforce the validity of these contracts. Subsequently, the CIRC limited the maximum guaranteed crediting rate to 2.5%.

Maintaining an appropriate standard of market conduct is important to building the trust required for a healthy life insurance market. Even in its first year as regulator, the CIRC appears determined to build a reputable and successful insurance industry, and seems to move fairly rapidly when change is needed. An element of arbitrariness is a potential risk of this approach. So far, however, there is little evidence of any significant negative impact on the market from regulatory overreaching, and we heard no complaints about insurers being treated unfairly.

Compulsory –insurance: Few classes are compulsory; only contractors' third-party liability; motor liability. The tort climate is extremely benign; however, professional liability risks are beginning to be insured. Arbitration is encouraged for all classes.

Product regulation: In *non-life insurance*, tariff rates are widely ignored, except for motor liability where the tariff is strictly enforced. Insurers innovate products by submitting forms to be approved in advance by the CIRC. They are then protected from competition for six months.

The national premium tax is 8%; there is also a small local tax on most non-life classes; and a 9% reinsurance tax; there is no tax on long-term life insurance products. Formerly, foreign companies were exempt from certain taxes, but now are treated like domestic companies.

In *life insurance*, mostly vanilla products are sold —whole life, endowment and group life, with personal accident, dread disease and hospitalization riders. Dread disease cover is popular; travel accident is a growth market as more Chinese travel abroad. AIG is said to have one of the most successful of these products. Annuities are an important long-term potential market in China.

Until recently, product innovation was limited, with no policyholder participation in investment results allowed. The first investment-oriented products were introduced by AIG in March 2000. Surrender charges are essentially prohibited, so persistency is a key issue in creating a successful business. This puts the burden on the insurer to successfully manage the selling process and customer relationships, a feature that favors AIG.

Private retirement products are a recent introduction; work units of state-owned enterprises have traditionally funded pensions on a pay-as-you-go basis. All plans are defined contribution; most demand for group plans comes from private companies and foreign joint ventures. China Life, Ping An and China Pacific are the leading pension providers, and foreign branches are currently not allowed to write group insurance. This provision has been routinely circumvented throughout the market by offering individual products to employees of a particular company. However, the CIRC chose to stop this practice and ruled recently that AIG could no longer do this.

Special issues: Seven major and numerous minor dialects are spoken, many mutually incomprehensible. Mandarin is spoken in Beijing; Cantonese in Guangdong, Guangxi and Hong Kong. English is the language of business, but all policies must also be written in Chinese characters. Representative offices of foreign companies must hire their staff through a state-approved employment agency, which handles payroll and employee benefits. The currency, or renminbi ("people's money," which is denominated in yuan), is not convertible (Rmb8.33 = US$1.00).

Distribution: Before AIG's license was restored, all primary insurance was sold through walk-in branches. AIG's introduction of the agency system has led to explosive growth in the Chinese market by increasing public understanding of the function and value of insurance. AIG currently has about 10,000 agents in China, of which approximately 6,000 are in Shanghai and approximately 2,000 are in Guangdong. The remainder are start-up agents in 2000 in Foshan and Shenzhen.

In China, agency management practices emulate aspects of Maoism so that, as Axco describes, "agents have regular meetings at which they recite uplifting slogans, sing the company song, and have speech competitions on subjects like "Love My Post and Devote Myself to the Insurance Cause."

Direct sales is rarely used; few people have telephones, and with the purpose of insurance not well understood, personal selling is considered essential at this time. However, Xinhua Life is attempting to sell insurance through the Internet.

In commercial lines, most international brokers are represented; Sedgwick (part of Marsh Inc.) and one other non-U.S. broker are the only licensed foreign brokers; even these are licensed only as consultants and cannot place direct business. Brokers regularly circumvented these licensing rules until 1999. For example, they would "introduce" customers to insurers without taking a fee, and receive higher compensation from the customers outside of China.

During a 1999 CIRC crackdown on brokers that was described to us as "killing the chicken to teach a lesson to the monkeys," Sedgwick was found to have handled currency inappropriately and to have moved its offices and changed personnel without notifying CIRC. It was suspended from doing business for three months. Jardine's lost one of its two representative offices (Guangzhou) for placing direct business outside of China.

The CIRC wants to create a meaningful local brokerage market, and just named its first three licensed domestic brokers. All of the foreign brokers are awaiting licenses, with at most a handful expecting to be licensed. Licensing is likely to be tied to passage of WTO.

Restriction on foreign placement: Nearly all direct risks are required to be placed in the local market; fronting is not allowed but does take place. We understand that some brokers were routinely placing "excess facultative" contracts that were really fronted direct business outside of China. The CIRC took exception, and brokers are reportedly now staying within the lines.

Degree of reinsurance: Most domestic non-life insurance firms do not buy reinsurance—as much as 90% of the business is retained net. The Chinese life and non-life market is severely underreinsured, especially given the many natural perils affecting the country. Under the WTO agreement, the reinsurance market is to be opened, although the terms are not specified and the process may be both vague and slow. China also plans to open a Chinese Reinsurance Trading Center (possibly somewhat like a mini-Lloyd's) in a major city that is likely to be either Shanghai, Guangzhou or Shenzhen.

China Re essentially owns the local reinsurance market, reporting $1.4 billion of premiums in 1998 and $1.1 billion through the first nine months of 1999. Foreign reinsurers must give a compulsory cession of 20% to China Re (which may be reduced after WTO). Another 10% must be offered to local markets, although this provision is often circumvented. Foreign reinsurance is taxed at 9%. The 20% cession to China Re applies to personal accident insurance, but not to other types of life products.

China Re has capital of approximately $500 million and is market share oriented. It has a goal of becoming one of the top ten reinsurers in the world by 2009. Because compulsory cessions are expected to be reduced after WTO, this goal would be extremely difficult to achieve even with a very aggressive pricing approach.

Some of the non-life primary market's competition appears to be reinsurance-driven. However, the main constraint on international reinsurance is nonconvertibility of the renmimbi, which makes it difficult for reinsurers to transfer hard currency premiums out of the country. While CIRC will sometimes give permission for limited currency transfers, the large-scale quota share programs preferred by Chinese insurers are not permitted.

As a result of currency constraints, most reinsured business still tends to be large projects, such as nuclear power plants and satellite launches, for which reinsurers can justify the need for currency exchange to the CIRC.

The reinsurance business in China is not relationship-oriented, and foreign reinsurers have tended to accept antiselection and absorb chronic losses in order to maintain a presence given the vast perceived potential of the market. Local primary companies have caught on quickly to cash flow concepts, and sometimes manage to reinsure on a "funds withheld" basis, paying no up-front premium. The size of the private reinsurance market has been estimated at around $400 million in 1998.

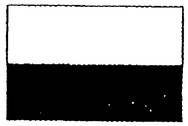
No foreign reinsurers are licensed, currently they only maintain representative offices in Beijing and Shanghai. Swiss Re has applied for a license, and we expect that others will follow.

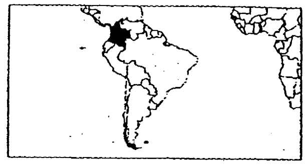
Investment restrictions: Until December 1999, all investments had to be in local bank deposits and bonds. Local investment returns were affected by periods of high inflation. Official bank interest rates were negative after inflation until 1997; an "unofficial" private banking market charged higher rates. China recently began issuing longer-duration fixed-income securities for the first time, important in helping life companies with their duration-matching problem.

The CIRC also recently allowed investment in equities up to 5% of assets, with some companies allowed a higher percentage, up to 10%; it is expected that this percentage will rise gradually. Because only local investments are permitted, insurers are not likely to rush headlong into the underdeveloped capital markets, so the change in asset mix to equities should take place gradually.

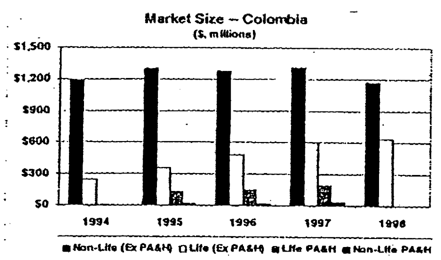
Other more attractive asset classes, such as direct investments in mortgages, infrastructure projects and corporate loans, also are expected to be made permissible investments. This change may take place relatively soon, and like many other changes taking place in China, would play to AIG's strengths.

Republic of Colombia





Population: Estimated at 40.2 million, with 2% annual growth. The population continues to make a major shift toward urban living, with approximately three-fourths living in urban areas (in 1964, 40% lived in urban areas). Average life expectancy: 66 for males, 72 for females.



Source: FASECOLDA.

Government: Representative democracy.

Market ease of entry: The market is free to foreign entrants. Foreign ownership of 100% is permitted. La Previsora is a state-owned insurer, but does not enjoy monopoly status. The government has considered floating the company. Two other smaller state-owned insurers operate in the market.

Market opportunity: The economy of Colombia has demonstrated powerful growth, with a 24% compounded annual growth rate from 1993-98. Life insurance penetration is very low at 0.9% of GDP, but is growing fast, with 33.7% annual growth over the same period. Non-life accounts for 1.3% of GDP, and has grown by 20.2% annually.

The economy went into a recession in 1999 with a 5% contraction. Premiums slowed but should power forward as the economy recovers, with an expected 3% growth rate for 2000.

After the passing of Law 100 of 1993, three insurance classes were introduced to the private insurance industry that were previously the domain of the Institute of Social Security (ISS). These were pensions, workmen's compensation, and health (general health and maternity). The companies writing health cover are not insurance companies, although some insurance companies are shareholders. These developments should continue to fuel the growth of the insurance industry. The ISS still competes with insurance companies.

AIG is an important player in the market, operating as Colmena AIG.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mrkt. Share	Percent Change
Colseguros	$232.6	15.7%	51.5%
Suramericana	$159.4	10.8%	13.6%
La Presisora	$146.8	9.9%	28.0%
Estado	$83.5	5.6%	57.5%
Ganadera	$70.0	4.7%	117.1%
Bolivar	$68.8	4.6%	20.4%
Colmena	$68.3	4.6%	-3.1%
Latinoamericana	$63.5	4.3%	36.4%
Mapfre	$57.6	3.9%	56.0%
Agricola	$51.0	3.4%	5.8%
Top 10	$1,001.6	67.7%	33.0%
Total	$1,480.0	100.0%	18.4%

Source: FASECOLDA

SOAT (Obligatory Insurance for Transit Accidents) is obligatory, but has low levels of indemnity and represents a small portion of total motor premium volume. Voluntary motor is written separately. Voluntary motor policies consist of three primary coverages: vehicle damage, theft and third-party liability. It is estimated that of those vehicle owners that buy a SOAT policy, 60% also take out some form of voluntary coverage. But only 30% of the country's 3 million vehicles are insured under voluntary cover. The average vehicle value continues to rise.

Workmen's compensation became available in 1995 and is a significant source of premium growth. Colmena AIG had a 26.7% market share in this line in 1997.

Top 10 Life Insurers – 1997

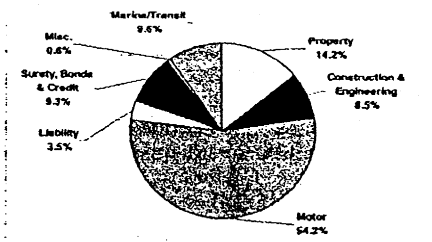
Company	DWP	Mrkt. Share	Percent Change
Suramericana	$103.3	14.8%	-9.7%
Bolivar	$84.7	12.2%	36.0%
Colseguros	$81.4	11.7%	26.0%
Colpatria	$48.6	7.0%	26.0%
Ganadera	$45.1	6.5%	165.9%
Grancolombiana	$35.7	5.1%	70.2%
Alfa	$35.3	5.1%	83.2%
Colmena	$32.6	4.7%	27.1%
Suratep	$32.2	4.6%	128.8%
Agricola	$28.0	4.0%	38.2%
Top 10	$527.0	75.7%	32.7%
Total	$696.1	100.0%	38.3%

Source: FASECOLDA

Special issues: Parts of Colombia are in earthquake zones, with Santafe de Bogota and the main industrial zones occupying the highest-risk areas. About 90% of fire policies have an earthquake coverage extension with 100% of multinational and industrial risks insured.

Insurance regulation: The Superintendencia Bancaria de Colombia is responsible for the control of all financial institutions, including insurance. While the Superintendencia is responsible for operational aspects of the insurance industry, the Technical Vice Ministry within the Minesterio de Hacienda (Finance) regulates the insurance industry.

Non-Life Premium Distribution 1998



Source: FASECOLDA.

Product regulation: Excluding the SOAT, there are no tariffs. Non-life premiums are subject to a 16% VAT. Fire premiums are subject to a 1% fire brigade charge. There is no VAT on life premiums.

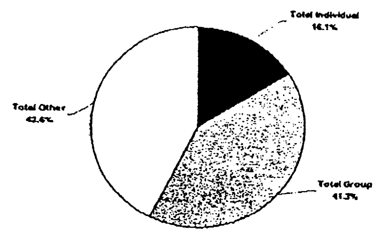
Compulsory insurance: SOAT, which compensates victims suffering death or injury as part of a motor vehicle accident; personal accident coverage for public service vehicles; and fire and earthquake insurance on buildings subject to a mortgage (a requirement of the loan, not by law). On the life side: affiliation to a pension scheme, affiliation to a health scheme, and group life for employees for sums insured equal to one month's salary for each year of service.

Distribution: Brokers and agents are the primary distribution source. Banks are increasing their involvement, and direct sales are limited to a few companies in the personal lines area. Marsh & McLennan is a majority partner in De Lima, the industry's dominant intermediary, with a 26% market share.

Degree of reinsurance: There are no limitations as to how much business is ceded to foreign reinsurers. On the life side, approximately 19% of premiums are ceded to reinsurers, and 42% on the non-life side.

Constraints on placement with foreign insurers: Insurance must be placed in Colombia unless there is no local market for a certain risk, in which permission may be given by the Superintendencia.

Life Premium Distribution 1998



Source: FASECOLDA.

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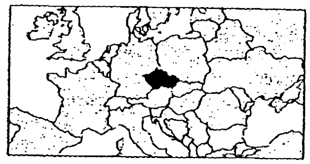
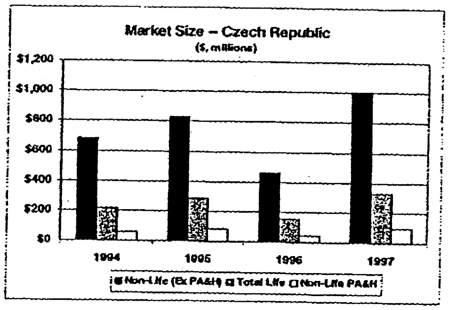
Czech Republic



Population: 10.3 million and declining; life expectancy: 70.4 male, 77.3 female; an aging population should increase the proportion of retirees from 32% in 1998 to 44.8% in 2020.

Government: Parliamentary democracy; the "Velvet Revolution" resulted in free elections and independence in 1990. The 1993 "Velvet Divorce" separated the former Czechoslovakia into the Czech and Slovak republics.



Source: Czech Insurance Association.

Market ease of entry: The Insurance Methodology and Licensing Section of the Ministry of Finance approves new applicants. Insurance operations may be branches or stock companies. The process is straightforward.

Market opportunity: The Czech economy has successfully made the transition from a state-controlled system; more than 75% of the economy is now generated in the private market. Having an Associate Agreement with the European Union (E.U.), the republic is anxious to join as a full member and is shifting its government and economy to align them with E.U. criteria. The Asian currency crisis and the Russian liquidity crisis had a dampening effect, reducing GDP by 0.6% in 1999. However, real GDP growth of 2.5% is projected for 2001, accelerating to 5% or more through 2008. In 1999, insurance industry revenues grew by 31.7% and pension fund appreciation was 6-7%. However, insurance penetration remains low, at 3.3%, half the level of the European Union.

The former state-owned company, Ceska pojistovna (CP), retains a 53.3% market share, down from 60% in 1997. CP is growing slowly due to its unattractive business mix; foreign companies including ING, AIG, Allianz, Generali and Nomura have made significant headway. In 2000, CP became majority-owned by one of its largest shareholders, PPF Group (First Privatization Fund); its market strategy may change as a result. In April 2000, PPF announced that it would buy in the remainder of CP.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Ceska pojistovna	$678.1	60.9%	13.9%
Ceska Kooperativa	$140.8	12.6%	15.6%
Allianz pojistovna	$56.5	5.1%	42.5%
Moravskoslezska Koop.	$52.4	4.7%	9.1%
CS-Zivnostenska	$37.9	3.4%	33.0%
IPB Pojistovna	$23.5	2.1%	81.6%
EGAP	$23.5	2.1%	151.4%
Generali pojistovna	$20.3	1.8%	103.9%
Ceska-rakouska	$15.1	1.4%	61.3%
AIG Ceska republika	$9.6	0.9%	70.4%
Top 10	$1,057.8	95.0%	20.2%
Total	$1,113.4	100.0%	20.7%

Source: Czech Insurance Association

Ceska pojistovna suffers from high administrative costs on an inefficient inherited book of whole life business and a lack of market sophistication. However, it has a well-known brand (with 91% name recognition compared to 62% for Allianz and lower percentages for others), and an extensive branch system.

ING has the largest foreign market share at 5.7% in 1999; AIG (AMCICO) is a top-five life insurer, with a small share but strong growth opportunities over time. In non-life business, AIG ranks in the top ten.

The biggest opportunity in the non-life market has been the demonopolization of the large motor market as of June 30, 1999, which has created both insurance and reinsurance demand in the private market. Motor business is 45% of the market. Sixty percent of renewing customers surveyed have said they planned to buy from CP; accordingly, CP will lose a significant portion of its market share. An aggressive advertising campaign has kicked off a market share war.

Life insurance is 27% of the total insurance market. The state life insurance monopoly was abolished in 1991. Life insurance penetration was quite low, 0.7% in 1998, and grew 27.3% in 1999. Most business is endowment-type products with a growing dread-disease market.

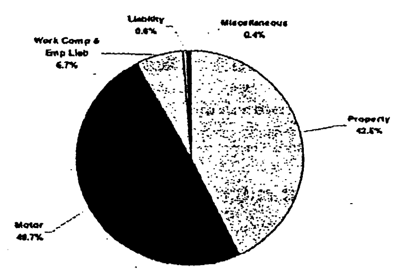
Over time, a vibrant life insurance market is likely. Near term, a residual attitude of reliance on state support curbs demand. And financial instability during the transition to a market economy (including capital markets volatility and the insolvency of some financial institutions) is another obstacle to development of life insurance as a long-term savings method.

The public social security system is funded on a "pay as you go basis" and currently requires contributions of almost half of payroll; the government commits to maintaining state-funded pensions at 45% of average wages; there are no company pension schemes and the private pension market is underdeveloped. In early 2000, AIG launched a dozen mutual funds managed by AIG Global Investment Group, including SunAmerica funds, and multimanager funds managed by Goldman Sachs, Alliance Capital and Barings. AIG also participates as a manager in the multi-manager World Investment Opportunities Fund, launched in the Czech Republic in 1998.

AIG also has jointly developed the PwC Center in Prague, a $34 million real estate project.

History: The first domestic company, the Czech Mutual Insurance Company, was founded to write fire insurance in Prague in 1827. After the end of the Austro-Hungarian Empire, the Czech state was occupied by the Nazis and the former Soviet Union in between periods of independence. The insurance market followed the country's fortunes. Following World War II, the private market was nationalized, and a state monopoly was created in 1948. Motor and household insurance remained a popular product, but the life and savings market withered during the Communist period.

Non-Life Distribution 1997



Source: Czech Insurance Association.

Special issues: Under Czech law, anyone found liable under a negligence or similar claim must pay a lifetime inflation-adjusted annuity to his or her victim. This creates a problem in assuming risks in the liability insurance market (e.g., motor), as the country has been characterized by a high and unpredictable inflation rate. In non-life insurance, property insurance covers mostly fire and flood hazards along with burglary. There are few natural perils other than flood.

Insurance regulation: The Insurance Act of 1991 was enacted hastily as part of the transition to a market economy. This legislation was recently remodeled after E.U. directives. The major change was to phase out composite companies, institute E.U. solvency and investment standards, deregulate policy rates and forms, and enhance the authority of Department 32 of the Ministry of Finance—the Insurance Supervisory Authority. Most important, rules requiring all investments to be in local securities have been widened to include other E.U. countries. The Czech capital markets are underdeveloped, and this change is important to a vibrant life insurance market.

The Supervisory Authority is understaffed, with inadequate resources to monitor solvency and market conduct given its requirement to approve all changes in rates and policy terms. Market reform in 2000 should alleviate this problem.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Ceska pojistovna	$229.2	57.2%	2.8%
Nationale-Nederlanden	$75.1	18.8%	29.4%
IPB Pojistovna	$47.6	11.9%	31.0%
AMCICO	$11.9	3.0%	29.9%
Allianz pojistovna	$11.6	2.9%	19.3%
Generali pojistovna	$6.3	1.6%	80.1%
Moravskoslezska Koop.	$6.0	1.5%	172.5%
Ceska Kooperativa	$3.8	1.0%	202.7%
CS-Zivnostenska	$3.7	0.9%	200.0%
Winterthur pojistovna	$1.9	0.5%	368.6%
Top 10	$397.1	99.2%	15.2%
Total	$400.3	100.0%	15.5%

Source: Czech Insurance Association

Compulsory insurance: Workers' compensation, which is purchased from one of three state-designated private companies as administrators. Also motor liability, aviation and watercraft liability, hunters' liability, and professional indemnity in classes such as attorneys, notaries, doctors, architects and auditors.

Product regulation: Uniform rates for motor and workers' compensation; others are non-tariff-rated. Life rates and both life and nonlife policy forms cannot be amended without approval, but a new law effective in 2000 will create open rating in most classes. A very slow approval process for new products also is being abolished by the new law. No premium taxes are imposed.

Distribution: Primarily through independent agents; bancassurance has been tried unsuccessfully but bank staff were not effectively "incented" to cross-sell. Significant interest in bancassurance suggests that this method will eventually become more common.

Degree of reinsurance: There are no restrictions such as deposit requirements or approvals for foreign reinsurers. Reinsurance demand is high and most business is reinsured abroad, particularly in the French and German markets. However, AIG received a good response in facultative writings after going through an extensive negotiation with the Ministry of Finance to obtain a local license for its non-life insurer, AIG Ceska republika.

Constraints on placement with foreign insurers: In non-life insurance, there are essentially none. In life insurance, only a licensed Czech company may issue a policy.

Investment restrictions: These are being liberalized to allow investment in nonlocal assets.

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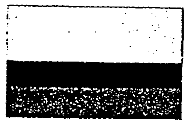
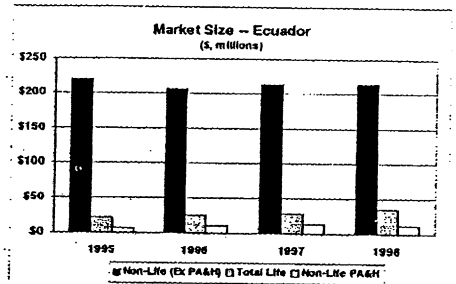
Republic of Ecuador



Population: 12.6 million, growth rate 1.9%, average life expectancy: 67 for males, 73 for females.

Government: After years of military rule, since 1978, Ecuador has been a constitutional democratic republic. The government fell into crisis in early 2000, when President Jamil Mahuad was overthrown by a popular uprising backed by the military and replaced by Vice-President Gustavo Noboa. While the military appears to support democracy, the rule of law has not been fully restored and the country remains unstable.

Market ease of entry: After a three-year moratorium on new entrants to the market, which ended in 1996, it became straightforward to establish an insurance operation in Ecuador upon fulfilling documentation and minimum capital requirements. One hundred percent foreign ownership is permitted.



Source: Superintendencia de Bancos, Ecuador.

Market opportunity: Due to financial mismanagement and the impact of El Niño on commodity prices, Ecuador has experienced its most severe political and economic crisis in decades, culminating in a default on $13.6 billion of foreign debt in 1999. The Ecuadorean sucre declined 67% in value in 1999 and another 17% in the first few weeks of 2000. Per capita GDP has declined 41% since December 1998. Interest rates are running at 150% and the currency has collapsed. It is difficult to predict when the economy may stabilize and recover.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Eqiunoccial	$17.4	7.7%	26.4%
Colonial	$16.1	7.1%	50.7%
Cigna	$13.4	5.9%	47.5%
Condor	$12.3	5.4%	39.2%
Rocafuerte	$11.0	4.8%	31.9%
Interoceanica	$10.5	4.6%	12.9%
Bolivar	$10.3	4.5%	75.1%
Panamericana	$9.5	4.2%	36.5%
Amozonas	$8.9	3.9%	106.9%
Seg. Unidos	$8.6	3.8%	43.2%
Top 10	$118.1	52.0%	41.9%
Total	$227.1	100.0%	36.6%

Source: Superintendencia de Bancos, Ecuador

In March, Gustavo Noboa, Ecuador's new president, enacted banking and currency reforms, "dollarizing" the currency and securing a promise of $2 billion in financial aid from the International Monetary Fund (IMF). However, the Ecuadorean economy has chronically been one of the region's poorest, and insurance opportunities for the time being are likely to remain limited.

Insurance penetration is low, 1.15% in non-life insurance and 0.17% in life insurance.

Marine, energy and property risks are written in the private market. AIG, through its AIG Metropolitana joint venture, writes industrial fire, third-party liability and personal accident business in Ecuador. AIG's pro forma personal accident market share in 1998 was estimated at 24.0%. The personal accident market is small but growing and innovative.

Ecuador has a public Social Security system, although benefits are very low. Employers are required to provide pension benefits; however, employees receive benefits only after at least 20 years of service at the same company. Lump-sum payouts are optional and the life insurance/annuity market may eventually be able to capitalize on this when the economy stabilizes. No market exists for individual savings plans. The individual life market is also very small. Lapse ratios are high due to the poor economy and churning by insurance agents.

History: Ecuador was conquered by Spain in 1533 and liberated in 1822 by Antonio Jose de Sucre, becoming part of Colombia. In 1830, Ecuador achieved statehood. Throughout the 20th century and as recently as 1995, Ecuador has skirmished with Peru in border disputes, but reached a peace agreement in 1999.

The British companies, such as Royal, first established branches in Ecuador in the 19th century. Local insurers were set up 1886 but liquidated after the Great Fire of Guayaquil in 1986. American insurers entered the market in the 1920s. Nacional, now an affiliate of Generali, was formed in 1940; it is the oldest local company still operating.

Insurance regulation: Under the General Insurance Law of 1998, insurance is ultimately regulated by the Banking Superintendency, a politically oriented arm of the government, which delegates responsibility to the Intendencia Nacional de Seguros. The changes in the banking system will likely lead to a new regulatory regime for insurance at some time in the future.

Compulsory insurance: Only a few classes: Workers' compensation (a state monopoly), marine cargo, aviation liability, condominium fire cover, and motor liability.

Top 10 Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Pan America Life	$7.4	21.6%	196.3%
Rocafuerte	$5.4	15.7%	48.0%
Seg. Pichincha	$4.6	13.4%	46.3%
Equivida	$3.3	9.6%	18.2%
Memorias	$2.4	7.1%	16.8%
Pan Americana	$1.9	5.7%	17.4%
Coopseguros	$1.2	3.5%	38.7%
Previsora	$1.1	3.3%	397.6%
Interoceanica	$0.9	2.7%	245.5%
Bolivar	$0.8	2.4%	32.1%
Top 10	$29.0	85.0%	63.9%
Total	$34.1	100.0%	67.5%

Source: Superintendencia de Bancos, Ecuador

Special issues: All policies must be issued in Spanish. Most insureds buy policies denominated in U.S. dollars to combat inflation. Insurer balance sheets must be published in a local newspaper before the end of January each year.

Special issues: Ecuador is subject to severe catastrophic risk. The country sits at the intersection of the Nazca and South American tectonic plates, making seismic activity difficult to predict. Offshore earthquakes are common, raising the risk of tsunami. The country's important energy industry is located in the highest-risk zone. Ecuador also has more than 30 active volcanoes. The country is susceptible to flood and mudslides. Non-life insurers are required to set up special catastrophe reserves.

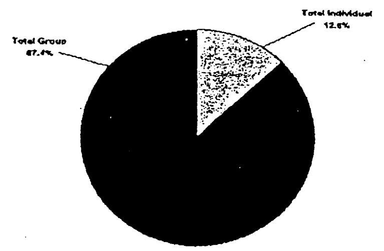
Product regulation: Nontariff rates. The insurance department approves rates and forms. A 10% VAT and an additional 5.92% Superintendencia tax is levied on all premiums, a disincentive to life insurance sales.

Distribution: Distribution is primarily through tied agents as well as brokers; direct selling is also common. Bancassurance was beginning to be common but most of Ecuador's banks have been closed by the government and this method of selling likely will not take hold any time soon.

Degree of reinsurance: There are no constraints on foreign reinsurance.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited but fronting is common and permissible. Prohibitions against placing insurance abroad are commonly violated.

Life Premium Distribution 1998



Source: Superintendencia de Bancos, Ecuador.

Investment restrictions: Investments may be in foreign asset classes. No more than 20% may be invested in public equities, 25% in private equities, 30% in local real estate; 10% in foreign government or financial institution bonds; 10% in traded investment funds; and the remainder in other asset classes such as state bonds, bank bonds, bank loan notes and corporate loans.

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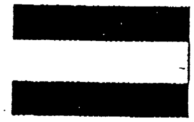
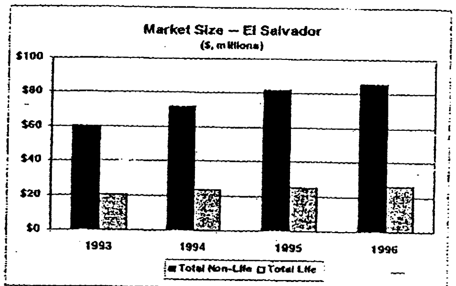
Republic of El Salvador



Population: 5.0 million, growth rate 2.2% annually, life expectancy: 65 male, 70 female. Insurance expenditure per capita in 1996 was approximately $24.75, nearly all of this in non-life insurance.

Government: Democratic republic, with a constitution dating from 1983.



Source: Superintendencia del Sistema Financiero.

Market ease of entry: The market is relatively unrestricted once shareholder requirements are met.

Market opportunity: The non-life market is intensely competitive. Personal accident coverage has historically been included in life policies. The social security system was previously managed by the government but has been transferred to the private market through a new mandatory pension system. Life insurers may now sell insurance products such as annuities to pension administrators, creating an entirely new market. Group life coverages and individual life are also growing markets.

History: El Salvador became part of Guatemala after the Spanish conquest in 1524. The country achieved independence in 1821. Civil war erupted in 1979 after a junta, and in 1992 a cease-fire took place the country democratized and moved to a market economy rapidly. British insurers brought insurance to El Salvador in the 19th century; the oldest local company still writing is La Centro Americana.

Insurance regulation: The Superintendencia del Sistema Financiero oversees insurance. The Pension Superintendency oversees the new mandatory private pension schemes.

Compulsory insurance: Motor liability became compulsory in April 1999; workers' compensation, which is provided by the state, is also compulsory. Participation in the new private pension scheme is mandatory.

Special issues: Insurers are required to incorporate as public companies traded on the local stock exchange. Seventy-five percent or more of shareholders must be either Central American nationals, local companies whose majority shareholders are Central American nationals, or "first class" foreign reinsurers. All policies must be issued in Spanish, but may be denominated in any currency.

Top 10 Non-Life Insurers – 1996

Company	DWP	Mkt. Share	Percent Change
Seguros e Inversiones	$22.9	18.4%	6.3%
La Centro Americana	$21.4	17.2%	2.3%
Aseguradora Suiza Salvad	$18.9	15.1%	-2.8%
Union y Desarrollo	$15.5	12.4%	0.0%
General de Seguros	$8.6	6.9%	16.9%
Aseguradora Agric. Comerc.	$7.9	6.3%	55.7%
Pan American Life Ins. Co	$7.5	6.0%	5.2%
Seguros Universales	$6.2	5.0%	-11.1%
Aseguradora Salvadorena	$4.5	3.6%	2.5%
Seguros del Pacifico	$4.1	3.3%	57.1%
Top 10	$117.6	94.3%	47.2%
Total	124.7	100.0%	5.4%

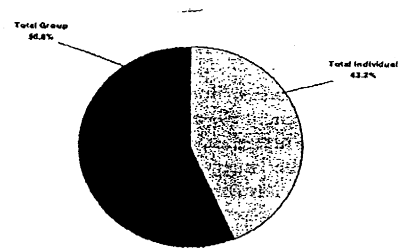
Source: Superintendencia del Sistema Financiero

El Salvador is subject to significant catastrophe risk from earthquakes and the chain of volcanoes that bisects the country. San Salvador, the capital, has been partially or totally destroyed by volcano eruptions or earthquakes six times in the past 200 years. There have been 13 major earthquakes in El Salvador during the same period.

In 1986, a vertical-thrust earthquake measuring 5.4 on the Richter scale occurred 56 miles from San Salvador, killing 2,000 people and resulting in approximately $2 billion in property damage, nearly all of which was uninsured. The extensive damage relative to the force of this earthquake and its distance from San Salvador is of concern in estimating probable maximum loss (PML) exposures.

Product regulation: Nontariff rates. Policy forms must be approved by the Superintendencia. All policies except life, health and accident incur a 13% tax. Fire policies are surcharged an additional 1%.

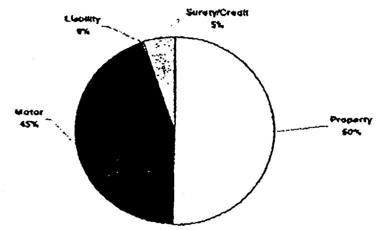
Life Premium Distribution 1996



Source: Superintendencia del Sistema Financiero.

Distribution: Primarily through independent agents and brokers; direct selling is limited, and bancassurance is beginning to appear. Banks and insurance companies are not allowed cross-ownership, however.

Non-Life Premium Distribution 1996



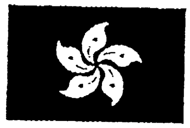
Source: Superintendencia del Sistema Financiero.

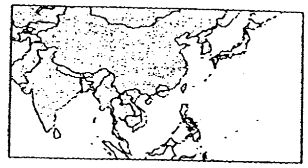
Degree of reinsurance: Foreign reinsurers must register with the Superintendencia. There are no restrictions on overseas reinsurance. There are no local reinsurers, and a large portion of non-life premium is reinsured outside the country.

Constraints on placement with foreign insurers: None.

Investment restrictions: Pension investments must be cleared by the Superintendencia. Investments must be made in local assets.

Hong Kong, S.A.R.





Population: 6.5 million, growth rate 3% in 1997, up from 1.8% in 1993; average life expectancy: 75.7 male, 81.3 female. Per-capita GDP was $24,440 in 1996.

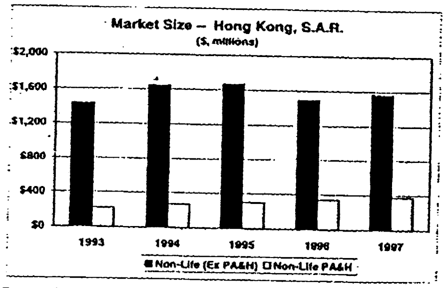
Government: Until recently, Hong Kong was a British colony ruled by a governor, with a legal and commercial system imported from the United Kingdom. In 1997, Hong Kong became a Special Administrative Region of the People's Republic of China. Beijing determines security, defense and foreign policy, and the president of the PRC, Jiang Zemin, is the head of state. Under the Basic Law, however, Hong Kong continues to enjoy a high degree of autonomy.

Hong Kong's government is led by the chief executive, who is appointed by the Chinese government in Beijing. Pro-China and pro-business candidates are expected to dominate the assembly. Hong Kong has been allowed to maintain separate representation in such organizations as the World Trade Organization (WTO) and the IMF.

As long as China continues down the path of market reform, Hong Kong is likely to benefit. The territory already is a major source of capital investment and financial expertise in China.

Market ease of entry: Foreign ownership is unrestricted, although Insurance Authority approval is required for an individual seeking 15% or more of a local insurer. Foreign companies are free to acquire shares in an existing insurer, establish branches or incorporate local subsidiaries. A large percentage of Hong Kong's non-life business is placed overseas. Compulsory classes must be written by admitted insurers, but nonadmitted insurers are allowed to operate in both the life and non-life markets. Insurers and brokers are required only to advise clients of an insurer's nonadmitted status.

The market is truly international. All of the major companies, excluding the local bancassurance companies, are foreign-owned, and a significant amount of Hong Kong business is placed directly abroad on a nonadmitted basis.



Source: Monetary Authority of Hong Kong.

Market opportunity: Hong Kong, the world's 24th-largest insurance market in 1998, is an ideal staging area for reinsurers looking to assume premium from the mainland and for brokers and direct writers covering their clients' mainland investments. Hong Kong primary writers are not admitted on the mainland, but nonadmitted PRC business is written in Hong Kong. The IA expects that flow of business to continue without interference from Beijing.

The Hong Kong market itself is overcrowded. It had 151 non-life insurers, 45 life insurers and 19 multiline companies authorized at the end of

1997, although only about 40 of these were active in the market. The top ten non-life insurers in Hong Kong account for only 36.7% of the gross premiums written, while the top ten life insurers account for 79.7% of all premium income. New entrants are screened to make sure that they understand the nature of the market and have a reasonable plan for carving out viable niches. One area for growth is professional indemnity because of the high indemnity requirement for Mandatory Provident Fund trustees.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mkt. Share
American Home, AIA	$168.5	7.3%
Bank of China Group	$146.0	6.3%
Ming An	$108.9	4.7%
China Insurance	$86.2	3.7%
Winterthur Swiss	$78.2	3.4%
Eagle Star	$76.1	3.3%
HSBC Insurance	$72.1	3.1%
Guardian Insurance	$65.0	2.8%
General Accident	$61.9	2.7%
Tai Ping	$57.6	2.5%
Top 10	$920.4	39.7%
Total	$2,316.7	100.0%

Source: Monetary Authority of Hong Kong

One change in recent years was the attempt by mainland companies such as Ming An and Bank of China Insurance to capture a large share of the market, driving prices lower. Total non-life premiums in 1998 fell 8%, although total premiums written in Hong Kong grew 4.2% in 1998, to $6.96 billion, driven by an 11.5% rise in life premium income.

As for Ming An and Bank of China, those two mainland companies managed to capture a combined non-life market share of 11% in 1998, leaving AIG's American Home Assurance unit in third place with 4.2% of the market. However, AIG writes non-life premium through two life units, American International Assurance Co. (Bermuda) and AIA (HK). The three companies generated a total of $168.5 million in non-life gross premiums in 1998, or 7.3% of the total, making AIG companies the largest non-life insurer in Hong Kong.

The gains in life insurance appear to have accelerated in 1999 from the 1998 level. The Hong Kong Federation of Insurers, representing 13 of Hong Kong's life insurers, posted a 31% increase in new business in the individual life category, and a 61% rise in single-premium business. The group life sector recorded a 16% increase in annualized premiums for basic coverage.

The life insurance business in Hong Kong represents the biggest growth potential, because of the Mandatory Provident Fund Schemes Ordinance (MPF), passed in 1995, that requires employers and the self-employed to set up retirement savings plans similar to U.S. 401(k) pension plans to begin accepting contributions by December 1, 2000.

Only 29% of the working population are covered by company pensions, with welfare benefits available only for the very poor. The MPF will require all workers, including the self-employed, to contribute a minimum of 5% of income up to HK$20,000 (US$2,560) per month to a personal retirement savings fund. Employers will have to contribute an additional 5% of salary. MPFs are expected to create an additional 2.2 million policyholders and contributions of HK$12 billion (US$1.54 billion) in their first year of operation.

Top 10 Life Insurers – 1998

Company	NPW	Mkt. Share
AIA (Bermuda)	$962.3	20.5%
AXA China	$672.4	14.4%
Manulife	$662.7	14.1%
HSBC Life	$507.4	10.8%
Prudential Assurance	$221.3	4.7%
Pacific Century	$190.8	4.1%
Aetna (East Asia)	$162.4	3.5%
CMG Asia	$125.8	2.7%
Eagle Star Life	$125.2	2.7%
Royal & Sun Alliance	$104.7	2.2%
Top 10	$3,734.9	79.7%
Total	$4,683.5	100.0%

Source: Monetary Authority of Hong Kong

The individual life market is 70% whole life, which is used mainly to accumulate and to pass savings along to subsequent generations. Security is therefore more important than investment returns, and most policies are "guaranteed capital" products. Policies are U.S.-style cash dividend contracts that allow savers to draw an annual income during retirement. For tax reasons, 95% of policies are foreign currency denominated and are mainly invested in U.S. Treasuries.

New entrants to the savings market have been pushing inflation-adjusted contracts, which now account for 30% of individual life new business premiums. The Hong Kong life, pensions and health markets are all showing consistently strong growth, reflecting the continuing increase of personal wealth in the territory. Average annual growth rates between 1992 and 1996 were 20.9% for life and pensions, which represents a total of 66.1% of all insurance sales, and 19.4% for personal accident and health, which accounts for 6.3%. Non-life is 27.6% of the market. In 1996, 49.5% of Hong Kong's population owned individual life policies.

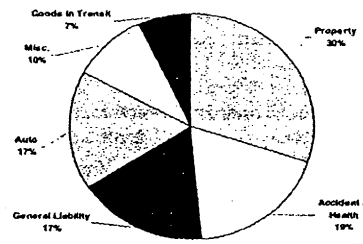
AIG, the largest life insurer in Hong Kong, with 9,000 agents, has identified this as one of the three non-U.S. markets that it is targeting with new mutual fund and annuity products designed by its SunAmerica unit. In 1998, AIG's AIA life unit alone generated $956.3 million of premium income, capturing 20% of a market that grew 11.5% from 1997, 17.1% from 1996 and 17% from 1995. Annuity sales in Hong Kong represented a tiny sliver of the total life market.

Earlier this year, AIG also set plans to form an alliance with Yasuda Mutual Life Insurance Co. in the pension business. Starting this December, Yasuda will sell pension fund products designed by AIG's AIA unit to Japanese firms in Hong Kong. Again, the goal is to capitalize on the new pension system. Yasuda will be in charge of sales of the products in Hong Kong through its subsidiary. The two firms will then cooperate in the pension fund business in Japan.

Another recent U.S. entrant into the Hong Kong life market was MassMutual Financial Group, which purchased CRC Protective Life Insurance Co. from HKCB Bank Holding Co. and Protective Life Corp. of Birmingham, Alabama, and renamed it MassMutual Asia. The new unit has more than 1,000 agents and $100 million in assets under management.

Principal Financial Group, which entered the Hong Kong market about three years ago, is one of 21 MPF companies and expects sales to exceed $250 million in 1999 and $2.5 billion this year for the entire market.

Non-Life Premium Distribution 1998



Source: Monetary Authority of Hong Kong

Earlier this year, AXA China Region Ltd., a unit of AXA SA of France, set plans to spend close to $30 million to set up operations as a provider for the MPF program by the end of this year. AXA's goal is to take 15–20% of the market by December and to break even in five years.

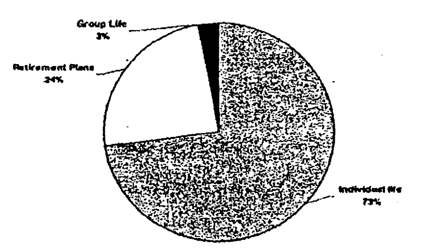
On the non-life side, where premiums are shrinking, the auto insurance business accounts for a relatively small portion of the total, 17.1% in 1998, because of the limited number of cars that the territory can handle. The largest single segment is property insurance, which accounts for 29.9% of the non-life market, driven by bank requirements that mortgaged homes be insured to the full amount of the loans against them.

Because there are no restrictions on nonadmitted insurance, a large but difficult-to-determine amount of Hong Kong business is placed directly abroad. This business is not included in IA figures.

The Hong Kong non-life market is relatively mature, in part because most buildings are insured and because of the physical limits on growth because of Hong Kong's small size, which also places growth limits on the auto business. The steady increase in personal wealth, however, bodes well for the personal lines sector.

Intensely competitive conditions haven't deterred AIG from looking to places like Hong Kong for growth in the non-life arena. Its American International Underwriters unit has launched liability coverage in Hong Kong for companies operating on the Internet. This is a product AIG developed and launched in the U.S. earlier this year. The potential for Hong Kong is hard to pin down, but some reports suggest that the total value of products and services transacted over the Internet in Hong Kong will increase from $60 million in 1998 to $2.4 billion by 2003.

Life Premium Distribution 1998



Source: Monetary Authority of Hong Kong.

History: Agents of British insurers introduced insurance to Hong Kong in the middle of the 18th century, but the territory didn't develop into an insurance center until the 1950s, fueled in part by the Communist takeover of China and the subsequent migration of companies from Shanghai to Hong Kong. With the resulting expansion of the local economy, numerous foreign insurers, reinsurers and brokers set up operations in Hong Kong to serve as regional offices as well as to serve local clients.

AIG's predecessor company, American International Underwriters, was among the earliest foreign arrivals in the Hong Kong insurance market. The company was founded in 1919 in Shanghai; opened an office in Hong Kong in 1931; and in 1950, following the Communist takeover, moved its Shanghai headquarters to its established location in Hong Kong. By the end of 1999, AIG was granted a license to sell life insurance in Shenzhen, just across the border from Hong Kong in Mainland China and not far from Guangzhou and Foshan, two other mainland cities where AIG has been granted licenses.

Insurance regulation: The environment is fairly free and open for insurers, and the PRC has shown no sign of wanting to change that. The Insurance Authority (IA) enforces Hong Kong's Insurance Companies Ordinance, which took effect in 1983, and has implemented several regulations along the lines of U.S.-style solvency regulations to ensure the maintenance of assets in Hong Kong to match liabilities for risks in Hong Kong. Provisions also regulate solvency margin requirements, prudent asset-liability valuation, and intermediaries. In 1997, regulatory concessions were instituted to encourage the formation of captive insurers. Essentially, regulation of insurers is limited to financial strength. Otherwise, the IA stays out of insurers' day-to-day operations.

Compulsory insurance: Workers' compensation, auto and watercraft liability. Lawyers, insurance brokers and trustees of Mandatory Provident Funds are required to be covered for professional indemnity.

Product regulation: Rates for fire, workers' compensation and auto are theoretically regulated, although the rates are largely ignored for fire and workers' comp. Auto tariffs appear to be followed, but agency commissions are higher than the premium calculations allow for. Brokers and insurers are free to set their own policy forms and language. Policies are usually in English and can be denominated in whatever currency is required. Cancellation provisions follow London market practice.

Top 10 Non-Life Reinsurers – 1997

Company	DWP	Mkt. Share
Munich Re	$68.7	26.4%
Toa Re	$51.1	19.6%
China Re	$47.6	18.3%
Swiss Re	$33.3	12.8%
Cologne Re	$17.4	6.7%
ERC Frankona Re	$10.0	3.8%
Everest Re	$6.9	2.6%
Asian Area Re	$6.2	2.4%
SCOR Re	$6.0	2.3%
Yasuda Re	$4.4	1.7%
Total	$260.8	100.0%

Source: Monetary Authority of Hong Kong

Distribution: The traditional agency system is the main distribution channel for personal lines. Two companies, including AIU, tried direct sales of auto policies, but channel conflict was evident. All of the major banks have insurance subsidiaries or insurance agencies. After a slow start, the bancassurers are gaining market share, particularly among small to medium-sized commercial concerns. Brokers control perhaps the majority of large commercial accounts.

Agencies are still the most important distribution channel for personal lines. As September 30, 1999, 46,923 individual agents were registered.

Degree of reinsurance: Hong Kong, which has no state reinsurance company, is one of the leading Pacific Rim reinsurance centers, along with Tokyo, Singapore and Sydney. The territory's roughly 29 local professional reinsurers write more regional business than international. Hong Kong is the nearest reinsurance center to the People's Republic of China and is believed to fill a large percentage of the PRC's reinsurance needs.

Constraints on placement with foreign insurers: None. The IA, however, examines the structure and security of companies' reinsurance coverage.

Investment restrictions: Non-life insurers, other than professional reinsurers and captives, are required to maintain assets in Hong Kong equivalent to 80% of their net liabilities and solvency margins applicable to their Hong Kong domestic business. Proportional limits on investment categories are 50% in listed securities; 30% in real estate and/or 30% in listed shares, unit trusts and mutual funds not to exceed a combined total of 40% in these two categories; and 10% in unlisted securities.

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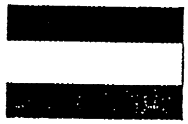
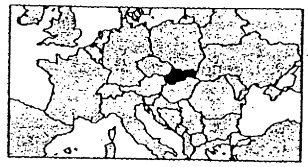
Hungarian Republic

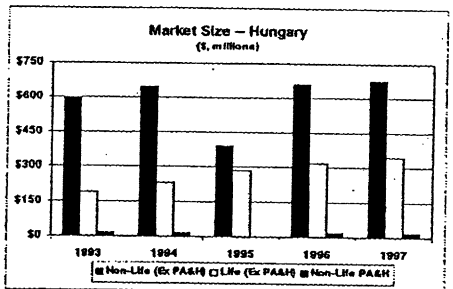




Population: Estimated at 10.2 million in January 1997, the population has been falling at 3.7% annually from 10.7 million in 1981. Average life expectancy: 75 female, 66 male.

Government: Multiparty democratic republic.

Market ease of entry: Hungary has privatized its state-owned industries by sale rather than distribution of shares to the public. It has welcomed foreign investment, which has helped modernize the economy. Foreign insurers are allowed to buy any percentage of an existing Hungarian insurer and to establish wholly owned subsidiaries or branches. The only insurance company owned directly by the state is MEHIB (Magyar Exporthitel Biztosito Rt), which writes only export credit guarantee business.



Source: ABIF.

Market opportunity: All but two Hungarian insurance companies are foreign-owned. The non-life insurance industry represents 1.5% of GDP and has displayed growth in line with that of the economy, at 23.35% compounded annually from 1993-98. The life insurance industry reported 38.7% compounded annual growth over the same period, and represents 0.9% of GDP. One of the reasons for slower growth in the non-life insurance industry is the impact of huge rate increases imposed on motor Casco policies, which caused penetration rates to fall from 70% to 16.4% of motorists. Rates are beginning to come back down, which should support higher growth rates.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Hungaria	$319.3	43.9%	16.3%
Providencia	$101.6	14.0%	28.1%
AB-Aegon	$101.3	13.9%	3.8%
Generali Budapest	$55.7	7.7%	20.2%
OTP-Garancia	$54.9	7.6%	20.8%
AXA-Colonia	$32.1	4.4%	26.2%
Argosz	$18.0	2.5%	51.1%
AHICO	$12.3	1.7%	31.9%
Atlasz	$11.2	1.5%	16.9%
Europa-GAN	$5.1	0.7%	2.7%
Top 10	$711.4	97.9%	17.7%
Total	$726.6	100.0%	19.0%

Source: ABIF

A recent issue of the *Hungary Weekly Business Report* reported that annual life insurance premiums grew 33.8%, and non-life premium 14.4% in 1999.

Hungaria, one of the former state-owned companies, is the non-life insurance market share leader, with 44% of the market. It still leads the commercial lines, but new entrants are chipping away at its share. The top five non-life insurers control 85% of the market.

Motor is the largest part of the Hungarian non-life insurance market, with a 60% share. MTPL accounts for two-thirds of motor business, while

Casco accounts for the balance. Casco policies cover accidental damage and theft, plus various supplementary extensions.

Top 10 Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Nationale	$156.8	37.5%	34.3%
AB - Aegon	$102.0	24.4%	18.6%
Providencia	$40.5	9.7%	30.5%
Hungaria	$29.4	7.0%	33.5%
Axa - Colonia	$12.5	3.0%	47.4%
OTP - Garancia	$35.3	8.4%	317.9%
AHICO	$10.3	2.4%	28.8%
Signal	$9.6	2.3%	43.7%
Gloria - Swiss Life	$6.1	1.5%	41.0%
Generali Budapest	$4.8	1.1%	80.9%
Top 10	$407.2	97.2%	38.3%
Total	$418.7	100.0%	40.2%

Source: ABIF

AIG operates as AHICO Elso Amerikai-Magyar, owned 100% by American Life Insurance Co. Its non-life market share is 1.7%, while its life share is 2.4% as of 1998. AIG and Zurich focus on large industrial risks where capacity requirements are high. Privatizations, such as the sale of the power-generating industry, and greater foreign investment should continue to drive demand for commercial/industrial insurance protection. AHICO's composite premiums (life and non-life) grew by 30% in 1998.

In November 1999, AHICO expanded into the homeowners' market, which industry participants expect to grow faster than the economy. AHICO also launched a car insurance product.

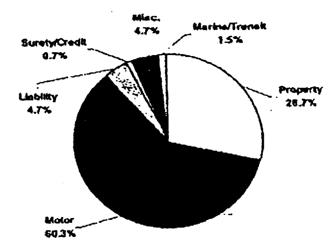
Observing growth rates in the 50% area in the directors & officers' (D&O) line, AIG plans to introduce a variety of products to this market in the spring of 2000.

Insurance regulation: ABIF, which is part of the Ministry of Finance. A seven-member supervisory committee advises on insurance matters. ABIF supervises the 30 insurance associations as well as the insurance companies and brokers.

Compulsory insurance: Motor third-party liability (MTPL). Compulsory third-party liability has also expanded to lawyers, insurance brokers, auditors, bookkeepers, doctors in private practice, chemists, private detectives and security guards. A new bill is expected to extend compulsory third-party liability to other professions, including operators of shooting ranges and private care homes for the elderly and children.

Product regulation: Open rating with the exception of MTPL. There are no premium taxes on insurance policies. Parliament is expected to approve a law to liberalize MTPL rates, with a projected launch date of January 1, 2001.

Non-Life Premium Distribution 1998



Source: ABIF.

Distribution: All classes of non-life insurance have traditionally been distributed through tied agents. Brokers entered the market in the mid-1990s and have assumed a more dominant role in the commercial and personal line markets. Brokers control up to 60% of commercial and industrial accounts. A handful of companies have developed direct sales efforts, largely in the life and MTPL areas, with the use of telesales personnel.

Marsh is the leading broker, double the size of number two, Erix (connected with Willis). Aon and Sedgwick also have a presence in Hungary.

Brokers are estimated to control one-quarter of the market.

Degree of reinsurance: Given that the industry is largely foreign-owned, and that reinsurance is handled by the home office facilities of the participants, industry-wide retention details are not available. The local reinsurance market is virtually nonexistent, as it represents 0.28% of life and non-life premium volume. The Continental market handles most reinsurance, and the London market is used for certain nonproportional and specialist classes due to greater perceived flexibility.

Constraints on placement with foreign insurers: Insurance, insurance broking and insurance consulting may only be carried out by companies registered and licensed in Hungary. Foreigners may place business with companies outside of Hungary with respect to personal property, and accident and life risks. There are no restrictions on fronting arrangements. There are no restrictions on domestic insurers placing reinsurance abroad. Foreign reinsurers do not have to be approved or to put up deposits.

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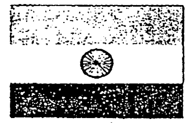
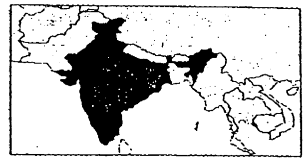
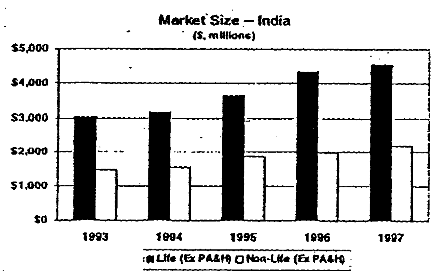
Republic of India





Population: Estimated at 970 million in 1997, or about 15% of the world's total, with an annual growth rate of 1.5–2%. Allianz estimates the potential life insurance market size today at 150 million persons. India's population could reach 1.5 billion by 2030, overtaking China as the world's most populous country. Most people live in rural villages, and 60% of Indians live in villages with fewer than 4,000 people. Life expectancy has increased from 32 years in 1951 to 61 years in 1992, still lower than other Asian countries.



Source: GIC.

Government: Democratic republic. India became independent from Great Britain in 1947. Its constitution became effective in 1950 as the country became a Republic and part of the British Commonwealth.

Market ease of entry: A state monopoly currently exists. The exception is export marine cargo, which may be insured outside of India. Also, on an exception basis, approval can be sought for certain multinational programs to be insured outside of India.

In 1994, a report by the Malhotra Committee developed a proposal to propagate the issue of insurance liberalization and the eventual opening of a private insurance market. The committee's major recommendations were the following: 1) to allow the formation of both life and non-life private insurers, with the number of new entrants controlled; 2) to hold ownership by the promoter to 26–40% of the insurance company; 3) to selectively approve foreign insurers, but only operating through a locally floated company, such as a joint venture or partnership; and 4) to form an independent regulatory body to oversea private insurers.

Shortly after the Malhotra proposal, international companies began setting up representative offices in India. The Insurance Regulatory and Development Authority (IRDA) was established in 1996, an important step in the liberalization process. The IRDA Bill 1999 formally sought to open the insurance market for international development, permitting insurers to structure joint ventures. The IRDA would act as a regulator, independent of the government. The bill specified that the foreign ownership level would not exceed 26%. Insurance intermediaries would also be required to obtain licenses from the IRDA. The bill was passed in December 1999 and the licensing approval process is under way.

With liberalization finally a reality in 2000, several international insurers have set up proposed joint ventures with Indian partners. AIG is partnering with the Tata Group, the country's largest industrial organization. Frank Wisner, a former Ambassador to India, is AIG's Vice Chairman of External Affairs. Other partnerships include New York Life's Max New

York Life venture with Max India and Allianz's joint venture with Alpic Finance.

In 1997, the process of pension fund reform was also initiated, in which the Unit Trust of India (UTI) and the Life Insurance Corporation of India (LIC) would engage in pension fund management, and be free in enter into joint ventures relating to pension funds.

Indian banks have been researching insurance market opportunities, and many have announced intentions to engage in joint ventures with foreign companies.

As part of its significant commitment to India, AIG plans to introduce an extensive menu of insurance products, including personal lines, casualty, accident and health, life insurance, financial lines and risk management services. Few of these products are currently sold via the General Insurance Corporation of India (GIC) and LIC. AIG's joint venture with the Tata Group will involve taking an extensive local presence. AIG will be submitting a life and non-life license to the IRDA. The IRDA is expected to fully open international reinsurance gateways, an important factor to round out AIG's India expansion strategy.

AIG also plans to invest $1 billion in the country through its Asia Fund. Areas of capital use include infrastructure projects for telecom, power, information technology and transportation development.

At this writing, licenses are expected to be issued between October and December 2000. AIG is advantaged from a licensing standpoint, as it has the largest investment commitment to both insurance and infrastructure funding. Further, Tata has a well-known brand name in India, which can be leveraged along with its distribution network in several areas, including auto, steel, tea and coffee, and financial services.

Insurers' role in future infrastructure development has been a key supporting point for liberalization since 1994, as insurers have the ability and preference to invest in fixed-income long-gestation projects. AIG's alignment with the government's preferences on this issue should benefit it as licensing approvals are being considered. AIG also runs the Indian Sectoral Equity Fund in a partnership with India's Infrastructure Leasing and Financial Services, a $110 million commitment.

Dalip Verma, chief executive of AIG's Indian operations, recently stated that Tata-AIG is targeting $500 million of premium in five years.

Market opportunity: Agriculture remains an important element of GDP; about 70% of the population depends on the land for survival. GDP per capita lags that of India's Asian neighbors, running at $390. GDP is expected to grow 6.8% in 2000.

Composition of GDP	
Manufacturing, construction and utilities	29.0%
Agriculture, forestry, fishing and mining	29.0%
Transport, communications and trade	20.0%
Real estate and finance	11.0%
Other services	11.0%
Total	100.0%

Calculations as of 1995/96.
Source: EIU

From 1992/93 to 1996/97, the Indian insurance market grew by 45-50% in life and 35% in non-life. Non-life insurance represents 0.6% of GDP, while life accounts for 1.2%, for a total of 1.8%-very low penetration by Asian standards, and making India one of the world's most underinsured countries. Average per capita premiums are $4.72 for life and $2.25 for non-life. Life insurance funds represent slightly more than 10% of household savings in financial assets. Both life as a percentage of GDP and household financial assets have been running at similar levels over the past few years.

A 10% life insurance savings penetration is considered low compared to other nations. Further, life insurance accounts for only 6% of gross domestic savings (GDS), also signifying very low penetration. In the United Kingdom and

South Africa, life insurance premiums account for more than half of GDS. Partially contributing to this is India's low average income per capita, and its relatively lower level of savings devoted to long-term assets. However, according to the 1993 Malhotra Committee Report, only 22% of the insurable population has been tapped. Tremendous insurance growth potential exists in this vastly underinsured market.

India has a very young population, with approximately two-thirds of its people below 30 years of age. Over the next 30 years: 1) the urban population is expected to increase, 2) the percentage of people over 60 is expected to increase, 3) the birth rate is expected to decrease, and 4) life expectancy is expected to increase. This last factor is expected to represent one of the strongest contributors to greater demand for life insurance products.

The use of insurance has begun to increase in urban households. Advancements in communications and the highway infrastructure will also yield insurance opportunities for the balance of India's population.

Given the monopoly status LIC enjoys, a lack of incentive to introduce innovative product features or produce enhanced returns currently affects new sales of life insurance products. The introduction of competition should trigger greater demand as consumers gain the ability to select from a larger variety of products, and with prospects for higher embedded investment returns.

Risk management is not well developed in India. Even multinational corporations do not employ very sophisticated risk management strategies. This could present an attractive opportunity for international insurers through education and the ability to offer a broader array of products and services.

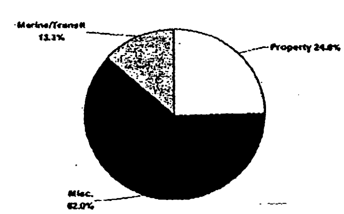
Motor accounts for approximately one-third of non-life premium and the majority of non-life losses. Motor premiums have more than doubled in 1997 over 1993, driven partly by higher vehicle ownership. The highway infrastructure is one of the world's most underdeveloped.

Demand for general liability coverage is not high, given that the Indian public is not litigious.

India does not have a social health care system. People essentially look after themselves and family members, as the government only promotes and educates in the use of good habits. However, it is common for some employers to reimburse day-to-day medical expenses. The largest employers provide medical insurance for workers.

With relatively few protected by health insurance, another bright area for the insurance market arises from a growing middle class that is increasingly able to obtain private medical insurance in the absence of a national health care system. The middle class also uses a variety of savings and other value-added insurance products, and represents a significant opportunity for insurance penetration. With this factor as a contributor, reports have suggested that the Indian insurance market could experience significant growth, near the levels of the top Asian insurance markets, in the next five years. A report estimated that the Indian insurance market could reach the $20–25 billion range by 2005, potentially tripling in size from its current estimated $8.5 billion in premium volume.

Non-Life Premium Distribution 1997



Source: GIC.

India does not have a social security system. Rather, key labor laws provide retirement and sickness, occupational injury, maternity, dependent and other related benefits for certain worker categories. Employers and employees in certain categories are required to make contributions to a retirement fund. A lump sum is paid upon retirement, presenting a potential annuity market opportunity similar to that of Singapore. However, many employers today do not provide a retirement fund.

Endowment policies are India's most popular life insurance vehicles. Policies are typically taken out to pay for education and marriage costs. Whole life policies are not big sellers. However, given that many Indian households contain only one wage earner, a stronger marketing push could escalate demand.

History: In 1850, Tital Insurance Company, India's first non-life insurance company, was formed. Companies from Britain helped set up the life insurance market during the latter portion of the 19th century. By the 1930s, more than 150 insurance companies existed in India.

In 1956, life insurance companies were taken over by the state, and the LIC was established.

In 1972, all private non-life insurance companies were taken over by the state under legislation within the General Insurance Business Nationalization Act. The four non-life companies are listed below.

Protectionism characterized India throughout the 1980s, causing a reduction in India's share of world trade to 0.5% from 2.0% 30 years earlier. These government policies have dampened economic prosperity and slowed India's growth relative to other Asian economies. In 1991, the government introduced reforms to liberalize the economy, yet many sectors remained heavily regulated, including banking and insurance.

Top Non-Life Insurers – 1997/98

Company	DWP	Mkt. Share	Percent Change
New India	$686.8	31.5%	11.9%
United India	$544.9	25.0%	8.6%
Oriental	$473.5	21.7%	12.3%
National	$452.9	20.7%	11.4%
G.I.C	$24.9	1.1%	-34.7%
Top 5	$2,183.1	100.0%	10.2%
Total	$2,183.1	100.0%	10.2%

Source: GIC

Top Life Insurers – 1996/97

Company	DWP	Mkt. Share	Percent Change
Life Ins. Corp. of India	$4,574.1	100.0%	18.9%
Total	$4,574.1	100.0%	18.9%

Source: GIC

Insurance regulation: The non-life insurance industry consists of four state insurers that are supervised by the GIC, which reports to the Insurance Department of the Ministry of Finance. GIC's financials are submitted to the Comptroller and Auditor General of India.

With expectations for the eventual establishment of a private insurance market, in 1996, the Insurance Regulatory Authority (IRA) was created to supervise future privatizations and to regulate the reformed market. This entity was granted autonomy by the Reserve Bank of India (India's central bank), and has binding authority on insurance matters.

Compulsory insurance: All motor vehicle owners are required to have motor liability coverage. Arising out of the Bhopal catastrophe, manufacturers of hazardous materials must obtain business liability coverage. There are no compulsory life classes.

Product regulation: Tariffs apply for fire, motor, engineering, oceangoing hull fleets, sailing and fishing vessels, tea crops, and workers' compensation. Market agreements apply for hospitalization and medical expenses, public and product liability, and professional liability (in specified professions). Competition based on price is virtually nonexistent. On the life side, LIC sets its own rates. A 5% premium or service tax is levied on all policies except export marine cargo and so-called "social security" products, such as personal accident and health care. There are no taxes for life insurers or reinsurers. The corporate income tax is 40%. Punitive damages are not covered by Indian policies.

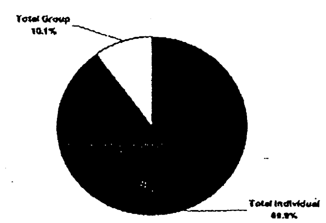
Special issues: The official language of Hindi is spoken by less than 50% of the population. In addition, there are 16 other major languages and at least 250 dialects. English is spoken for business purposes and among educated citizens.

Distribution: Regulations in India do not permit the payment of commissions to intermediaries. The state insurance entities distribute through captive agents, largely selling personal lines products.

Similar to the insurance market, several international brokers have established operations in India to prepare for the opening of the market. These companies currently act as consultants and earn fee income from insurance company clients. Recognizable international brokers currently have a presence in India, including Marsh, Aon and Jardine.

Degree of reinsurance: Indian insurers retain approximately 93% of premiums on a net basis. The four GIC subsidiaries cede 20% to GIC. External reinsurance is structured through various surplus treaties.

Life Premium Distribution 1997



Source: GIC.

Investment restrictions: 85% of LIC's investments are in the public sector.

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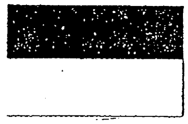
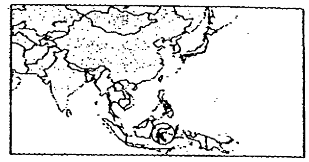
Republic of Indonesia

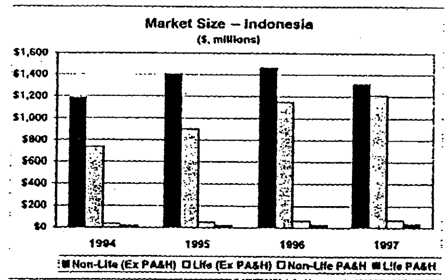




Population: 210 million, the world's fourth largest, composed of 300 different ethnic groups; growth rate 1.6%, low life expectancy of 60 male, 64 female. Insurance premium per capita was $14 in 1996.

Government: Constitutional democracy. Indonesia's first democratic elections took place in October 1999. There is some pressure, so far resisted, to convert from a secular to an Islamic form of government.

Market ease of entry: Government policy is to balance new entrants with development of local companies. Foreign insurers are required to form joint ventures with local companies but can own up to 80% of the venture. The joint-venture application process is straightforward. Assuransi Jiwasraya is the state-run life insurer, with the second-largest market share.



Source: Indonesian Ministry of Finance.

AIG-Lippo Life acquisition: In December 1999, AIG announced that it would augment its relatively small presence in the life market by acquiring 70% of PT Asuransi Jiwa Lippo Utama, a subsidiary of Lippo Life, the country's largest insurer, for $1.3 billion. This is the largest single investment made in Indonesia since the Asian crisis. The company is being renamed PT Asuransi AIG Lippo Life and will take over all of Lippo Life's insurance operations, leaving Lippo Life as a holding company. AIG will also own just under 5% of Lippo Life and obtain board representation.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Bumiputera 1912	$312.3	25.0%	21.2%
Asuransi Jiwasraya	$200.9	16.1%	40.1%
Asuransi Lippo Life	$185.3	14.8%	12.7%
Asuransi Dharmala Mani	$80.4	6.4%	39.5%
Indolife Pensiontama	$67.8	5.4%	38.6%
AJ Sewu New York life	$40.7	3.3%	34.0%
AJ Eka Life	$32.1	2.6%	6.6%
AJ Bringin Jiwa Sejahtera	$29.8	2.4%	N/A
AJ Central Asia Raya	$28.0	2.2%	19.1%
Modern Sun Life	$27.1	2.2%	172.2%
Top 10	$1,004.5	80.3%	31.1%
Total	$1,250.3	100.0%	31.4%

Source: Indonesian Ministry of Finance

Lippo Life currently has a 24% market share and an extensive branch system. It also sells through an arrangement with retail giant Matahari Group. The Lippo leverages AIG's capital, ratings and product skills with Lippo's distribution. AIG expects Lippo's profits and sales to grow a minimum of 20% per year for the next five years. AIG's investment was hailed as a turning point in the comeback of the Indonesian economy.

Market opportunity: With a population almost as large as that of the U.S., Indonesia is a promising long-term market. Before the currency crisis, life policies in force were growing 6.5% a year. Manulife is currently the largest life insurer in Indonesia. John Hancock has about a 1% share and is targeting 5%. The population is underinsured; only about 9.3% of Indonesians had life insurance in 1998, compared to about 15% before the currency crisis, which made many unable to pay premiums on dollar-denominated policies.

With the currency crisis came an increased interest in protection products as an aftereffect of Indonesia's riots, so that the life industry in Indonesia is experiencing extremely strong growth. Life insurance assets for the market as a whole rose 24% in 1998 and new business was up approximately 50% in 1999. AIA grew 150% in 1998 (excluding Lippo). New York Life projects approximately 57% growth in its PT Asuransi Jiwa Sewu New York Life unit in 2000, after more than doubling its business in 1999.

Indonesia suffered more than any former "Asian Tiger" country in the currency crisis, and its recovery has barely begun. Positive signs include the Supreme Court's affirmation of the Indonesian Bank Restructuring Agency's (IBNA) right to seize pledged assets of defunct companies, which it has exercised twice. Sixty-five Indonesian banks have closed, seven have been recapitalized, and four of the seven state banks have merged.

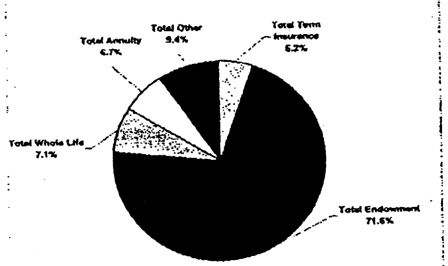
The economy and political risk are still a concern, however; Indonesia recently rejected the Overseas Private Investment Corp.'s claim to reimburse its insurance payment to CalEnergy, a unit of Berkshire Hathaway, for $290 million relating to geothermal plants the government seized during the currency crisis.

After declining 13.2% in 1998, GDP rose 0.9% in 1999, including a 5.8% increase in the fourth quarter, and is projected to grow 4.3% in 2000 and 4.1% in 2001. Inflation has fallen essentially to zero, and exchange rates have held steady. Corporate debt restructuring has been slow, and civil unrest continues.

Personal accident business is a small but attractive and growing market; AIU is a major player. Individual life insurance is mostly savings-oriented with little product innovation; Lippo has the largest share in this market. Demand for annuities and dread disease coverages is increasing.

The social security system, or JAMSOSTEK, is compulsory for businesses with more than ten employees. Benefits are low and private insurers offer supplemental individual plans. Corporate retirement plans are also growing; however, the economic recession is stunting demand for all private insurance. The AIG Lippo company should be able to market these products effectively as demand increases.

Life Premium Distribution 1997



Source: Indonesian Ministry of Finance.

In non-life commercial insurance, a significant opportunity exists due to natural resources-driven industrial and other large commercial risks. However, a strong culture of loss prevention is lacking, and economic unrest and a high level of natural perils such as flood, brushfires, earthquakes and volcanos make this a difficult market. Indonesia has a large marine, hull, energy and cargo account, dominated by a state-owned company.

Although the riots put a damper on this class, the growing motor insurance business is of interest to insurers; approximately 14 million vehicles were registered as of 1996. Motor third-party liability is not a compulsory product, allowing insurers to select risks carefully. AIG is the largest foreign insurer marketing in this class. Axco notes that "standards of driving are remarkably poor" and "courtesy is not a feature of driving in Indonesian roads."

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Tugu Pratama Indonesia	$204.6	14.8%	10.1%
Asuransi Jasa Indonesia	$106.3	7.7%	11.1%
Asuransi Sinar Mas	$63.3	4.6%	20.7%
Asuransi Astra Buana	$61.8	4.5%	33.9%
Asuransi Central Asia	$58.3	4.2%	1.1%
Asuransi Wahana Tata	$44.9	3.2%	17.7%
Asuransi Jasa Raharja F	$44.0	3.2%	8.5%
Asuransi Dharmaja	$42.4	3.1%	41.0%
Asuransi Danamon	$34.2	2.5%	19.5%
Asuransi AIU Indonesia	$31.3	2.3%	10.7%
Top 10	$691.2	49.9%	14.5%
Total	$1,384.1	100.0%	12.7%

Source: Indonesian Ministry of Finance

History: The Indonesian archipelago was ruled successively by the Portuguese, the Dutch, the British and the Dutch again before independence in 1949. Insurance was introduced in the 19th century by British and Dutch insurers. The first domestic life company, AJB Bumiputera, was formed in 1912 and remains the country's largest. The first comprehensive legislation was enacted in 1992.

Insurance regulation: The Insurance Law of 1992 governs insurance. The Insurance Directorate of the Ministry of Finance regulates the industry. The Directorate is understaffed and operates at a low level of effectiveness by international standards. Life policy reserves are set by law. Insurance laws and policy forms are based on a mix of Dutch, English and other principles.

The Ministry of Finance is implementing new risk-based capital rules gradually, between now and 2004; it is estimated that 50% of Indonesia's insurers would not meet minimum capital requirements today under these rules. The Director of Insurance has suspended the operations of five insurers and warned 40 others, but regulatory reaction has been criticized by some as too slow.

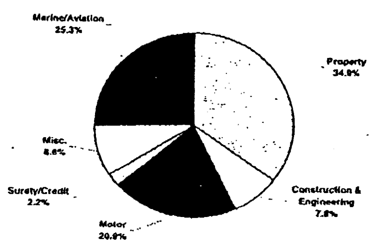
Special issues: Traditionally, buying life insurance has been thought of as tempting fate by Indonesians. This sentiment began to change as a result of riots following the currency crisis.

Many insurance transactions are denominated in currencies other than the rupiah. Indonesia has no exchange controls. While more than 500 languages and dialects are spoken, English is used frequently in business and policies may be written in English.

Compulsory insurance: There are no compulsory classes.

Product regulation: Nontariff rates. "File and use" forms.

Non-Life Premium Distribution 1997



Source: Indonesian Ministry of Finance.

Distribution: Most insurance is sold by independent or captive agents; most agents are tied to one insurer. Bancassurance sales have been stymied by Indonesia's economic collapse. Brokers are an increasingly common distribution method. More than 60% of the population lives on the islands of Java and Bali, which account for only 7% of the land mass, so marketing is less difficult than the total geographic area suggests.

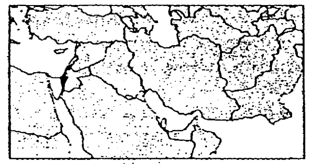
Degree of reinsurance: Nonadmitted reinsurers can write business without restriction. Undercapitalized local companies have traditionally used reinsurance heavily. To retain more business in-market, insurers are required to use at least one local reinsurer and one primary company, although a minimum amount is not specified.

The state reinsurance company, ReIndo, has been operating since January 1997 as a successor to PT Reasuransi Umum Indonesia, which is in runoff. ReIndo has essentially no capital remaining due to depreciation of the rupiah. The government thought it had found a private Australian investor, but that arrangement recently fell apart and its privatization is on hold. ReIndo manages the national Fire and Perils pool, BPPDAN, which receives a mandatory 2.5% cession on all risks. The company is now interested in assuming risks in Asian, Middle East and Northern African markets as well.

Constraints on placement with foreign insurers: Risks must be placed locally unless no local company is willing to cover the risk, and fronting is technically prohibited, although reportedly it does occur.

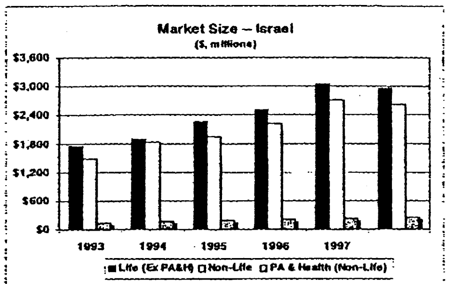
Investment restrictions: The finance minister issued a decree in October 1999 allowing insurance and reinsurance companies to invest up to 20% of their assets overseas. Up to 20% of investments may also be with banks, but the number of banks allowed has been reduced to five banks from 20. Pension fund investments must be made in Indonesia, but are not highly regulated otherwise.

State of Israel



Population: 5.82 million, annual growth rate 2.0%.

Government: Presidential parliamentary democracy.



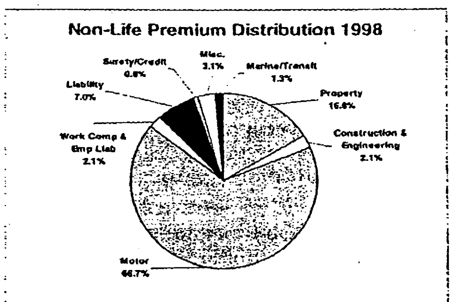
Source: Israel Insurance Association/Supervisory Authority.

Market ease of entry: There are no barriers to forming new insurance companies. There are no state-owned insurance companies, with the exception of the government's export credit/political risks company, Israel Foreign Trade Risks Insurance Corporation Ltd., which is expected to be privatized within the next few years.

Market opportunity: Israel is a well-developed country with the insurance market representing 5.9% of GDP. The non-life insurance market is sophisticated, and the need for insurance is well recognized.

There are 29 insurance companies of which 20 are licensed to write both life and non-life insurance. Seventeen of these companies are formed into five groups, which control 85% of the market and rely heavily on independent agency distribution. One of the groups is foreign-owned. There is also significant foreign involvement as risks are transferred offshore and due to the use of various fronting arrangements. However, the number of foreign companies licensed to write local business has declined from 30 to three.

Over 50% of non-life premiums are from motor insurance (excluding cessions to the AVNER pool). The comprehensive motor cover is bought voluntarily, while the third-party BI, which provides unlimited liability coverage, is required by Israeli Road Traffic Law. Approximately two-thirds of drivers purchase comprehensive motor insurance. A campaign for auto insurance reform is pushing for greater flexibility, including the disbanding of the AVNER pool—a measure that could be approved within 2000.



Source: Israel Insurance Association/Supervisory Authority.

One of the biggest changes to the life and non-life markets has been the entry of three direct-selling insurers, which are taking business from both insurance companies and intermediaries. AIG holds a 50.1% share in one of these direct sellers, AIG Golden, a joint venture with Orek, the Israeli Yellow Pages. It also holds a share in mortgage indemnity insurer EMI-Ezer Mortgage Insurance. Concentrating primarily on motor and homeowners' insurance, AIG Golden has recently diversified into life insurance, personal accident, sickness and hospitalization coverages.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Clal	$323.6	13.7%	-7.3%
Is. Phoenix	$227.2	9.6%	7.1%
Sahar	$199.6	8.4%	5.3%
Shiloach	$166.2	7.0%	9.3%
Migdal	$153.9	6.5%	-19.8%
Menorah	$138.0	5.8%	6.5%
Eliahu	$134.7	5.7%	24.3%
Hadar	$125.7	5.3%	28.1%
The Magen	$108.5	4.6%	-7.2%
Ayalon	$105.8	4.5%	9.9%
Top 10	$1,683.1	71.2%	2.4%
Total	$2,363.25	100.0%	3.6%

Source: Israel Insurance Association/Supervisory Authority

AIG's approach is to offer insurance directly to consumers at a lower price, while providing a high level of service. This has been accompanied by an aggressive advertising campaign to establish a brand name. Based on various Israeli insurance market reports, we estimate that AIG Golden captured $28–30 million of premium volume for 1999.

Individual life contracts account for 85–90% of total life insurance premiums in Israel. The independent agency system is the main source of product innovation in both the life and non-life insurance sectors.

Insurance regulation: All insurance supervision comes under the Ministry of Finance's Capital Markets, Savings and Insurance Department. The department is split into sections, including life and non-life insurance, pensions, actuarial, monitoring and complaints.

Compulsory insurance: Motor third-party bodily injury, aviation, yacht and pleasure craft liability. Workers' compensation is covered by a state scheme.

Product regulation: There are no mandatory tariffs due to strict anti-trust laws. However, companies have to present homeowners', comprehensive motor and life insurance products for approval by the supervisory authority. No taxes or other charges are levied on overseas treaties or facultative reinsurance. Commissions paid to intermediaries are subject to a 17% value-added tax.

Distribution: Independent agents control distribution. This control has been challenged recently by the entrance of three direct-selling insurers. The direct writers were able to offer personal line rates 30–40% lower than prevailing rates. The rest of the market followed suit. AG Re Reinsurance Brokers is the only reinsurance broker in the market.

Degree of reinsurance: Companies retain approximately 70% of gross premiums. The vast majority of reinsurance business is placed with foreign companies. Third-party motor BI is ceded 50% to the AVNER pool.

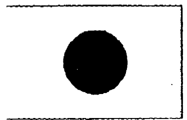
Top 10 Life Insurers – 1998

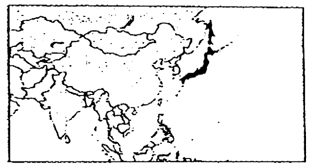
Company	DWP	Mrkt. Share	Percent Change
Migdal	$621.8	21.0%	5.6%
Clal	$461.8	15.6%	7.3%
Is. Phoenix	$264.2	8.9%	5.8%
Menorah	$215.0	7.3%	4.3%
Shiloach	$183.2	6.2%	6.1%
Shimshon	$154.7	5.2%	10.4%
Hadar	$145.9	4.9%	6.8%
The Magen	$142.7	4.8%	12.2%
Ararat	$122.3	4.1%	1.8%
Zion	$104.3	3.5%	2.7%
Top 10	$1,794.0	60.6%	6.3%
Total	$2,960.4	100.0%	6.6%

Source: Israel Insurance Association/Supervisory Authority

Constraints on placement with foreign insurers: There are no restrictions on placing direct insurance abroad. Overseas reinsurers do not have to be admitted.

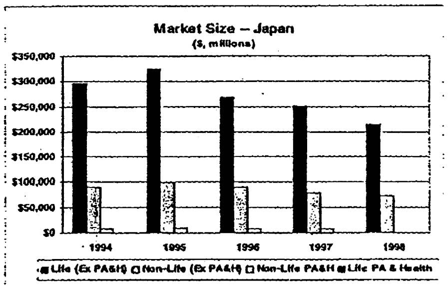
Japan





Population: 126.4 million, growth rate essentially flat, average life expectancy: 77.2 male, 83.8 female. As of the last five-year census in 1995, the population was 14.5% aged 65 and older. That percentage is expected to reach 17.2% this year and 26.8% by 2020. Japan's gross domestic product per capita, $36,572 in 1996, is the world's highest.

Government: Constitutional monarchy. Emperor has no governing power. The Diet, or Parliament, consisting of the House of Councillors and the House of Representatives, has supreme legislative power. The prime minister leads a cabinet of ministers, which is responsible to the Diet. The Liberal Democratic Party (LDP) has ruled since 1955.



Source: Insurance Research Institute.

Market ease of entry: Notoriously difficult. However, the government is looking for ways to reenergize the economy in the wake of a period of bankruptcies and unemployment that reached a high level for Japan although it is still low versus other countries. It has taken steps to reduce corruption by making it harder for regulatory officials to move directly from the government into positions at the companies they formerly regulated. To stimulate a more dynamic business environment, Japan implemented financial services reform in 1996, clearing the way for foreign firms to enter the market and making it easier for domestic companies to compete in more markets. The easing of regulations permitted healthy foreign firms, for example, to come in as white knights in the wake of two large, high-profile life insurance failures.

In 1998, GE Capital was permitted to take over all new policy-writing from the failed Toho Mutual Life Insurance Co., along with its 9,500 agents. A French holding company took over the other large failed life insurer, Nissan Mutual Life Insurance Co. The government originally indicated that it was prepared to let AIG take over the successor company of Nissan, although that deal didn't go through.

These failures themselves point to a sea change in the way Japan regulates the industry. Until 1997, Japanese insurers generally believed, probably correctly, that the Ministry of Finance would never let a large life insurer fail. But the same asset-value problems that have plagued the banks have appeared in the insurance industry, and the government of necessity is now less inclined to allow a sick company to take a Band-Aid approach to a problem that requires major surgery.

The Toho failure was an example of this change in attitude. Its auditors, perhaps in response to the more hard-line stance of the Financial Supervisory Agency (FSA) on solvency, took a very conservative approach to evaluating its real estate assets, leading to Toho's decision to request that its business be suspended.

These changes have resulted in more liberal ownership rules. On the domestic side, a life company is now permitted to own more than 50% of a non-life insurer, and vice versa, although the FSA requires that life and non-life companies be capitalized separately. This allows the healthier non-life insurers to invest in the life industry. Within the first year these rules took effect, non-life companies formed 11 new life subsidiaries and life insurers formed six new non-life units.

Foreign and domestic companies are subject to the same requirements for licensing. Foreign companies, however, are additionally required to show proof that they are authorized in their home country to sell the same kind of insurance they wish to sell in Japan—not a high hurdle for an established foreign company looking for expansion opportunities. Foreign insurers are required to maintain branch offices in Japan in order to write any life or benefits business and most non-life coverages. Nonadmitted carriers are prohibited from insuring anyone or any property based in Japan.

Market opportunity: Japan has the largest life insurance industry in the world and the second-largest non-life market (25% of the world's total), but the economy has been mired in a "liquidity trap" in which a recession-battered population has been hoarding cash since the recession started in the early 1990s. Cutting short-term interest rates practically to zero hasn't stimulated the growth necessary to cut unemployment. In spite of all of these economic challenges, Japan is still the richest insurance market in Asia. As AIG management in Japan observed, China may have two-thirds of the people, but Japan has two-thirds of the money.

The insurance market has shrunk along with the rest of the economy. Along with the Nissan and Toho failures, mid-sized life insurers fell victim to "negative spreads" between their investment rates of return and the rates guaranteed to policyholders. Many Japanese life insurers are "walking dead," with negative real net worth after overvalued assets are marked to market value. The industry has a credibility problem, on which AIG has been able to capitalize. Insurer failures have created opportunities for strong foreign firms to establish footholds in what amounts to an immense, formerly closed market populated by weakened domestic carriers. In 1998, ALICO posted a 17.1% gain in premium income on an original currency basis.

Japan is one of the three non-U.S. markets that AIG is targeting with new mutual fund and annuity products designed by its SunAmerica unit. The market for these types of products is poised to open up, because a proposal expected to become law Jan. 1, 2001, will allow employers in Japan for the first time to offer workers 401(k)-style defined contribution pension plans. Japanese law currently allows only defined benefit plans. Japanese employers are expected to eagerly adopt the defined-contribution approach, because of how much less burdensome it is than funding defined benefits. With the impetus from employers, the impact on personal investing could be similar in scope to the explosion in mutual-fund ownership that occurred the U.S. following the creation of 401(k)s.

At the same time, the Japanese government is liberalizing its financial markets, allowing life and non-life insurers to operate in each others' markets and preparing the way for domestic companies to compete directly in the so-called third sector. This is the market segment in which foreign insurers have been permitted to carve out niches in unique personal-accident, sickness-hospitalization and nursing-care coverages. The third sector accounts for about 5% of the total insurance market, and foreign firms write about 40% of that business. Until no later than 2001, non-life subsidiaries of domestic life insurers are barred from selling personal-accident policies, and life units of non-life domestic companies are barred from selling the stand-alone medical and cancer policies in which AFLAC has made a lucrative market.

This prohibition is intended to give foreign firms the opportunity to consolidate control of this meager beachhead before facing challenges from domestic insurers. The concern in the White House was that Japanese insurers would be given a head start to challenge companies like AFLAC and actually reduce U.S. insurers' market share before U.S. insurers would be given an opportunity to compete in the rest of the Japanese life insurance market.

Eventually, after a 30-month head start in the third sector, foreign insurers will be allowed full access to this market, which has shrunk with the recession. Japanese and U.S. officials have clashed over whether and when the clock started on this 30-month transition. Japan says the clock started July 1, 1998, and full deregulation commences January 1, 2001, but the industry itself is moving ahead, not waiting for the debate to conclude.

New entrants and foreign companies trying to break into the Japanese life market are gearing up to offer new products and lower premiums via new sales and distribution techniques.

A wave of cross-border alliances has swept through the Japanese life insurance sector. Many domestic life companies are struggling with extremely low domestic interest rates that have shaved their investment returns to less than the rates of return guaranteed to policyholders, resulting in negative spreads. Guaranteed crediting rates are falling. The former Nissan has a bill pending in the Diet that would allow it to retroactively reduce guaranteed rates on existing contracts. If enacted, this bill would further erode consumer trust in the "promise to pay" of the life insurance industry.

Already, however, just as life insurers have had to accept the government's emerging new sink-or-swim approach to the industry, many policyholders themselves now face a similar choice. Aoba (formerly Nissan) and GE Edison (formerly Toho) have gone ahead and cut crediting rates in the wake of their ownership changes, imposing new surrender charges aimed at discouraging a rush to cash in policies. The fact that these insurers were able to pull off these unusually drastic steps at all shows just how much farther along the Japanese insurance industry has moved toward becoming truly market- and profit-driven.

We believe these measures, while too recent to be accurately understood in terms of the long-term impact on the market, could contribute to a change in consumer expectations about life insurers and their guarantees. In short, consumers are learning that insurance-product risks—even those with guarantees—can't always be returned to the sellers when things go wrong. The lesson, already learned in the U.S. by Executive Life and Mutual Benefit policyholders, is that when an insurer fails, as these two companies did, the policyholder frequently has to choose between getting something back or losing everything.

AIG's double-digit growth in Japan shows how successful the company has been in capitalizing on its financial strength relative to its weakened domestic rivals. While the total Japanese life insurance market shrank 3.4% in 1998, ALICO Japan grew its premium income 10% to $2.06 billion, then posted a 15% jump in 1999 to an estimated $2.3 billion. Even if the market as a whole continues to shrink, we believe AIG will be able to maintain double-digit growth in this all-important market, because with premium income of $2.3 billion, ALICO's roughly 1% market share has ample room to grow. If economic recovery takes hold and the insurance market turns around and begins to grow again, ALICO's growth rate should accelerate by some proportion of that overall market growth.

Whether the overall economy, and therefore the insurance industry, is returning to growth is subject to debate. Signs of gains in manufacturing and new-economy businesses have surfaced, but a government official's suggestion that the Bank of Japan might try to boost interest rates was viewed widely as a potential threat to any budding recovery.

An important competitive factor in the Japanese market are various cooperatives, such as the National Mutual Insurance Federation of

Agricultural Co-operatives, Zenkyoren, which operate outside the Insurance Business Law and are supervised by ministries other than the FSA. These cooperatives constitute the largest insurance operation in the world, holding a virtual monopoly over the life and non-life insurance for the entire Japanese rural population. This is a major reason foreign insurers have been so unsuccessful penetrating the Japanese market on a larger scale. While compulsory auto liability insurance has been consistently unprofitable on a gross basis, reinsurance recoveries from the government's quota share produce a positive underwriting result on a net basis.

Culturally, the Japanese, especially older people, prefer to deal with national companies with the cross-shareholding arrangements that are at the core of Japanese coinsurance—arrangements unavailable to foreign writers.

Japanese insurers tout the level of service they provide their clients, which wins them a high degree of loyalty. AIG has responded head-on to this challenge in its advertising, promising to get an agent out to a customer within two hours of a call. But this marketing campaign is aimed more at the noncooperative rivals.

Another major wild card in the Japanese competitive environment on the life side is the dominant role of Japan's post office, which controls a huge and growing share of the Japanese life insurance market as well as the country's savings.

Life Insurance Written Market Share

	1989	1993	1998
(Billions of Yen)			
Postal	$7,541	$13,280	$14,604
Private	$28,040	$29,753	$28,543
Post./Privat.	26.9%	44.6%	51.2%

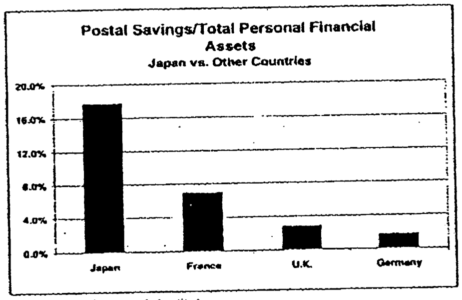
Source: 89/93 - Toyo Keizai "Economic Statistics Yearbook"
98- Kampo Homepage and LIAJ Factbook
Courtesy of AIG's *Japan's Big Bang and the Ins. Indus.* Report

As shown in the accompanying exhibit, the percentage of life insurance written by the post office had risen to 51.2% of the entire Japanese life insurance market, up from just 26.8% a decade earlier. Similarly, the percentage of savings held by the post office was 52.7% in 1998, up from 30.9% in 1989 (see exhibit below). Compared with other countries with comparable post-office-based savings products, Japan's post office controls 17.8% of total personal financial assets, versus 7% or less in France, Britain and Germany (see exhibit below).

Life Insurance Savings Market Share

	1989	1993	1998
(Billions of Yen)			
Postal	$132,926	$180,863	$251,931
Private	$429,990	$446,042	$477,885
Post./Privat.	30.9%	40.6%	52.7%

Source: 89/93 - Toyo Keizai "Economic Statistics Yearbook"
98- Kampo Homepage and LIAJ Factbook
Courtesy of AIG's *Japan's Big Bang and the Ins. Indus.* Report



Source: Fuji Research Institute.
Courtesy of AIG's *Japan's Big Bang and the Insurance Industry* report.

This reflects the cultural aversion to risk among Japanese savers. As the life insurance industry has weakened, the trusted state institution has gained share. The result is that Japan's post office is the world's largest financial institution and is on track to have more business than private industry in banking as well as insurance. There is speculation that someday Japan will privatize the post office, but the prospect at this point is remote at best and does not appear to be under serious discussion.

AIG takes a realistic view of this market. The post office business is a major limitation to the market's ultimate potential for growth, not just for foreign insurers but for the domestic institutions as well. At the same time, the company recognizes that while Japanese insurers have only recently begun to feel competitive pressure with respect to price and product differentiation, it is dangerous to assume that these domestic companies will be slow to react to the challenge.

Donald P. Kanak, president and chief operating officer of AIG Japan and Korea, noted in a recent management conference speech, "The challenge of pace has been faced by other industries in Japan that have already undergone rapid change and have adjusted their organization structures and speed of decision making. Whether in consumer goods or automobiles or now, increasingly, in entrepreneurial, technology-based businesses, Japanese management has been able to modify practices to increase the pace of decisions and change. And they've done this while still respecting Japanese culture and traditional ideas and human relationships."

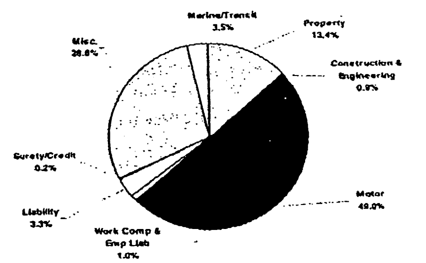
AIG management clearly recognizes the market opportunities presented by the current weakness of Japanese insurers and by regulatory changes, but it also has a deep respect for the competition —borne of more than 50 years as a player in the market. All of those years of experience and the resulting cultural sensitivity should give AIG a competitive edge over other foreign insurers seeking to exploit the same opportunities.

Rescues of companies/consolidation: The Japanese insurance industry is responding to these market conditions, undergoing a wave of consolidation and rescues of failing insurers. A caretaker company owned by the 43 members of the Life Insurance Association of Japan took over the Nissan policies, then sold the business to Artemis S.A., a private French holding company with interests in retailing. GE Capital's GE Edison Life unit took over Toho's policies. Japan is a market where we believe AIG would be likely to make an acquisition.

Foreign companies aren't the only white knights in the market. A Japanese financial services company, Claremont Capital Holding Inc., took control of a third mid-sized company, Taisho Life Insurance Co., in March under pressure from the FSA to boost its capital base.

In the wake of market reform, even Japan's healthier domestic non-life companies will be especially challenged to achieve long-term profitability because of liberalized rate-setting rules, increased foreign competition and an economy that isn't expected to experience a sudden period of explosive growth. Consolidation is a response to these market conditions, rather than a strategy for long-term growth.

Non-Life Premium Distribution 1997



Source: Insurance Research Institute.

The non-life industry is accepting the reality that it no longer is protected from outside competition or from an unfavorable economic environment by regulations or by the Japanese tradition of friendly competition and inter-company and inter-industry cross-ownerships. For example, earlier this year, two major Japanese non-life companies—Koa Fire & Marine Insurance Co. and Nippon Fire & Marine Insurance Co.—agreed to merge in response to deregulation and intense competition.

That announcement came in the wake of an even larger merger announcement, that of Mitsui Marine & Fire Insurance Co. and Sumitomo Marine & Fire Insurance Co., a combination that would edge out Tokio Fire & Marine as Japan's largest non-life insurer. Mitsui Marine is a member of the Mitsui group that includes Sakura Bank, which last year agreed to merge with Sumitomo Bank, the cornerstone of the group that includes Sumitomo Marine.

These transactions won't take effect until 2001, but in the meantime, companies in both deals have made it clear that they intend to make cost cuts a top priority, beginning with massive staffing reductions. Indeed, the cost-cutting plans, combined with commitments to spend more on Internet technology, are reminiscent of strategies more common in the U.S., where realignments in the auto insurance business have coincided with new Internet initiatives aimed at opening new distribution channels.

Two other mergers were announced earlier in March—Dai-Tokyo Fire & Marine Insurance Co. with Chiyoda Fire & Marine Insurance Co., and Dowa Fire & Marine Insurance Co. with Nissay General Insurance Co.—all in the rush to cut costs in the face of declining rates exacerbated by foreign insurers with battle-tested underwriting tools.

Also in March, Taiyo Fire & Marine Insurance Co., a casualty insurer affiliated with Taiyo Mutual Life Insurance Co., was reportedly considering exiting the auto insurance business because of increasing competition related to deregulation and new foreign entries into the market. Taiyo earns about 25% of its revenue from auto insurance, lower than the average ratio of about 50% for major insurers.

More recently, the FSA shut down another middle-ranked Japanese non-life company, Dai-ichi Mutual Fire & Marine Insurance Co., marking Japan's first casualty insurer failure since World War II. Dai-ichi was barred from writing new business, but will continue to serve existing customers. Dai-ichi, Japan's eighth-largest casualty insurer, with assets totaling $12.75 billion, has seen its capital base eroded by write-offs of nonperforming loans. Even foreign insurers are struggling with the intensifying competition. Earlier this year, Allstate Insurance Co. decided to transfer its auto business to Zurich Insurance Co., the Japanese subsidiary of the Swiss insurer. It took Allstate less than a year from when it entered the Japanese market to conclude that it could make better use of its capital. AIG has been a major player in the direct-sales auto insurance arena.

In some cases, Japanese insurers are reaching outside Japan for partners. Most recently, Kyoei Life Insurance Co. announced plans to form a reinsurance joint venture in Tokyo with Lincoln Financial Group.

Top 10 Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Nippon	$44,470.3	20.4%	-7.2%
Dai-ichi	$30,472.9	14.0%	-0.6%
Sumitomo	$25,420.4	11.7%	-2.5%
Meiji	$19,291.7	8.8%	-8.0%
Asahi	$12,090.6	5.5%	-7.5%
Mitsui	$12,027.0	5.5%	-10.8%
Yasuda	$11,627.7	5.3%	-10.5%
Taiyo	$9,430.7	4.3%	-7.1%
Daido	$9,101.1	4.2%	2.1%
Fukoku	$5,560.8	2.6%	-8.7%
Top 10	$179,493.1	82.3%	-5.7%
Total	$218,036.5	100.0%	-6.0%

Source: Japanese Institute of Life Insurance

History: Non-life insurance was first written in Japan in 1859. The first life insurance company was formed in 1880. Today, only about 34 domestic and a like number of foreign non-life companies operate in Japan, along with about 30 domestic life insurers and a handful of foreign life insurers. This is a tiny number for such a huge market, compared to the thousands of insurers that operate in the United States.

This concentration of market control reflects the fact that the domestic insurance business for more than a century was similar in many ways to other industries in Japan characterized by family- and industry-controlled cartel-like organizations and by regulatory protection from foreign competition.

Many of the large domestic direct insurers are members of industrial and financial-service conglomerates that date back to the Meiji era, when families formed them as holding companies in the 1800s. Efforts after World War II, during the Allied occupation, to reduce corporate ownership concentration had little long-term impact.

Ultimately, what led to the current efforts at deregulation and more open, cross-border competition was a growing recognition of increasingly costly inefficiencies and of the political and regulatory corruption that allowed such inefficiencies to exist and worsen. As early as 1989, Japan began to study deregulation as a way to let the market force insurers to cut costs and improve product offerings and efficiencies. However, not until 1996 did the government approve changes to insurance regulations that dated back to 1939. The impetus was as much an internal recognition of the inefficiencies as it was a response to pressure from the U.S. to open up the market as part of an effort to reduce the trade imbalance with Japan.

AIG itself holds a unique position in the insurance history of Japan, the company's largest single-country source of premium, both life and non-life, outside the United States. While AIG is a small fish in the Japanese pond, it is a very large pond, and how AIG established itself to gain a roughly 40-year head start on most of the rest of the world's non-Japanese insurers is almost an accident of history. A brief window of opportunity opened for only a few years immediately after World War II. The Supreme Commander of the Allied Powers (SCAP) under General Douglas MacArthur adopted antimonopoly laws to break up the huge family-owned holding companies of Japan and opened the door to an opportunistic American entrepreneur named Cornelius Vander Starr with strong ties to Asia and the Far East.

The moment Starr's company exploited came in 1946, when SCAP, and not the Ministry of Finance, was the authority granting insurance licenses. AIU applied for a property/casualty license and thus gained its unique position as a foreign insurer allowed to operate like a local company in Japan. It was a window of opportunity that closed fairly quickly, starting in 1948, when the U.S. stopped viewing Japan-style Big Business as the enemy and came to view it instead as an ally to keep out Communism in the opening days of the Cold War.

By 1952, when SCAP left Japan, the *zaibatsu*, as the holding companies were called, were on their way to reestablishing themselves and regaining their control of the Japanese economy and of foreign competition.

AIU, however, stayed behind and grew an auto insurance business, filling a void in that market. Among Starr's ambitious goals was to obtain a life insurance license and to build a striking headquarters building. Neither of these goals would be fulfilled until after Starr's death and Maurice R. Greenberg's succession to CEO in 1968. The life license was granted in 1971, and the building went up soon thereafter.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Tokio	$15,969.9	18.2%	0.7%
Yasuda	$11,000.6	12.6%	-4.5%
Mitsui	$7,760.9	8.9%	-6.5%
Sumitomo	$7,516.9	8.6%	0.1%
Nippon	$5,252.2	6.0%	-6.4%
Dai-Tokyo	$4,996.4	5.7%	-2.3%
Nichido	$4,736.1	5.4%	-4.9%
Fuji	$4,323.9	4.9%	-6.5%
Chiyoda	$4,311.1	4.9%	-4.0%
Koa	$3,732.9	4.3%	-5.9%
Top 10	$69,600.8	79.4%	-3.3%
Total	$87,642.3	100.0%	-2.7%

Source: Insurance Research Institute

Insurance regulation: The process of liberalization is under way as a result of the Japan/U.S. New Economic Framework. "Big bang" financial system reform, expected to take effect in 2001, will allow life and non-life companies into each others' businesses, and transfers regulatory authority over insurance to the FSA from the Ministry of Finance. A payment guarantee scheme may cost the industry more than $500 million a year in contributions. Nonadmitted classes are allowed for international marine, hull, cargo and aviation.

Compulsory insurance: Auto liability, workers' compensation, and liability for maritime oil pollution.

Product regulation: Greater flexibility on rate setting took effect in July 1998, when the Rating Organization's statutory powers were dissolved and the government relaxed its control over policy language.

Distribution: Traditionally dominated by an army of more than 600,000 tied agents. In 1997, two foreign companies, including AIG, introduced auto coverage sold directly to consumers, which was enabled by the reforms. The domestic companies are likely to follow suit in this small but fast-growing segment, despite resistance from their captive agents. Channel conflict is likely to constrain marketing efforts for these companies, just as in the United States.

Insurance brokers also are now operating in the market, but their impact hasn't been as great as the accelerating evolution toward a more open market in a challenging economic environment that demands cost efficiencies.

In many ways, the Japanese insurance industry is responding to competitive pressures in much the same way companies have been responding in the United States. In addition to moving toward more direct selling, the Internet is gaining increasing attention as a cheaper, potentially more effective distribution channel. Numerous Internet initiatives have sprung up in the past year. InsWeb Japan is a joint venture with Softbank and Marsh & McLennan whose main focus is selling auto insurance online, reflecting a general trend among foreign firms to form partnerships in a rush to take advantage of what appears to be the willingness of Japanese insurance buyers to make purchases without agents.

The fact that Japan represents 25% of the world's market for commercial and property insurance explains why these kinds of ventures are being launched in rapid succession, especially at a time when industrial activity is beginning to show signs that Japan's economy may be turning.

Life insurance products traditionally have been distributed through a direct salesforce consisting largely of housewives working part-time, but that model, as in the non-life industry, is being challenged by new entrants, both foreign and domestic, with new products and new methods.

Top Non-Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
Toa Re	$1,452.7	66.8%	-7.3%
Japan Eartr	$720.9	33.2%	5.3%
Others	$0.0	0.0%	0.0%
Total	$2,173.6	$1.0	-3.5%

Source: Insurance Research Institute

Degree of reinsurance: Japan's main international reinsurance requirements are for proportional earthquake and windstorm excess of loss. The 1995 Kobe earthquake and Typhoon Bart in 1999 illustrate the severity of Japan's catastrophe exposure. Losses from Bart, for example, had reached $3 billion at last count. A rationing system, which limited earthquake cover in Tokyo to 15% of property value insured, was abolished in 1998. Japan generally has had a largely self-contained reinsurance market, with capacity provided by direct writers, two domestic reinsurers and the government. Its tendency in dealing with foreign reinsurers was to be extremely opportunistic.

The FSA can bar a foreign company from assuming premium if the company has had five years of poor results. Additionally, Japanese companies are very selective about to whom they cede business.

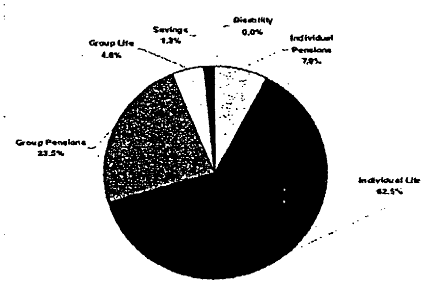
The reinsurance provided by direct writers is in the form of coinsurance, driven by shareholder relationships. The practice has been coming under scrutiny because of abuses by the six newly created non-life subsidiaries of major life insurers. This participation in coinsurance has been driven more by relationships than by the need for capacity. The resources of the international market are mainly required for peak property exposures, proportional earthquake and windstorm excess of loss. The recent dissolution of various market pools and the current liberalization of rates and policy wordings are likely to increase the amount of treaty and facultative reinsurance placed abroad, at least in the short term.

In the year ended March 31, 1997, the Japanese market ceded reinsurance premiums of $2.09 billion, or 2.1% of total premiums, abroad from these major classes:

- Earthquake quota share and, to a lesser extent, fire and earthquake surplus treaties.
- Automatic facultative and facultative cessions related to fire exposures.
- Windstorm excess of loss and, to a lesser extent, earthquake excess of loss.
- Umbrella liability.
- Proportional marine and aviation hull.
- Cargo excess of loss.

Constraints on placement with foreign insurers: Essentially, no foreign insurer without a branch office in Japan may write business.

Life Premium Distribution 1998



Source: Japanese Institute of Life Insurance.

Investment restrictions: Insurance business law imposes limits on the maximum exposure an insurer can maintain to certain investment classes—for example, 30% in Japanese stocks, 20% in property, 30% in foreign currencies, and 10% in bonds and loans. Exceptions can be made with regulatory approval, and clearly, exceptions are made.

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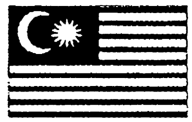
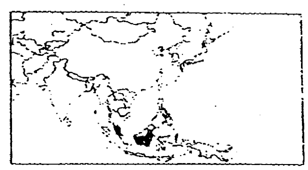
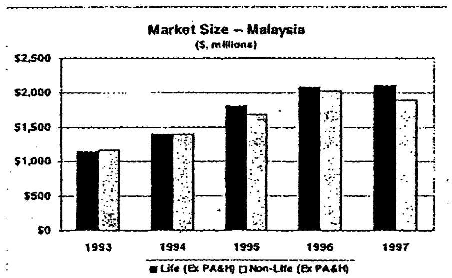
Federation of Malaysia





Population: An estimated 21.7 million in 1997. The current Five-Year Plan projects an average annual increase of 2.3% for 1996-2000. An estimated 7% of the population will be over 60 by the year 2005, versus 5% in 1995.

Government: Constitutional monarchy. The Yang di-Pertuan Agong (King) is elected by and from the nine hereditary rulers of the Malay States. He holds office for a period of five years. Executive power is exercised by the Prime Minister, who is the leader of the majority party or coalition in the House of Representatives.



Source: Insurance Annual Report, Bank Negara.

Market ease of entry: Bank Negara, the country's central bank and insurance regulator, is unlikely to authorize the entry of additional foreign companies except in the case of professional reinsurers. The bank, in April 2000, announced plans to double the minimum capital requirement to $26.3 million as part of an initiative to force the insurance industry to shrink to ten or 15 insurers from the current 52.

The driver of Malaysia's push for consolidation is its commitment to market liberalization. In July 1995, Malaysia signed the General Agreement on Trade in Services (GATS), which superseded the General Agreement on Trade and Tariffs (GATT) as the international body to regulate and monitor the adoption of global free trade. Malaysia also signed the ASEAN Framework Agreement on Services to encourage financial and commercial cooperation between countries of Southeast Asia. Hence, the central bank sees the need to reduce the market to a handful of large, financially strong players from a larger population including many weaker insurers.

From AIG's perspective, this would be good news, because AIA had more than $1.32 billion of reserves in Malaysia, more than 1 million policyholders, 8,000 agents and 22 branches. Malaysia is a focus country of AIG's $1.5 billion Asia Infrastructure Fund and the $600 million AIG Asia Opportunity Fund.

In early 1998, plans were announced to cut all foreign ownership of insurers to a 51% maximum. A few months later, AIG announced the formation of a $1 billion Southeast Asian recovery fund, including $150 million of AIG's own capital. A few days after that, Malaysia announced a five-year postponement of the new limitation. Mr. Greenberg commented, "I think Prime Minister Mahathir recognizes that AIG, through its entities in Malaysia, has been there more than 50 years. We've made many contributions to the Malaysian economy, so I think the prime minister said that AIG is a special case, and indeed it is, and I think we appreciate that recognition."

For those who might want to try to enter the market under what appear to be uninviting conditions, separate licenses are required for life and non-life operations. Penalties for noncompliance are ten years of imprisonment or a fine of $2.6 million. Reinsurers need to be admitted. New foreign entrants will be limited to a 30% stake in any domestic insurer.

Top 10 Life Insurers — 1997

Company	DWP	Mkt. Share	Percent Change
Great Eastern	$113.3	20.2%	15.8%
AIA	$77.7	13.8%	19.7%
MAA	$60.7	10.8%	10.8%
Prudential	$54.7	9.7%	7.0%
Aetna Universal	$48.8	8.7%	21.7%
Hong Leong	$31.9	5.7%	-14.5%
Mayban Life	$31.8	5.7%	-16.7%
OAC	$27.4	4.9%	8.4%
MNI	$25.3	4.5%	-15.6%
MCIS	$16.7	3.0%	5.7%
Top 10	$488.5	86.9%	9.5%
Total	$562.1	100.0%	11.1%

Source: Insurance Annual Report, Bank Negara.

Market opportunity: For players that survive, Malaysia represents a lucrative market. This country rebounded so quickly from the "Asian contagion" of 1997-98 that by early 2000, the talk was more of how to keep the resurgent economy from heating up too quickly. The government's latest estimate for GDP growth was 5.8% for 2000, up from 5.4% in 1999. Private estimates are even more bullish—as high as 7.8% in 2000, then leveling off in 2001 under possible inflationary pressure. Just prior to the Asian economic crisis, Malaysia's GDP growth rate was 8.6% in 1996, which eased back to 7% in 1997.

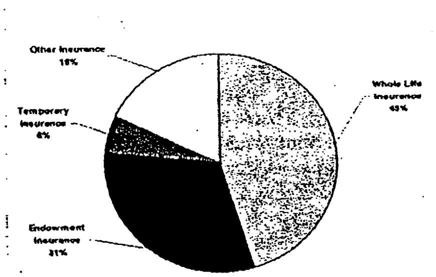
During the crisis, Malaysia's insurance industry contracted—on the non-life side, by 7.5% to $1.51 billion, and in life, by 6.7% to $1.35 billion in 1998. Regulators are urging life companies to emphasize savings products over protection and to promote life and health insurance in light of Malaysia's aging society.

Roughly 20 years of uninterrupted economic growth—except for the 1997-98 crisis—has brought Malaysians unprecedented prosperity, undeterred by the currency and stock market turbulence during the crisis. During the past ten years, the insurance industry has experienced rapid progress on the crest of this buoyant economy. Per capita premium expenditure for general classes nearly tripled to MYR 290 (US$76) in 1997 from MYR 111 in 1990.

The branch offices and local subsidiaries of foreign companies dominate the life market and have contributed to its healthy growth over the past 20 years, often despite cultural opposition to the very idea of life insurance. Market penetration remains fairly small, and large segments of the population remain uninsured. More than 85% of life premium is generated through individual sales.

Insurance regulation: The insurance regulatory authority, Bank Negara, is conscious of the need to rationalize the market and is working toward introducing a two-tier regulatory framework to encourage the industry to strengthen its capital base and capacity through mergers and acquisitions. Since the Insurance Act of 1996 took effect January 1, 1997, emphasis has been placed on greater financial discipline and more effective management. The new law sets out revised rules for the calculation of margins of solvency and increases of capital.

Life Premium Distribution 1997



Source: Insurance Annual Report, Bank Negara.

Together with these insurance regulations, Bank Negara has issued a variety of guidelines addressing intermediaries, reinsurance, investment funds and deposits or nonadmitted insurance. In addition, there are some self-regulatory measures, such as Inter-Company Agreements. The Takaful Act of 1984 regulates business conducted in accordance with Islamic Law.

The Offshore Insurance Act of 1990 governs the licensing and regulation of offshore insurance and financial activities on the island of Labuan, off the north coast of Borneo. Offshore insurance covers all types of insurance activity except the writing of Malaysian direct business, with the exception of life insurance, for high-net-worth individuals.

History: Local agents acting on behalf of British insurance companies introduced insurance into the Peninsula in the first half of the 19th century.

In 1827, Alliance British and Foreign Life and Fire Co. of London became the first to enter when it appointed Napier & Scott of Singapore as underwriting agents. In 1875, a predecessor of the Guardian-Royal Exchange Group became the first foreign insurer to establish a direct operation. The first local insurer was the Great Eastern, established in 1908, followed by other domestic firms, Overseas Assurance in 1920 and Asia Insurance in 1923.

The Federation of Malaysia was formed in 1963, comprising the former Federation of Malaya, independent of Britain since 1957, and the British colonies of Singapore, Sarawak and Sabah (British North Borneo). Singapore withdrew in 1965. The Barisan Nasional coalition enjoys a commanding majority in Parliament and the standing of the prime minister, Dr. Mahathir Mohamad, remains high, despite recent difficult economic times. Dr. Mahathir, leader of the United Malay National Organization and the main party of the coalition, has been prime minister since 1981. He turned 74 in December 1999.

The Motor Insurers' Bureau of West Malaysia was founded in 1967, the state-owned Malaysian National Insurance was set up in 1970 and Malaysian National Reinsurance Bhd (MNRB) was formed in 1973. The General Insurance Association of Malaysia (PIAM) was established in 1979, and Bank Negara assumed responsibility for the supervision of the insurance industry in 1988.

Compulsory insurance: Motor liability and workmen's compensation are compulsory classes. Minimum professional indemnity for lawyers and insurance brokers is also required.

Top 10 Non-Life Insurers — 1997

Company	DWP	Mkt. Share	Percent Change
Kurnia	$145.1	7.6%	-9.0%
MBA	$125.7	6.6%	37.3%
Sea	$90.4	4.8%	-6.1%
P&O	$89.8	4.7%	0.0%
Hong Leong	$88.5	4.7%	-7.0%
American Home	$80.3	4.2%	11.1%
MAA	$70.2	3.7%	48.3%
MNI	$68.2	3.6%	8.2%
People's	$61.9	3.3%	0.0%
Mayban	$56.2	3.0%	3.8%
Top 10	$876.3	46.1%	5.5%
Total	$1,900.6	100.0%	4.7%

Source: Insurance Annual Report, Bank Negara.

Product regulation: In July 1995, Malaysia signed on to GATT, which requires rate deregulation. However, no changes are planned until the Bank is satisfied that it has achieved its objective of having a core of large well-financed and well-managed insurers.

Motor and fire wordings are controlled, and these lines are subject to tariff rating. PIAM is proposing a revised motor tariff, which has remained unchanged for several years and is generally considered inadequate both in pricing and structure.

Distribution: Intermediaries, either registered agents or brokers, dominate the market. At the end of 1997, 113,844 life and general agents were registered to do business (84,667 life agents and 29,177 general agents). Brokers control 25.1% of general insurance premiums. Nonconventional distribution channels via bancassurance, cross-selling and telemarketing are emerging.

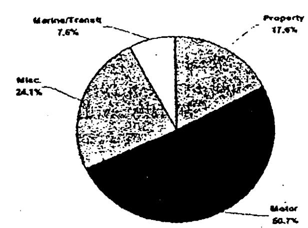
Special issues: The Malaysian legal system is based on English law. In some circumstances, Islamic law applies to those who adhere to the Moslem faith.

Matters such as the duty of disclosure and the relevance of negligence and strict liability follow English law. Punitive damages are not characteristic of Malaysia.

Degree of reinsurance: Preliminary 1997 data suggest that the national retention of Malaysian general business increased to 82.5% from 79.5% in 1996. The much higher level of retention, encouraged by the Bank's official policy, resulted from the greater capacity of several insurers that had increased their capital base.

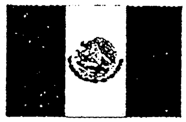
Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited. If insurance is not available locally, the bank may give its approval for it to be placed abroad.

Non-Life Premium Distribution 1997



Source: Insurance Annual Report, Bank Negara.

Federal Republic of Mexico

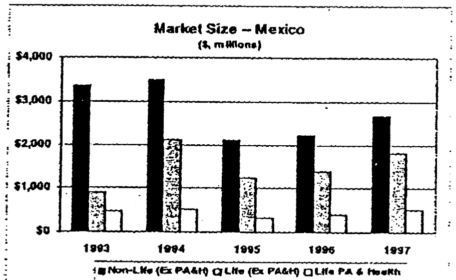


Population: 95 million, up from just 35 million in 1960. Average life expectancy is 70 for males, 78 for females.

Government: Federal republic, transitioning from a one-party state to a multiparty democracy.

Market ease of entry: Ownership by companies from NAFTA countries is unrestricted. Companies from non-NAFTA countries are limited to 49% ownership.

Market opportunity: Mexico, the third-largest insurance market in Latin America after Brazil and Argentina, represents an unrestricted opportunity for many foreign insurers, but volatility associated with political and economic instability, coupled with currency risk, makes it a challenging market in which to operate. The country's dependence on oil revenue—it is the world's fourth-largest producer—makes it prone to the ups and downs of oil prices. The peso devaluation caused an economic crisis in 1995. Two years later, the country was dragged into a recession sparked by plunging oil prices.



Source: AMIS.

Since then, conditions have improved such that Moody's recently upgraded the sovereign rating to investment grade, even though in September Mexico said that the cost of bailing out banks in the wake of the currency devaluation and recession would approach $100 million.

Life insurance is a relatively weak industry, reflecting the fact that Mexicans, who culturally don't embrace the concept of life insurance to begin with, are not accumulating wealth rapidly enough to create a large base of potential customers. Despite the underdeveloped state of the market, the entry of foreign companies with better products and marketing techniques is likely to result in continued steady growth in the years ahead.

Recent moves by foreign firms in Mexico include Dutch-based ING Group's decision to invest $808.8 million for a 49% stake in a holding company for Seguros Comercial America, the insurance unit of Mexican conglomerate Savia. Lincoln National Corp. originally owned the stake, but decided to sell it in favor of concentrating its efforts in the reinsurance sector.

The privatization of Mexico's pension plan has attracted numerous foreign interests, including a joint effort involving AIG. Part of what makes Mexico so attractive is that the country allows pension fund administrators to manage multiple funds and puts no limits on investments.

AIG Mexico's share of the non-life market was 2.4% in 1997, with $64.7 million in premium income, up 31.3% from 1996. Excluding personal accident and health, the non-life market grew 23.6% in 1997. On the life side, AIG's premium income fell 16.8%, to $9.7 million, for a 0.5% share of a market that grew 36.1%.

History: The first Mexican insurance company, Seguros Maritimos de Nueva España, was formed in 1789. All foreign insurers were expelled in 1936. In 1982, several domestic companies were indirectly nationalized when the government took over their owner banks.

Until 1990, the two main laws that applied to insurers were the Law on Insurance Contracts and the General Law on Insurance Companies. The Contract Law remains essentially unchanged but the Insurance Law underwent major changes in 1990, effectively deregulating the insurance industry.

The supervisory body was reorganized, rate regulation was eliminated, retention maximums and minimums were eliminated, new capital requirements and solvency tests were imposed, and foreign ownership up to 49% was approved.

In 1993, provisions were added to achieve compliance with the North American Free Trade Agreement (NAFTA). In 1996, the Social Security system cleared the way for private insurance companies, including AIG Mexico, to manage pensions and related benefits on a defined-contribution basis as designated Retirement Funds Administration Companies, or AFORES (Administradoras de Fondos de Retro).

Compulsory insurance: None.

Product regulation: Rates are unregulated.

Degree of reinsurance: As of 1997, just over a third of non-life premiums were reinsured, with about 90% placed outside of Mexico.

Distribution: Life insurance agents, numbering roughly 35,000, account for about 95% of that market, although banks and direct sales represent an increasing share of the market. Brokers and agents dominate the non-life market, although the direct and bancassurance channels are making some inroads.

Top 10 Life Insurers

Company	DWP	Mkt. Share	Percent Change
Grupo Nacional	$433.5	23.8%	36.0%
Hidalgo	$369.3	20.3%	27.9%
Comercial America	$240.4	13.2%	24.3%
Monterrey Aetna	$237.7	13.0%	13.6%
Genesis	$129.6	7.1%	136.1%
Inbursa	$97.8	5.4%	48.6%
Banamex Aegon	$62.1	3.4%	21.8%
Bancomer	$51.1	2.8%	N/A
Tepeyac	$32.6	1.8%	83.9%
Allianz Mexico	$17.6	1.0%	63.8%
Top 10	$1,671.7	91.7%	37.9%
Total	$1,823.2	100.0%	36.1%

Source: AMIS

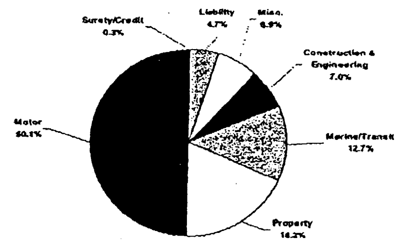
Top 10 Non-Life Insurers

Company	DWP	Mkt. Share	Percent Change
Comercial America	$933.3	34.8%	13.7%
Grupo Nacional	$436.7	16.3%	36.7%
Inbursa	$185.7	6.9%	21.5%
Monterrey Aetna	$177.8	6.6%	-17.9%
Tepeyac	$123.5	4.6%	20.6%
Aba/Seguros	$79.3	3.0%	52.5%
AIG Mexico	$64.7	2.4%	31.3%
Bancomer	$60.8	2.3%	N/A
Atlas	$54.7	2.0%	44.9%
Allianz Mexico	$50.7	1.9%	39.0%
Top 10	$2,167.3	80.9%	21.2%
Total	$2,679.9	100.0%	23.6%

Source: AMIS

Insurance regulation: The regulatory body is the CNSF (Comisión Nacional de Seguros y Fianzas). The CNSF sets solvency margins and closely monitors them and on behalf of bonding companies as well as insurers, applying fines for violations and supervising insolvency takeovers. No protection provision exists for policyholders in the event of an insolvency.

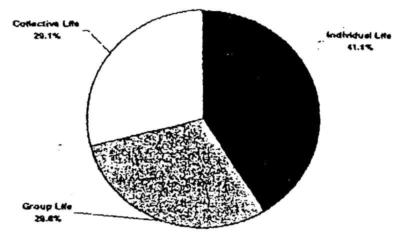
Non-Life Premium Distribution 1997



Source: AMIS.

Constraints on placement with foreign insurers: Nonadmitted insurers can operate in Mexico only in special cases where cover is unavailable locally. More often, in such cases, an admitted company fronts for the nonadmitted insurer, using reinsurance placed 100% abroad.

Life Premium Distribution 1997



Source: AMIS.

Investment restrictions: For life insurers, 30% of investments must be in federal government securities or in fixed-income investment company shares. The rest must be in securities approved by the National Banking and Securities Commission.

Pension investments are unrestricted.

On the non-life side, solvency-margin requirements limit insurers' investments to 30% each in mortgages, ordinary shares and real estate. Catastrophe reserves may not be in real estate, and 50% of non-life claims reserves must be in short-term investments.

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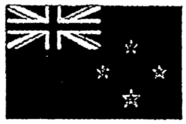
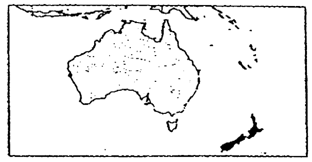
New Zealand

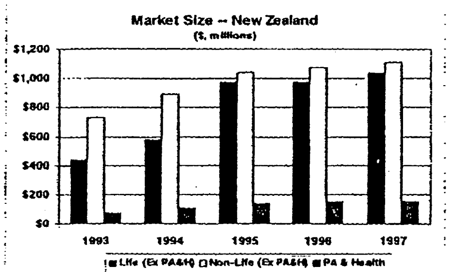




Population: 3.8 million, with a 1.4% average annual growth rate from 1991 to 1996. Life expectancy, 74 males and 80 females. Auckland, with population of 1 million, is the largest and fastest-growing city.

Government: Parliamentary monarchy.

Market ease of entry: Forming an insurance company falls under the same guidelines as forming any other New Zealand company. There are no minimum capital requirements. Most insurers are foreign owned, and there are no restrictions on foreign ownership. The most recent and significant privatization was the opening up of the Accident Rehabilitation and Compensation Insurance Corporation's (ACC) employers' account (equivalent to workers' compensation) to the private sector in 1999. ACC reimburses personal injuries and performs health and welfare functions such as reimbursement for emergency accident treatment costs, and income support for the disabled up to 80% of preaccident income.



Source: ISI.

Just a few months after the ACC monopoly was disbanded, the New Zealand government reconsidered the status of the ACC and is in the process of renationalizing the ACC system. Although greeted with heavy opposition, the government has pushed forward with proposed reforms. The bill will bar private insurers from writing new business as early as mid-2000. This represents about $250 million of annual premium.

Top 10 Non-Life Insurers -- 1998

Company	DWP	Mkt. Share
State Insurance Ltd	$192.2	18.9%
New Zealand Ins Ltd	$185.8	18.3%
Royal Sun Alliance	$121.8	12.0%
AMI Insurance Ltd	$86.1	8.5%
Lumley General Ins	$59.1	5.8%
National Ins Co of NZ	$55.5	5.5%
HIH Casualty & General	$46.8	4.6%
American Home Assurance	$38.3	3.8%
AMP General Insurance Ltd	$37.3	3.7%
Farmers Mutual Ins Grp	$27.3	2.7%
Top 10	$850.4	83.7%
Total	$1,016.3	100.0%

Source: ICNZ

These actions have not sent a favorable message to foreign insurers in the market or those considering entering the market. If the bill is passed, companies may have to write off their investments in this business line.

There are no state insurance companies, but there are two major Crown agencies, which replace insurance companies on domestic earthquake and accident compensation insurance.

Market opportunity: The services sector is growing strongly, and represents 46% of GDP; manufacturing is 25%; and agriculture, fisheries, forestry and mining is 9%. The market is acknowledged as having too many insurers, as the top three non-life insurers control 53% of premium volume. The trend is for the continued concentration of the top five. The commercial lines segment has experienced significant competition. From 1993-98, non-life premiums grew 56.3% in original currency, faster than GDP growth of 21.7%, driven by the privatization of the Earthquake Commission and rate increases in household and motor business. Non-life premiums represent 2.1% of GDP, while life is 2.2%. AIG has a small presence in this market outside of its niche of broker-controlled multinational business. In 1998, AIG wrote $38.3 million of non-life business for a 3.4% share of the market, while life business of $9.1 million accounted for 0.8% of the market.

Top 10 Life Insurers – 1999

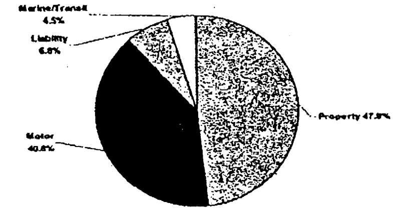
Company	DWP	Mkt. Share	Percent Change
AMP	$199.4	21.9%	-6.1%
Colonial	$165.1	18.1%	-29.8%
AXA	$132.9	14.6%	-9.4%
Royal SunAlliance	$105.2	11.5%	1.7%
Tower Investment	$79.4	8.7%	-22.0%
Sovereign Assurance	$75.8	8.3%	10.0%
BNZ Life	$41.2	4.5%	11.7%
WestpacTrust Life	$26.8	2.9%	18.0%
Fidelity Life	$20.9	2.3%	19.7%
Tower Health	$17.9	2.0%	-2.9%
Top 10	$864.6	94.9%	-10.3%
Total	$910.7	100.0%	-12.0%

Source: ICNZ

The top six non-life insurers account for 69% of the market as of 1998. These companies are expected to increase share, driven by: 1) capital needed for investment into direct infrastructures as the trend toward direct distribution continues; 2) Marsh and Aon's push to set up facilities in the small and mid-size risk categories, which should continue to favor the established large players; 3) the nature of catastrophe covers makes it more economical for larger companies; and 4) the advantage of having large capital bases with which to write employers' account business. As a result, more M&A activity is expected.

On the life side, the top four companies control 66% of the premium as of 1999. The general viewpoint is that there are too many insurers for the market. In contrast to the non-life market, Australian-based companies, rather than British insurers, occupy the top slots.

Non-Life Premium Distribution 1997



Source: ISI.

Insurance regulation: Department of Justice. New Zealand is one of the few countries in the world without an insurance supervisor. Insureds rely on ratings from A.M. Best and Standard & Poor's. Observers expect that the government will soon create an office of insurance supervisor. The New Zealand market is one of the least-regulated developed economies in the world.

Compulsory insurance: Insurance is automatic rather than compulsory. The OCC scheme provides automatic coverage for accidental injury and work-related sicknesses.

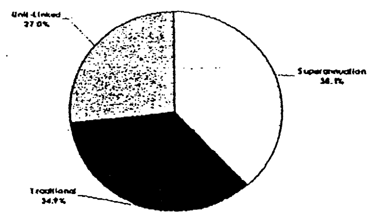
Product regulation: Nontariff rates. Non-life premiums are subject to 12.5% tax. Non-life income tax is 33% and 38% for foreign companies.

Distribution: 12–15% of personal lines distributed by banks, 15% by brokers, and direct represents the balance. Banks continue to form alliances with insurers. Brokers control 90% of corporate risks.

Degree of reinsurance: Property risks are ceded on an excess basis; all companies buy catastrophe programs for earthquake only; engineering risks are ceded to surplus or fire treaties; motor hull is largely retained, but some is facultatively reinsured. Several non-life insurers are entering the market and are expected to require reinsurance support. Net retentions range in the 60–90% level and have been falling due to significant pressure on cat rates.

Constraints on placement with foreign insurers: Insurers can place business anywhere in the world. Likewise with reinsurance, and reinsurers are not required to put up deposits.

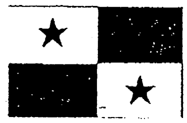
Life Premium Distribution 1997

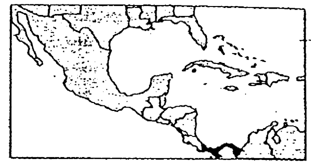


Source: ISI.

Investment restrictions: There are no regulations on investments.

Republic of Panama

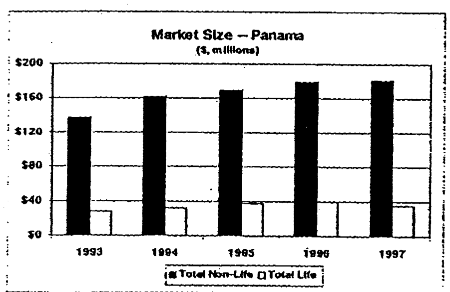




Population: 2.674 million in 1996, up 1.7% from 1995 and 11.5% from 1990. Forty percent of the population lives in two centers, Colon and Panama City; 43% live in rural areas. Average life expectancy: 71 male, 75 female.

Government: Democratic republic.

Market ease of entry: Open market with no state intervention. There are no limitations on foreign ownership. Only one state insurer exists, Instituto de Seguro Agropecuario, which writes livestock and crop insurance only.



Source: Superintendencia de Seguros y Reaseguros.

Market opportunity: In 1997, there were 26 insurance companies, of which 19 were composites. Six were foreign, of which four wrote life business only. The top three companies write half of the business in the market. Only 30–35% of vehicle owners carry motor insurance. All of the non-life insurers write motor insurance.

Life insurance premiums of $125.9 million as of 1998 represent 1.4% of the economy, while non-life premiums of $197.8 million represent 2.2%. AIG occupies a 10% share of the market, operating under American Life Insurance Company in its life business, and National Union Fire Insurance Company on the non-life side.

Insurance regulation: The Superintendency of Insurance and Reinsurance operates as an autonomous state institution.

Compulsory insurance: Motor third-party liability (MTPL).

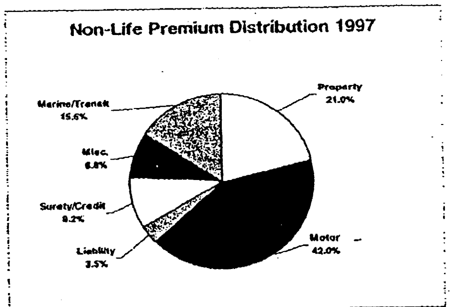
Product regulation: Nontariff rates. On Panamanian risks, insurance companies pay a 2% tax on premiums. On all other classes except group and individual life insurance, the insured pays a 5% tax. On motor business, there is an additional 1% payable by the insured to the National Transit and Land Transportation Department.

Top 10 Insurers – 1996

Company	DWP	Mrkt. Share	Percent Change
ASSA Compania	$62.5	21.5%	-1%
Aseguradora Mundial	$47.1	16.2%	5.9%
Cia International	$34.5	11.9%	3.4%
Cia Nacional	$18.4	6.3%	9.5%
American Life Ins. Co.	$17.0	5.8%	4.0%
Cia de Seguros	$16.1	5.6%	16.6%
Pan-American	$15.8	5.4%	25.6%
Assicurazioni Generali	$11.7	4.0%	10.9%
Nat. Union Fire Ins. Co.	$10.7	3.7%	51.8%
Western Insurance Co.	$8.6	2.9%	35.1%
Top 10	$242.5	83.4%	8.1%
Total	$290.9	100.0%	29.8%

Source: Superintendencia de Seguros y Reaseguros

Distribution: Distribution is predominantly through brokers. To a limited extent, business is distributed on a direct basis.

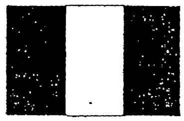


Source: Superintendencia de Seguros y Reaseguros.

Degree of reinsurance: The reinsurance market is open with few controls. No official figures are published for inbound and outbound reinsurance. It is estimated that 70–80% of non-life premium is reinsured abroad.

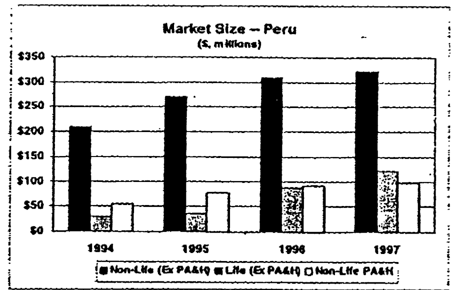
Constraints on placement with foreign insurers: Business must be placed within the local market, but if it is shown that the business cannot be placed locally, the Superintendent can waive this requirement. Reinsurance can be placed in foreign markets.

Republic of Peru



Population: Peru is twice the size of France, with a population of 25 million at the end of 1998 (28% in city of Lima). The population is growing at 2.2% per year. Approximately 70% live in urban areas, while 30% are rural. Driving the increase is people seeking the relative safety of the cities during times of terrorism. Average life expectancy is 63 for men and 67 for woman.

Government: After the constitution was suspended in 1992, the two-chamber parliament was dissolved. The present constitution dates from 1993, headed by a prime minister. Although terrorism existed in the past, the current regime appears to have a firm grip on important issues: The economy and political climate looks secure. The president since 1992, Alberto Kenyo Fujimori, is seeking a third term in office in a controversial election process that is at present in a run-off stage.



Source: Superintendencia de Banca y Seguros.

Market ease of entry: There are no barriers to form a local company other than a valid business plan supplied to the Superintendency for approval. The state monopolies were eliminated in 1991 when the Peruvian market was deregulated. Many foreign insurers operate and/or hold positions in all of the major insurers.

Market opportunity: With an economy that was on the brink of bankruptcy in the 1980s, Peru had the highest-performing economy in the world by 1994. Although the economy took a breather in 1998 due to slowing economic conditions among trading partners and the effects of El Niño, conditions have been picking up. In 1999, GDP growth settled out around 2.4%, and 2000-01 GDP growth is projected to climb to the 4.4–4.5% range. Inflation is under control, as it had been reduced from 7,650% in 1990 to 9% by November 1998, and is expected to fall further.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mrkt. Share	Percent Change
El Pacifico Per. Suiza	$130.8	30.2%	17.6%
Rimac-International	$62.4	14.4%	19.1%
Popular y Porvenir	$42.0	9.7%	-7.3%
La Fenix Peruana	$35.1	8.1%	8.2%
La Positiva	$33.2	7.7%	12.4%
Wiese Aetna	$32.0	7.4%	19.0%
Generali Peru	$30.9	7.1%	17.0%
El Sol Nacional	$27.9	6.4%	23.4%
Sul America	$19.0	4.4%	4.8%
La Vitalicia	$17.3	4.0%	5.7%
Top 10	$430.7	99.4%	12.9%
Total	$433.5	100.0%	25.2%

Source: Superintendencia de Banca y Seguros

The insurance market deregulated over a relatively short period, allowing for significant growth rates. Life insurance compounded at a 79% growth rate from 1993-98, while non-life grew 17.5% annually. The life insurance market is expected to continue growing faster than the non-life market. Non-life penetration as a percentage of GDP is 0.7% while life penetration is 0.3%, nearly the lowest levels in Latin America.

There are only 11 general insurance companies in Peru, including Popular y Porvenir, a state-owned insurer with a 10% market share. Its main clients are the armed forces and the police.

AIG is the market share leader on the non-life insurance side, and is the third-largest life insurer, with an overall market share of 28% as of 1998. It operates as El Pacifico.

Motor comprises one-third of the non-life market. About 75% of vehicles in Peru are uninsured, and many are considered uninsurable given their condition. About two-thirds of Peru's vehicles are in the Lima area.

Special issues: Spanish, Aymara and Quechua are the official languages, but English is accepted among business people.

Top 10 Life Insurers

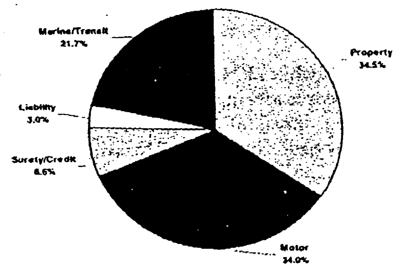
Company	DWP	Mrkt. Share	Percent Change
Rimac Internacional	$31.6	25.9%	55.9%
La Positiva	$27.7	22.7%	72.2%
El Pacifico Vida	$26.6	21.8%	51.7%
Wiese Aetna	$24.6	20.1%	42.1%
Popular y Porvenir	$2.4	1.9%	-20.2%
Generali Peru	$2.1	1.7%	37.2%
El Sol Nacional	$1.9	1.6%	-19.5%
Sul America	$1.6	1.3%	28.1%
La Fenix Peruana	$1.6	1.3%	41.0%
La Vitalicia	$1.5	1.2%	226.5%
Top 10	$120.1	98.2%	49.3%
Total	$122.3	100.0%	50.8%

Source: Superintendencia de Banca y Seguros

Insurance regulation: Insurance control comes under the jurisdiction of the Superintendency of Banks and Insurance. The superintendencia is divided into four assistand superintendencias, one of which is for insurance. The Asociacion Peruana de Empresas de Seguros (APESEG) is a liaison to the Superintendency on behalf of its members, performing rating and other governance-type functions.

Compulsory insurance: Workers' compensation is covered partly by the state and partly by the private insurance industry. Other compulsory insurance lines are group life assurance for all employees and aviation liability. It is expected that some form of motor third-party liability may be a requirement within the next few years.

Non-Life Premium Distribution 1997



Source: Superintendencia de Banca y Seguros.

Product regulation: Tariffs were eliminated in 1991, and are now used for guideline purposes only. An 18% sales tax is levied on most insurance premiums payable by the insured. Individual life policies are not subject to a sales tax.

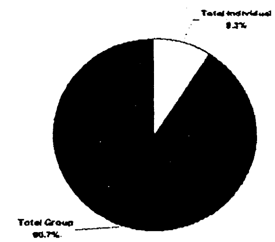
Distribution: The majority of non-life insurance is handled through brokers and agents. This is similar to the situation on the life side, but bank relationships and direct sales are growing in popularity. Agency distribution is declining due to an increase in insurance companies expanding their distribution efforts by employing company salespeople to gain direct access to customers. Historically, direct sales have been used within life, personal accident and sickness insurance. For a short period, Aon Peru lost its registration due to a technicality, but regained its status.

In October 1999, Marsh signed a letter of intent to acquire Peru's largest broker, Vidal Inti, which will be combined with Marsh's existing operations in Peru. Aon, Willis and other international brokers occupy the top slots in the country, and deal with both personal and business insurance.

Degree of reinsurance: As of 1997, 72% of gross premiums were retained. Apart from minimal business ceded locally, all other reinsurance is placed internationally. Fifty-six percent of ceded premiums are placed with direct reinsurers and 44% via reinsurance intermediaries.

Constraints on placement with foreign insurers: There are no restriction on individuals or companies placing their insurance in foreign markets. Ditto on reinsurance, and foreign reinsurers do not have to put up deposits.

Life Premium Distribution 1997



Source: Superintendencia de Banca y Seguros.

Investment restrictions: Investments must be placed in approved sectors, not to exceed 30% in a given sector. The approved sectors are primarily fixed income and, to a lesser extent, real estate, and shares in the stock market.

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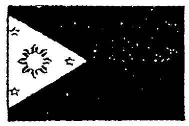
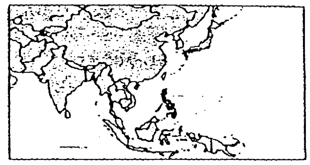
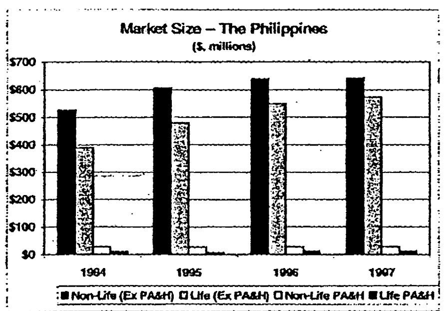
Republic of the Philippines





Population: 75 million, growing at 2.4% annually. Life expectancy: 63 male, 69 female.

Government: Constitutional, democratic presidential republic.



Source: Philippines Insurance Commission.

Market opportunities: The country is sophisticated, with over a 90% literacy rate, but also has considerable potential as the economy develops and recovers from the Asian crisis. Economically, the Philippines has lagged other Southeast Asian countries and suffers from great income inequality. However, since martial law ended in 1986, the country has focused on raising the standard of living and encourage foreign investment. AIG is considering making acquisitions in this market.

Life insurance penetration is only 0.7% of GDP; non-life 0.78% (1998 data). Personal accident is 0.05%, for a total market penetration of only 1.53%. The life market essentially doubled in size between 1993 and 1997 and is considered to have excellent prospects. Only 16% of the population was insured as of 1997 (versus 11% in 1993) and the Insurance Commission is targeting 20% penetration in 2000, although that is probably not a realistic goal. A high 5% premium tax is a disincentive to sales.

Life product demand is primarily focused on mortality protection rather than savings, with individual, as opposed to group, life representing the vast majority of the market. Annuities are rare, but this could be an important market for SunAmerica eventually. AIG's Philamlife has by far the largest market share and best-known brand of life insurance and launched the Philam Call Center in 1999 to handle direct marketing and service of all Philam products.

The personal accident market also is very small and is expected to grow rapidly. Cigna has developed a specialized niche, with personal accident bancassurance developed through cross-sales to credit card holders. Other popular niche products include school fees, home purchase and funeral preneed coverages. Dread disease coverage is not common.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Philam Life & Gen	$171.6	29.2%	13.8%
Sun Life	$115.1	19.6%	14.2%
Insular Life	$114.3	19.4%	14.6%
Manufacturers Life	$29.8	5.1%	17.3%
Ayala Life	$26.6	4.5%	22.4%
Great Pacific Life	$18.9	3.2%	18.4%
Unicoco Life	$18.7	3.2%	30.3%
CMG Life	$16.4	2.8%	N/A
Pan Phils. Life	$14.1	2.4%	28.4%
Manila Bankers Life	$9.3	1.6%	21.8%
Top 10	$534.8	90.9%	19.5%
Total	$588.4	100.0%	17.7%

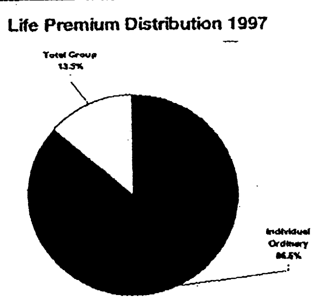
Source: Philippines Insurance Commission

Employer-sponsored defined benefit plans were first mandated in 1993 and are a rapidly growing business; major insurers provide benefits through insurance contracts. Philamlife is a leader in this market. Most large employers also provide group life and disability insurance. The private health care market in the Philippines is very small due to compulsory national health insurance.

The non-life market is small, consisting primarily of motor, property and marine/aviation business. The market is very competitive and its growth is a function of the Philippines' economic recovery and development.

AIG introduced a branded credit card product in 1998; growth in cardholders exceeded the company's expectations in 1999.

History: British insurers brought the insurance product to the Philippines in the 1840s. Commercial Union and Phoenix were among the first insurance companies. The first domestic insurer was formed in 1907. A ban on licensing new insurers was lifted in 1995 and at least 21 new insurers have been licensed since then.



Source: Philippines Insurance Commission.

Market ease of entry: There are essentially no barriers to entry. Foreign insurers may form joint ventures with a local company, set up a branch or invest in an existing company. The GSIS (Government Service Insurance System) insures government interests, while health and social security insurance are nationalized and compulsory. New licensees in recent years include the following: Pioneer Allianz (1998); Allstate Life (1998); Pruamerica Life (1998); and Sony Life (1999).

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Prudential Gtee	$71.5	10.7%	10.7%
Malayan Ins	$59.8	8.9%	8.9%
FGU Ins	$37.4	5.6%	5.6%
Federal Phoenix	$34.0	5.1%	5.1%
Pioneer Ins	$28.2	4.2%	4.2%
Standard	$26.8	4.0%	4.0%
PHILAM Ins	$25.4	3.8%	3.8%
Phil. Charter	$22.4	3.3%	3.3%
UCPB Gen	$16.7	2.5%	2.5%
Gen. Accident	$15.1	2.3%	2.3%
Top 10	$337.4	50.4%	14.0%
Total	$669.7	100.0%	12.3%

Source: Philippines Insurance Commission

Insurance regulation: The Insurance Commission, a department of the Ministry of Finance, regulates the market; all policies must be approved in advance. Licenses must be renewed annually. There are minimal barriers to entry to the market.

Compulsory insurance: Motor third-party BI liability with very small limits; proof of insurance required to renew annual road tax stamp. There are no plans to privatize the national health and social security systems.

Product regulation: Fire, motor and bond business is tariff-rated; however, intense competition has undermined the fire tariff. The motor rate scale is wide and is not considered restrictive.

Product demand is affected by onerous taxes—including a 10% VAT on all non-life policies except 5% on life and on accident and health. There is an additional 12.5% stamp duty on non-life business plus municipal tax. Total tax is high (e.g., 25.5% on a fire policy).

Special issues: The Philippines are subject to severe earthquake risk; building codes mandate ability to withstand an 8.0 Richter scale earthquake, but are not necessarily enforced. In the past 103 years, there have been eight earthquakes of 7.0 intensity or higher. It is estimated that fewer than 5% of properties carried earthquake cover during the last major temblor in 1990, which cost $75 million in insured damage. The potential market loss as sums insured grow is therefore significant. Volcanos, mudslides, flood and typhoons are other major natural hazards. Risk management is not a developed concept.

Special Issues. Insurers must notify a policyholder 45 days before expiry of whether a policy will be renewed and on what terms. Failure to notify constitutes an offer to renew on expiring terms.

Company	Bank Partner
Philamlife (AIG)	Philam Savings Bank
Mapfre Asian Ins.	Asian Bank Corporation
Makati Insurance Co.	Far East Bank
PCIB – Cigna Life Ins.	PCI Bank
Insular General Ins.	Insular Savings Bank
UCPB Life	UCPB
Ayala Life Ins.	Bank of the Phil. Islands
John Hancock	RCPB

Distribution: Insurance traditionally has been placed through agents and brokers. Direct motor sales have been attempted, but not very successfully. Bancassurance of personal accident and other life products is developing, with the following partnerships established.

Degree of reinsurance: Compulsory requirement to offer 10% of reinsurance to the National Reinsurance Corporation, which is jointly owned by all Philippine companies and the GSIS. Foreign reinsurers must be registered; restrictions are minimal. Local retentions are as high as possible to avoid exporting foreign currency; however, more than 25% of non-life premiums are placed outside the Philippines.

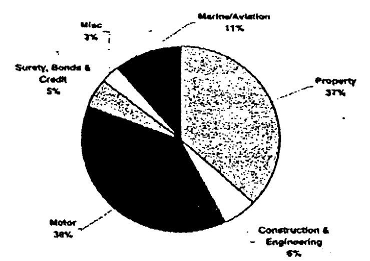
Non-Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
National Re	$31.6	60.6%	72.7%
Universal Re	$18.9	36.2%	0.1%
Eastern Gen	$1.7	3.3%	45.4%
Total	$52.1	100.0%	36.2%

Source: Philippines Insurance Commission

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited but large risks are often placed internationally through fronting arrangements.

Non-Life Premium Distribution 1997



Source: Philippines Insurance Commission.

Investment restrictions: Formerly restricted to 40% investment in local companies, restrictions were lifted in recent years.

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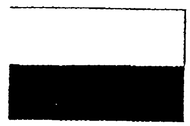
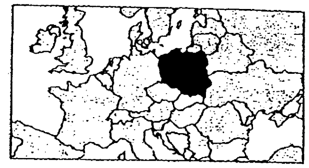
Republic of Poland



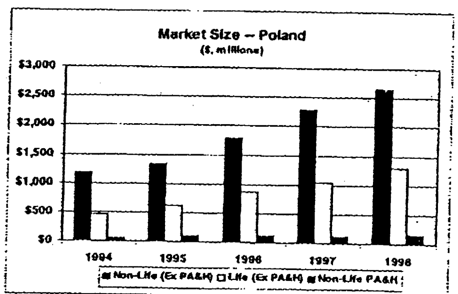


Population: 39 million. Life expectancy: 68 male, 77 female.

Government: The Republic of Poland is a democratic parliamentary democracy.

Market ease of entry: 100% foreign ownership is accepted, and no legislation prevents the formation or acquisition of foreign insurers. In 1998, a change to the insurance law was approved, which opened the market to foreign insurers' branch operations. The main provisions include the following: branches require a license from the Ministry of Finance (MOF) and registration from the Commercial Court; supervision by the Panstwowy Urzad Nadzoru Ubezpieczen (PUNU); and various solvency guidelines. Sixteen new life insurance companies were established in the last three years.

Powszechny Zaklad Ubezpieczen (PZU) is the state-owned non-life insurer. PZU does not enjoy a state guarantee of its liabilities. Seventy-eight percent of PZU's premiums are motor. PZU owns PZU Zycie, the life insurer. KUKE, which is a credit and political risk insurer, is also a state-owned insurer.



Source: Polish Chamber of Insurance.

On November 5, 1999, a 30% stake of PZU was sold to a consortium of Euroko, a pan-European insurance alliance, and BIG Bank Gdanski, a leading local commercial bank, for $704 million. By the end of 2001, another 30% of PZU is expected to be sold off.

Top 10 Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
PZU na Zycie SA	$983.5	63.6%	21.8%
Commercial Union	$277.4	18.0%	49.3%
PAPTUnZiR Amplico	$143.2	9.3%	41.4%
TUnZ Nationale	$103.3	6.7%	92.3%
TUnZ Warta Vita SA	$7.9	0.5%	67.7%
BTUiR Heros Life SA	$6.4	0.4%	42.9%
AGF Ubezpieczenia	$5.7	0.4%	48.7%
TUnZycie Polisa	$4.5	0.3%	76.9%
STUnZ Alte Leipziger	$2.7	0.2%	3973.2%
TU Allianz BGZ	$2.5	0.2%	44418.0%
Top 10	$1,537.2	99.5%	32.1%
Total	$1,545.5	100.0%	32.5%

Source: Polish Chamber Of Insurance

Market opportunity: The non-life insurance market size is almost double that for life insurance. Average annual premium growth in non-life was 35% from 1993-98, compared with 44% for life. Insurance penetration as a percentage of GDP is low, 1.8% for non-life and 1.0% for life. At the end of 1999, total gross premiums as a percentage of GDP were 3.0%, and the life market grew by 20.3% in real terms, while the non-life market grew 5.3%.

The non-life insurance market is made up of 33 companies. Twelve are foreign-owned. The largest insurance company is PZU, the state-owned non-life insurer, which together with former state-owned company Warta, had a market share of 72% in 1998. Many of the local Polish insurers are in weak financial condition.

The non-life market is expected to be stagnant through 2000. The PZU's non-life premiums declined to 55% of the market at year-end 1999. Industry participants expect PZU's share to continue to shrink; as recently as 1995, PZU held an 87% share of the Polish life insurance market.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Change
PZU	$1,727.7	58.9%	16.2%
Warta	$386.5	13.2%	28.6%
Polisa	$120.4	4.1%	26.9%
Hestia Insurance	$111.7	3.8%	63.6%
Polonia	$78.2	2.7%	11.9%
Daewoo TU	$56.7	1.9%	112.3%
Compensa	$55.7	1.9%	54.6%
Gerling Polska	$49.6	1.7%	40.0%
Samopomoc	$39.1	1.3%	39.6%
PBK	$38.9	1.3%	6.9%
Top 10	$2,664.4	31.9%	22.1%
Total	$2,934.0	100.0%	23.8%

Source: Polish Chamber Of Insurance

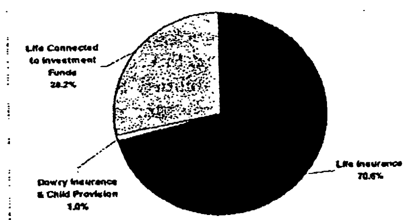
Motor transport insurance (obligatory third party liability and voluntary physical damage) is the largest class of non-life insurance, comprising 68.4% of non-life premiums for 1999. As the market leader, PZU dominates the market in rate setting. Property insurance is non- and underinsured in certain areas, including homeowners' and industrial/commercial business.

The rapid growth in the life insurance industry is being driven by increased disposable income, increasing need for financial security, better product features, and better marketing techniques, especially by international life insurers. Group arrangements, with both a risk cover and a saving element, are the most prevalent insurance sold by the present and former state-owned companies. Foreign insurers primarily handle individual life, which has been growing rapidly in the past two years. PZU Zycie's market share declined to 56.4% at year-end 1999, versus 69.2% at the end of 1997. CGU entered the market in 1992 and by 1998 had captured 25% of the life market.

At the end of 1999, the life insurance market consisted of 30 companies. AIG's life subsidiary, Amplico (Amplico Life) is Poland's third-largest life insurer with an approximate 10.0% market share. Set up in 1990, the last year of Poland's 100% state monopoly, the entity specializes in individual unit-linked life business. Amplico has established a network of agencies in 86 Polish towns and cities, and has 600,000 clients. The company's goals for 2000 include strengthening its distribution channels, introducing new financial services and increasing service quality.

In a recent press release issued by Amplico Life, the company stated that its life insurance operations grew by 39% in 1999, almost double the 20.3% rate of the Polish life insurance market. Amplico is targeting a 15% market share in Poland, although a timeframe has not been disclosed.

Life Premium Distribution 1998



Source: Polish Chamber of Insurance.

PZU Zycie will likely continue to lose market share over the next few years as new entrants design products, particularly around the social security system (still in development). The social security system eventually will allow the private sector to provide funded pensions on a compulsory, as well as voluntary, basis.

Insurance regulation: Control of the insurance industry was transferred from the Ministry of

Finance (MOF) to a new quasi-independent body, PUNU, in 1995 as part of legislation passed by parliament. The MOF must be informed of any significant changes in company ownership. An office of Insurance Ombudsman, Rzecznik - Ubezpieczonych (RU), was formed, and is financed out of PUNU's annual budget. All policies are written in Polish.

Compulsory insurance: Motor third-party liability, agricultural third-party liability, farmers' property, insurance brokers' and tax advisors' professional indemnity.

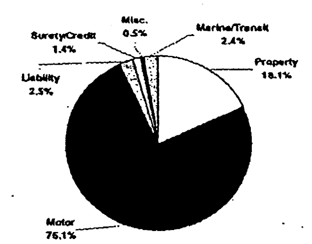
Product regulation: There are no tariffs. On the tax front, insurers are required to contribute the following: 0.2% of GWP to finance PUNU; a levy of 0.02% of GWP is directed to the Polish Insurance Association (PIU); and 3% of GWP from Motor TPL is levied by the Insurance Guarantee Fund (UFG).

Distribution: The largest proportion of sales is direct through company branches and tied agents. Domestic and international brokers control a growing percentage of business.

Degree of reinsurance: Approximately 37% of non-life premium are ceded to reinsurers. This includes a large amount of motor business ceded proportionally. Reinsurers do not have to put up deposits and do not have to be admitted. Minimal life insurance premium is ceded (1%).

Constraints on placement with foreign insurers: Under 1990 insurance law, with the exception of marine cargo and P&I, Polish-owned property overseas, and liability insurance for foreign contractors working in Poland, insurance must be placed in Poland. Violation of this policy could lead to fines and even imprisonment. Permission to place business outside of Poland is granted upon approval from the MOF. Regulations are expected to ease over the next two years.

Non-Life Premium Distribution 1998



Source: Polish Chamber of Insurance.

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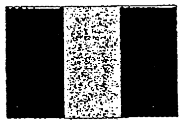
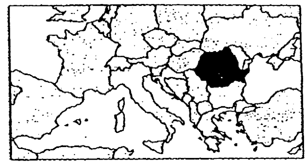
The Republic of Romania





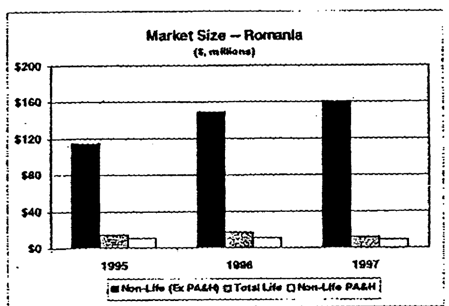
Population: 23 million, and declining due to low birth rate; life expectancy: 69 male, 73 female.

Government: Parliamentary democracy.

Market ease of entry: There are essentially no restrictions on market entry other than documentation requirements.

Market opportunity: Total Romanian insurance premiums rose 23% in 1999. Consumers are becoming more insurance-oriented. The corporate tax rate has declined from 38% to 25% and insurance has been made tax deductible. Per capita insurance premiums in 1998 were $9.80 versus $8.23 in 1997.

AIG Life Asigurari Romania SA is targeting a year 2000 sales increase of 600%, from more than $1 million in 1999 (its first year of operations). The company has 12,000 customers in Romania with a 10% share of the life market and 400 agents, which is expected to double in 2000. AIG Life sells individual and group life and personal accident insurance.



Source: OSIRA.

Motor liability represents half of the non-life market and has been the fastest-growing class, but continually unprofitable. The property insurance market also is growing rapidly as state enterprises and housing stock are privatized. After a severe economic downturn in which GDP shrank for three years, 2000 GDP is projected to show 1% growth, rising to 3.0% in 2001.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Asigurarea Rom.	$7.6	67.1%	39.3%
Unita S.A.	$2.5	22.3%	40.8%
Nederlanden S.A.	$0.4	3.6%	N/A
Sara Merkur S.A.	$0.3	2.7%	1721.7%
Metropol S.A.	$0.2	1.7%	175.7%
Interamerican Rom.	$0.2	1.5%	230.7%
Asgurari de Viata	$0.1	0.8%	-29.4%
Sar Transilvania S.A.	$0.0	0.3%	929.8%
Mediterranea Assic.	$0.0	0.1%	817.4%
Omniasig S.A.	$0.0	0.0%	-68.0%
Top 10	$11.3	6.6%	50.7%
Total	$11.3	100.0%	50.7%

Source: OSIRA

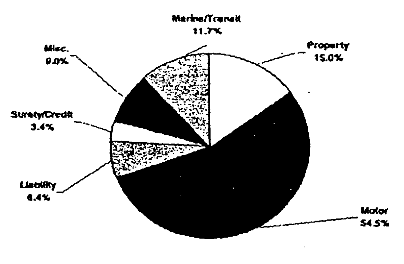
Per capita GDP ranks far below that of the Czech Republic, Poland and Hungary. Market penetration in 1999 was only 0.83% of GDP, an increase of 0.012%.

Romania has high earthquake and flood risk. Workers' compensation is covered under state social security; workers also commonly sue each other for liability in work-related accidents. Liability claims are otherwise uncommon, however.

Romania has the second-largest population in Eastern Europe, and despite its current poverty, should eventually grow into an attractive life and savings market. However, in 1998, life penetration was only 0.03% of GDP.

ING (Nederlanden) entered the life market soon after its liberalization, and had captured an approximately 23% market share by 1998, with a number one rank in new sales. Austria's Sara Merkur has been similarly successful by introducing multilevel marketing to Romania.

Non-Life Premium Distribution 1997



Source: OSIRA.

Romania's social security system is a state-funded pay-as-you-go system that is operating at a deficit. The population is aging and early retirement has been the norm. The government tried to adapt by not indexing adequately to inflation, forcing many pensioners into poverty.

Company pension funds are now being mandated to address the deficient state-run system. Workers will be required to contribute 10% of their wages to these plans. The size of this market has been estimated at $500 million. Individual pensions are also expected to become legal and "tax-incented" in 2001. While it is an important potential market, the development of the pension business is expected to be slow.

History: Romania had its origin in the Roman conquest of the native Dacians in the second century A.D. The country's three main principalities, Transylvania, Wallachia and Moldavia, have been ruled at different times by Hungary and the Ottoman Empire.

Romania's first insurance company, Transilvania, was founded in 1866. Romania achieved independence from the Ottoman Empire in 1877. During the Communist period, insurance was a state-run monopoly, Administratia Asigurarilor de State (ADAS), with Soviet participation.

ADAS wrote compulsory classes such as motor liability, in effect acting as a tax collector. ADAS also set up a London underwriting agency to accept inwards reinsurance on casualty risks, in the process assuming liability on asbestos and environmental claims. The company not surprisingly went into runoff in 1985, and Astra, one of its successors, manages the runoff liabilities.

After the fall of Communism in 1991, private company formation was allowed and ADAS was split into three joint stock companies, Asirom, Astrit and Astra, and privatized. The former monopoly companies' share has now declined to approximately 50% of the non-life market and 67% of the life market, for a total 60% share.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Asirom S.A.	$80.3	47.0%	158.3%
Astra S.A.	$16.4	9.6%	114.1%
Asit S.A.	$16.3	9.5%	155.9%
Omniasig S.A.	$10.8	6.3%	321.4%
Anglo-Romana S.A.	$9.9	5.8%	99.3%
Ardaf S.A.	$9.3	5.5%	166.2%
Agras S.A.	$5.0	3.0%	49.1%
Metropol S.A.	$4.5	2.6%	68.7%
AIG Romania S.A.	$4.3	2.5%	200.2%
Generala S.A.	$2.7	1.6%	60.9%
Top 10	$159.5	93.5%	144.4%
Total	$170.7	100.0%	146.4%

Source: OSIRA

Special issues: Policies may only be cancelled by mutual agreement or by nonpayment of premium, if they are written in Romanian. English-language policies are allowed. Foreign currency policies are only permitted if backed by foreign reinsurance. Despite high inflation rates, inflation-indexed policies are rare.

Insurance regulation: Romania's insurance laws have been modified to bring them into alignment with E.U. directives and to strengthen the Insurance Supervisory Commission (ISC). The ISC's predecessor, OSIRA, had only 20 staff members and little authority.

Compulsory insurance: Motor third-party liability is the only compulsory class.

Product regulation: Nontariff rates except for motor liability; this product is viewed by consumers as a tax and, therefore, rates are set as low as possible by the government.

Distribution: Primarily through direct salesforces and tied agents. Many insurers are owned by banks, but bancassurance is unlikely to become an important distribution method in the near term because banks' security is not trusted by consumers, most of whom do not have personal accounts.

Degree of reinsurance: There are no local professional reinsurers. Domestic companies generally will not place business with each other. Technically, reinsurance must be placed with a domestic carrier if coverage is available. In practice, most reinsurance is placed abroad.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited unless local coverage is not available.

Investment restrictions: Assets may be invested in bank deposits, bonds, equities or real estate within Romania.

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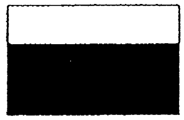
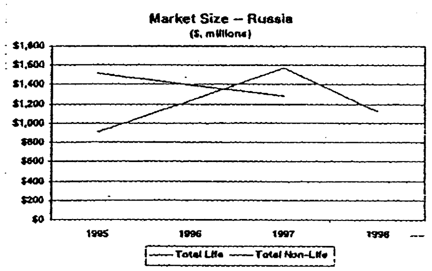
The Russian Federation



Population: 147 million at the last estimate (1997), and declining due to low birth rate and rising death rate; average life expectancy: 61 male, 73 female. Insurance per capita in 1998 was $29.86.

Government: Constitutional federal republic, although the government remains unstable.



Source: *Russian Statistical Yearbook.*

Market ease of entry: Under a "Catch 22" provision, a new insurance bill passed in late 1999 makes it essentially impossible for newcomers to enter the market. By this law, to do business in Russia, a company must be licensed. And to obtain a license, a company must have been doing business in Russia for two years. But no new companies can meet this qualification, because they cannot do business without a license. The only existing companies that could meet this test already have a license. This law's provisions contradict the WTO agreement, and it is unclear whether they are sustainable.

AIG's 49% joint venture (Rus AIG or AIG Russia) has a license and is one of two main foreign insurers (the other being Allianz). AIG Russia has been operating in Russia for seven years; we estimate that it writes $12–13 million of non-life premium and around $1 million of life business.

Market opportunity: Russia's transition to a market economy has been difficult due to its prolonged experience under communism and its dependence on energy as an export. Fifty-six percent of the economy has been privatized, and nearly 100% in some geographic areas. After the currency devaluation and debt default, in 1998, real GDP declined 4.8%; however, as the market improved, it grew 1.8% in 1999 and is expected to grow 2.5% in 2001. Insurance is growing significantly faster than GDP. AIG has said that it is planning to expand its Russian business due to the economic recovery. Through the first nine months of 1999, its market share ranked 57th in Russia.

Total insurance market penetration rose from 1.59% to 2% in 1999, with life penetration of 0.46%, non-life penetration of 0.59%, and the remainder compulsory (state-provided) classes. Life premium per capita is only $0.14 once tax-avoidance schemes are excluded.

The rule of law has never been widely enforced in Russia and the judicial branch is relatively weak. There is little concept of individual rights and responsibilities. Russia's 1996 Civil Code set forth concepts of liability for damages, which are expected over time to increase the demand for insurance. The administration and enforcement of civil liability is slowly developing.

Many Russian insurers are captives or commercial mutual companies. Others are, in effect, third-party administrators for state-provided compulsory classes. These companies assume no risk, being reimbursed for underwriting losses by the state, but the premiums collected and claims paid are recorded as income and expense, inflating the market size.

In addition to Russia's aging demographic, the Russian retirement age is low and the population of retirees per 1,000 rose to 277 from 262 between 1990 and 1996. The state pension system is a disaster, and often does not pay retirees for months on end. Mutual and private pension systems (Non-State Pension Funds, or NPFs) have been allowed since 1992; many experienced severe difficulties during the currency crisis from being heavily invested in government bonds. Private employer pensions will be necessary to supplement the public system, as will personal savings. A small market for individual pensions is emerging.

Insurer involvement in employer pension products is low. However, group personal accident policies are becoming more popular (state employees are covered for PA by the government).

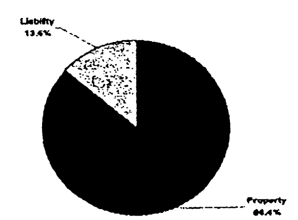
In the financial crisis of August 1998, the government effectively defaulted on its debt and many Russians became unemployed and unable to pay their insurance premiums. The growth of a life market has been retarded by the poor performance of the economy as well as the attitude of Russians that life insurance is only a short-term savings product. AIG is a leader in the small individual life market. Pension business appears likely to develop faster than life.

Special issues: Tax avoidance is one attraction of the life insurance product; employers evade social security and other taxes by "paying" their employees with insurance premiums that can be cashed in for surrender values. This distorts the life insurance premium statistics; the "real" life insurance market is estimated at around 1% of the reported totals, or roughly $20 million.

History: The Russian state was founded by Scandinavians in the ninth century and organized under Ivan the Terrible, the first Czar, in 1547. The insurance market began as a government monopoly under Catherine the Great in the 1760s. Later, mutual property insurance developed to support the local fire brigades. In contrast to other countries, the concept of insurance never entirely died after the advent of communism. Property insurance was nationalized and made compulsory. The state monopoly company, Gosstrakh, sold life insurance that was widely popular as a short-term savings vehicle.

Gosstrakh was divided in 1947 and Ingosstrakh, an international company, was created. When insurance was privatized in 1988, Ingosstrakh was allowed to compete with Gosstrakh (now renamed Rosgosstrakh). Ingosstrakh's management, which had Western-style business experience, provided the nucleus of talent for a private market. Ingosstrakh was privatized and flourished, while Rosgosstrakh failed to capitalize on its extensive branch network and lost ground. The elimination of Rosgosstrakh's monopoly also paved the way for a number of other private, undercapitalized insurers to emerge, many of which have subsequently failed.

Non-Life Premium Distribution 1998



Source: *Russian Statistical Yearbook.*

Ingosstrakh is currently the largest insurer in Russia based on 1999 data. In the meantime, Rosgosstrakh lost one of its subsidiaries in bankruptcy and another due to license suspension. The company today consists of dozens of balkanized branches, which operate semi-autonomously. Some are successful while others are in severe financial difficulty.

Special issues:–Only rubles may be used for domestic transactions. However, insurers may settle in foreign currencies in certain classes, such as travel and export/import.

Insurance regulation: The "Organization of the Insurance Industry in the Russian Federation" bill of 1999 added protectionist elements to regulation, removing the restriction on foreign ownership above 49% in favor of a total market limitation of 15%. Foreign insurers may not sell life or compulsory classes or sell insurance to state enterprises. Existing licenses are grandfathered. Insurers are regulated by the Federal State Supervisory Authority, or Rosstrakhnadzor.

The advent of "charter capital" (risk-based capital) was delayed until 2000 to avoid closing several hundred insurers that were effectively insolvent as a result of the ruble crisis. Approximately 250 companies do not meet the charter capital requirements and likely will lose their licenses. About 10% of all insurers have negative net worth. More than 1,000 insurers have closed, mostly due to insolvency, since 1994. The Insurance Company Winding Up Law of 1995 was passed after the failure of the first private insurer, ASKO Moscow.

The Non-State Pension Fund Inspectorate oversees the private pension system. A bill regulating mutual insurers is also pending in the Duma.

Compulsory insurance: There is essentially none besides satellite launch insurance; medical insurance and certain other classes are compulsory, such as a small workers' compensation benefit system, but are paid by the government. Russia is rare in that motor third-party liability is not a compulsory class; a bill requiring it to be made so is pending in the Duma.

Product regulation: Nontariff rates, but prior approval is required for both rates and policy terms.

Distribution: The state monopoly companies and other companies historically used tied agents; Rosgosstrakh has over 40,000 agents. The international brokers have some presence in the market. There are also a number of small local brokers. Quite a bit of commercial insurance is sold direct to the insured or may involve a captive arrangement. Bancassurance was becoming common but the Russian banking crisis disrupted development of this market.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mkt. Share
Rosno	$144.0	8.9%
Ingosstrakh	$98.1	6.0%
Interros Soglasiye	$56.3	3.5%
Maks	$52.6	3.2%
Sogaz	$36.9	2.3%
Energogarant	$35.0	2.2%
Reso Garantiya	$34.3	2.1%
LUKoil	$26.8	1.7%
Surgutneftegaz	$25.2	1.6%
Megaruss	$21.9	1.3%
Top 10	$531.0	32.7%
Total	$1,621.8	100.0%

Source: Russian Statistical Yearbook

Degree of reinsurance: About 10% of the market is reinsured. There are no prohibitions against nonadmitted reinsurance, but reinsurance placed abroad is taxed at 2.5%, and in life insurance, only mortality risk can be transferred to prevent capital flight from the country.

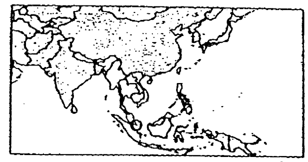
The European Bank for Reconstruction and Development is planning to buy a 35% equity stake in Rossia Re for 8.3 million Euros. AIG is a current shareholder of Rossia Re, which serves about 130 Russian insurance clients. There is no state reinsurance company.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited except for overseas individual life and pension business.

Investment restrictions: Investments are highly regulated and investment in government bonds is required. This feature, designed to encourage prudent investing, led to severe financial strain when the government froze payments on its debt.

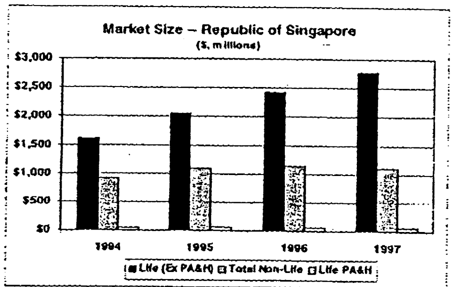
Pensions must invest at least 30% of assets in government bonds. State and municipal bonds of insurers are now limited to 30% of assets, bank deposits to 40%, equities and corporate bonds to 30%, gold and silver to 10%, and real estate to 20% for life insurers and 10% for others.

Republic of Singapore



Population: 3.1 million, growth rate 1.9%, life expectancy: 75 male, 82 female.

Government: Parliamentary democracy with authoritarian leadership by one party.



Source: Monetary Authority of Singapore.

Market ease of entry: The government does not favor new entrants to the market. There are no restrictions on foreign ownership of any insurer. About 75% of primary insurers and all but one reinsurer are foreign-owned. One insurer, ICS, is owned 69.4% by state companies, but does not have monopoly status.

Market opportunity: Singaporeans have the highest savings rate in the emerging economies, which is forecast to have reached 53% of GDP in 1999. Unemployment is very low (2.4% in 1997). GDP is projected to grow 6.7% in 2000 and 6.4% in 2001. With its unique social security system, Singapore presents a major opportunity for SunAmerica's annuity products. In addition, AIG Private Bank maintains an office in Singapore, selling asset management and private banking services. AIG is considering making acquisitions in this market. Its life market share is already more than 36%.

Non-life market penetration is only 1.2% due to low natural peril exposure, good risk management and low levels of car ownership. Due to healthy profitability, competition is high in non-life classes. Local insurers recently banded together to form Singapore Insurance Group (SIG) to retain large industrial risks within the market.

In an exclusive arrangement, as the leading directors' and officers' (D&O) writer, AIG launched a package of management liability products and services in 1999 for members of the Stock Exchange of Singapore.

Although a sophisticated economy with the world's second-busiest port as well as a major regional commercial center, the city-state is less than 250 square miles in size, situated on 59 islands with a small population, limiting the size of the personal lines market.

Top 10 Non-Life Insurers -- 1997

Company	DWP	Mkt. Share	Percent Change
NTUC Income	$111.0	9.3%	-1.0%
ICS	$81.5	6.8%	-2.4%
American Home	$57.9	4.8%	15.1%
Asia	$46.1	3.9%	6.5%
Cosmic	$44.1	3.7%	-5.3%
India International	$43.2	3.6%	24.5%
CU	$39.9	3.3%	-2.0%
AXA Singapore	$38.2	3.2%	5.2%
Mitsui (Asia)	$35.6	3.0%	-2.8%
People's	$35.3	3.0%	-12.1%
Top 10	$532.9	44.5%	1.6%
Total	$1,196.3	100.0%	1.3%

Source: Monetary Authority of Singapore

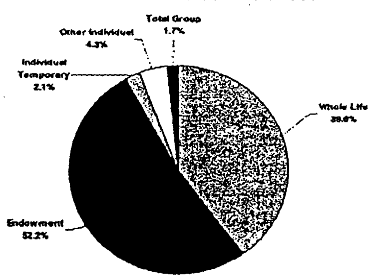
AIG is by far the largest life insurer in Singapore, with an insurance or financial relationship with one-third of Singaporeans. It dominates both the life and personal accident markets. Individual life, travel and health insurance are the fastest-growing classes.

The life market is well penetrated, with 73% of the population having coverage in 1997 and a per capita premium of $917. Penetration was 2.94% of GDP in 1997.

The most important opportunity for insurers in Singapore is the retirement market. Singapore's Central Provident Fund (social security system) cashes out beneficiaries at retirement age. These payments are usually annuitized in the private market. SunAmerica's Style Select Funds, wrapped in products modeled after SunAmerica's Polaris annuity, are being sold beginning in 2000 in this market. This product will allow investors to obtain income protection funded with a wide array of international investment options, including dollar-denominated products.

History: Insurance has a long-standing place in Singapore; the Royal is thought to have established the market in the 1820s. The government early foresaw the opportunity to become an important insurance center, and encouraged a completely open market that is now similar to that of Hong Kong in size.

Life Premium Distribution 1997



Source: Monetary Authority of Singapore.

Distribution: Primarily through independent agents and brokers; direct selling is very limited, in part due to a population size below critical mass. AIG operates through approximately 8,000 agents in Singapore.

Product regulation: Nontariff rates. There are uniform forms for motor and workers' compensation; others are flexible. There is a 3% tax on most non-life classes.

Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
AIA	$1,038.2	36.6%	26.6%
Great Eastern Life	$802.3	28.3%	8.8%
Prudential	$379.8	13.4%	24.5%
NTUC Income	$319.9	11.3%	16.5%
ICS	$72.0	2.5%	1.0%
OAC	$65.2	2.3%	9.3%
John Hancock	$38.3	1.3%	34.2%
AXA Life	$34.9	1.2%	44.7%
OUB Manulife	$30.8	1.1%	14.6%
Asia Life	$28.3	1.0%	48.7%
Top 10	$2,809.7	98.9%	18.7%
Total	$2,839.7	100.0%	18.8%

Source: Monetary Authority of Singapore

Insurance regulation: The Insurance Commissioner's Department of the Monetary Authority of Singapore regulates through statutory filings, solvency supervision and inspections; insolvencies are very rare. The degree of oversight is intense. Central Provident Fund supervises retirement benefits through the CPF scheme. Private pensions are not allowed.

Compulsory insurance: Motor/aircraft liability, workers' compensation, lawyers' PL, insurance brokers' PL. The government has a national policy of risk management with strict fire and building codes. All retirement insurance is through mandatory state-run Central Provident Fund. CPF funds are paid in a lump sum at retirement and annuitized by private insurers. There are no other life compulsory classes.

Degree of reinsurance: As a major international reinsurance center, Singapore leads a vigorous international market, although most local business is retained in Singapore. Non-life reinsurers have a 5% compulsory cession of fire business and 2.5% of other classes to Singapore

Re, which is majority-owned by local insurers. Singapore Re wrote $49 million in 1997. ASEAN Re, a regional reinsurer, is managed by Singapore Re and wrote almost $3 million of premium in 1995. Domestic retentions are over 80%, so most reinsurance is regionally placed business. Almost no life reinsurance is placed domestically.

Top 10 Non-Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
Singapore Re	$46.4	32.4%	0.8%
Munich Re	$20.3	14.2%	-4.3%
Cologne Re	$13.5	9.4%	-9.0%
Swiss Re	$7.3	5.1%	N/A
Sun Alliance Londo	$5.7	4.0%	-42.1%
AXA Re	$5.3	3.7%	-15.2%
Folksam Internation	$4.4	3.1%	-13.5%
Scor Re AP	$4.2	2.9%	26.9%
Royal Re	$3.8	2.7%	-13.4%
Union Re	$3.4	2.4%	4.3%
Total	$143.2	100.0%	-1.9%

Source: Monetary Authority of Singapore

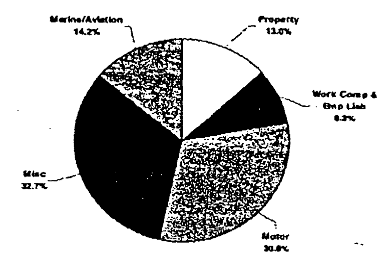
Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
Swiss Re L&H Ltd	$11.8	50.8%	N/A
Cologne Re	$3.2	13.8%	21.8%
Munich Re	$2.4	10.2%	4.8%
Manufacturers Re	$2.1	8.9%	118.7%
Swiss Re	$1.8	7.7%	N/A
ERC Frankona	$1.2	5.2%	N/A
SCOR VIE	$0.5	2.0%	-13.7%
Scandia Internation	$0.3	1.4%	56.2%
Total	$23.2	100.0%	23.9%

Source: Monetary Authority of Singapore

Constraints on placement with foreign insurers: Essentially none. However, local Singaporean brokers may not make offshore placements.

Non-Life Premium Distribution 1997



Source: Monetary Authority of Singapore.

Investment restrictions: The life insurance investment portfolio is controlled by legislation. There is a maximum of 30% in foreign-currency denominated and overseas assets, with a sublimit from any one stock exchange.

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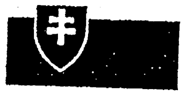
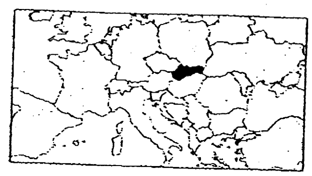
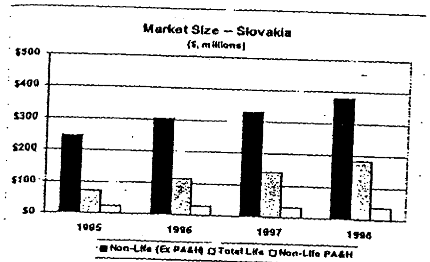
Slovak Republic





Population: 5.4 million, about half the size of the Czech Republic; growth rate 0.25%, average life expectancy: 67 male, 75 female. Insurance per capita was $86 in 1996.



Source: Slovak Insurance Association.

Government: Parliamentary democracy. The country has been effectively governed since independence and prospects for joining the E.U. and NATO appear good.

Market ease of entry: Straightforward; foreign companies must meet documentation requirements and be legally structured as a joint stock company. The Insurance Supervisory Authority must satisfy itself that the applicant is qualified. Insurance was privatized in 1991, and 26 licenses have been granted since that date. Zurich Poistovna was the most recent entrant, in August 1999. In late 1999, the successful Australian insurance company QBE announced that it had acquired Slovak Capital Insurance (SIP), the seventh-largest insurer.

Market opportunity: Life insurance and savings products are considered the major near-term market opportunities in Slovakia. Life penetration was 0.9% in 1998; non-life penetration was 2.1%, for a total of 2.97%. The insurance market grew 26% in original currency in 1998 (20.4% after inflation). Allianz is by far the biggest foreign insurer.

The country started with a clean slate after independence; having no national institutions to resist reform, Slovakia was able to make the transition to a modern financial system faster than most former Eastern Bloc countries. By 1997, the private economy accounted for 80% of GDP.

However, the aftershocks of the Asian crisis and the Russian currency crisis, along with growing trade deficits, caused the economy to shrink 0.5% in 1999. By 2001, growth of 2% is anticipated.

Personal accident and travel insurance is increasingly popular among Slovaks. Poist'ovna AIG Slovakia, AIG's non-life subsidiary, is active in this line. These products are often sold direct or through travel agents and credit cards.

The state insurance monopoly, Slovenska statna poistovna, was partially privatized in 1991 and is 50% owned by the National Property Fund; it remains the overall market leader with a more than 50% share of both the life and non-life markets. On April 14, it was announced that Slovenska poistovna will be fully privatized by the sale of the remaining state stake.

The biggest opportunity in the non-life market is the demonopolization of the motor liability market, which is 40% of the non-life market. Demonopolization is planned for 2002, with five to six licenses expected to be granted.

The public Social Security system is essentially bankrupt due to high unemployment and an increased number of retirees.

History: Once part of the Great Moravian Empire founded in 833 A.D., Slovakia became part of Hungary before 1000 A.D. It was invaded by the Tatars during the Middle Ages and by the Turks in 1530. Upon the defeat of the Austro-Hungarian Empire in 1918, Slovakia became part of Czechoslovakia and was subsequently dominated by the Soviets. Under Czech President Vaclav Havel, the "Velvet Revolution" resulted in free elections and independence from the Soviet Union in 1990. In 1993, the "Velvet Divorce" separated the Czech and Slovak federation and Slovakia became independent.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Slovenska Poistovna	$259.9	61.9%	18.8%
Kooperativa	$37.9	9.0%	18.0%
Allianz	$37.1	8.8%	10.6%
Poistovna Otcina	$18.9	4.5%	14.0%
Ceska poistovna	$15.5	3.7%	12.9%
Hasicska	$11.7	2.8%	141.8%
Union	$10.9	2.6%	14.0%
Univerzalna bankova	$5.7	1.4%	52.2%
Slovenska investicna	$5.5	1.3%	12.7%
Komunalna	$5.0	1.2%	24.2%
Top 10	$408.1	97.2%	19.4%
Total	$420.0	100.0%	20.8%

Source: Slovak Insurance Association

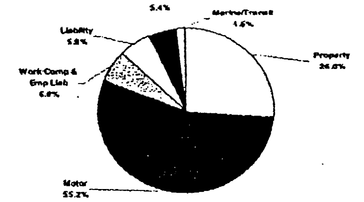
The first Fire Association was formed in the Spisska region in 1752, covering 13 towns. In 1807, the Privileged Royal-Imperial Shipping Company provided the first hull insurance for Danube shippers. A Pension Institute was formed in Komarno in 1839. In 1919, Slovenska poistovna, the leading insurance company, was formed. It was merged in 1948 into Ceskoslovenska poistovna, the Czechoslovakian national insurer, separated in 1969, and privatized beginning in 1991. Private insurance reentered the market in 1991.

Insurance regulation: Like most former Eastern Bloc countries, Slovakia is harmonizing its insurance regulations with E.U. directives. Insurance is regulated by the Department of Insurance Supervision of the Ministry of Finance. The department requires financial returns and supervises licensing.

Compulsory insurance: Motor liability, aviation, river-vessels liability, hunters' liability, workers' compensation and certain professional liability classes.

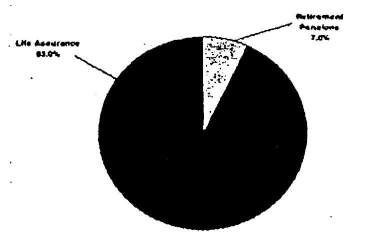
Product regulation: Tariffs for motor and worker's compensation; others nontariff.

Non-Life Premium Distribution 1998



Source: Slovak Insurance Association.

Life Premium Distribution 1998



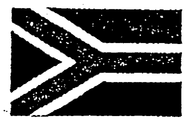
Source: Slovak Insurance Association.

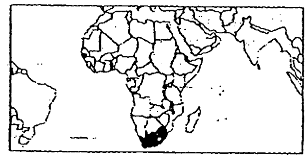
Distribution: Primarily through direct salesforces and tied agents, with the increasing involvement of brokers. Bancassurance is a fledgling market.

Degree of reinsurance: There are no indigenous reinsurance companies and no compulsory cessions. Most reinsurance is placed abroad. There are no restrictions on nonadmitted reinsurers, although credit for foreign reinsurance in solvency calculations is only up to a maximum of 50% of premiums.

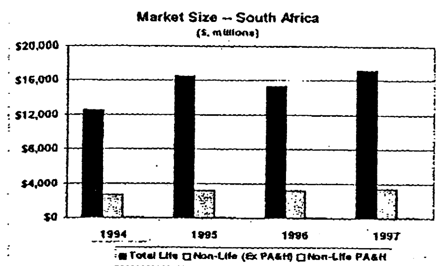
Constraints on placement with foreign insurers: Supervisory Authority permission is required. Risks in Slovak territory, must be insured with a Slovakian company.

Republic of South Africa





Population: 38 million, annual growth rate 2%, life expectancy: 62.5 male, 68.6 female.



Source: The Registrar of Insurance (FSB).

Government: Democratic republic.

Market ease of entry: Mutuals are not permitted; once incorporated as a stock company, registration is a straightforward process. There is no limit on percentage ownership by foreign companies.

Market opportunity: The market is sophisticated and dominated by local companies.

South Africa has a large land mass (the size of Texas and California combined) and sizeable population. GDP grew only 0.7% in 1999 as the government sacrificed growth, combating inflation through monetary policy during a period of falling commodity prices. Economic problems were also exacerbated by El Niño. However, growth is forecast to improve to 3.5% in 2001. In 1998, South Africa represented about 40% of the total GDP of sub-Saharan Africa.

The country's foreign debt was upgraded to investment grade (BBB-) by Standard & Poor's in February 2000. This sovereign upgrade triggered an upgrade of insurers Santam (part of Sanlam, which is in the process of merging with Guardian); South African Eagle (part of the Zurich Group); and Mutual and Federal, which is currently South Africa's largest non-life insurer. This will allow these companies to compete more effectively against foreign insurers.

South Africa has a large motor and industrial market and is subject to only limited natural hazards, simplifying the property market. The third-party liability motor market is run by the Road Accident Fund (RAF), essentially a government program. Private insurers provide physical damage, theft, fire and similar covers. Workers' compensation is a state-run program. Professional indemnity insurance is common and AIG writes this product. The company is also active in the energy market.

Top 10 Non-Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Santam	$508.9	11.4%	13.5%
Mutual & Federal	$500.8	11.2%	8.8%
Guardian National	$390.8	8.8%	9.4%
S A Eagle	$303.0	6.8%	-6.5%
Aegis	$239.3	5.4%	14.7%
SANMED	$230.0	5.2%	5.4%
Commercial Union	$220.4	4.9%	8.2%
Hollard	$218.3	4.9%	59.8%
Allianz	$136.0	3.0%	51.6%
Protea	$131.3	2.9%	8.4%
Top 10	$2,878.8	64.5%	12.1%
Total	$4,462.9	100.0%	13.9%

Source: The Registrar of Insurance (FSB)

South Africa has a large and sophisticated life insurance market; universal life is the most popular product. The market is dominated by the former mutuals, Old Mutual and Sanlam.

Bancassurance is extremely common. Unit-linked investments have eroded the life insurance market share in recent years. There is a strong market for dread disease cover. Personal accident is an increasingly popular product; AIG is also active in this market.

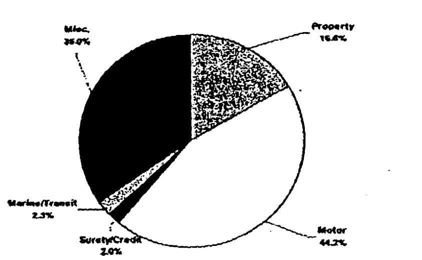
Top 10 Life Insurers – 1997

Company	DWP	Mkt. Share	Percent Change
Sanlam	$4,168.0	25.1%	25.1%
Liberty Life	$1,826.4	11.0%	11.0%
Southern Life	$888.1	5.4%	5.4%
Momentum	$834.5	5.0%	5.0%
Fedsure Life	$766.5	4.6%	4.6%
Superflex	$661.3	4.0%	4.0%
Norwich Life	$509.8	3.1%	3.1%
Metropolitan	$399.8	2.4%	2.4%
BOE Life	$233.7	1.4%	1.4%
Sage Life	$199.9	1.2%	1.2%
Top 10	$10,487.9	63.2%	18.5%
Total	$16,599.9	100.0%	18.2%

Source: The Registrar of Insurance (FSB)

The insurance industry is struggling with the Promotion of Equality and Prevention of Unfair Discrimination Bill, which contains provisions that limit underwriting factors used by insurers. However, the government position is that the bill's provision for differentiation "between persons according to objectively determinable criteria" is adequate to meet insurers' underwriting needs.

Non-Life Distribution 1997

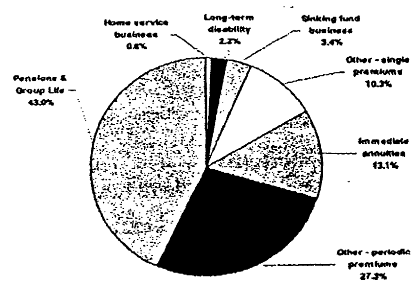


Source: The Registrar of Insurance (FSB).

The government social security system is means-tested and essentially a welfare plan. Therefore, most retirement benefits are paid by company benefit plans and individual retirement programs. Annuities are often an element of company plans—up to one-third of a distribution may be taken in a lump-sum payout, partially tax-free, which is typically annuitized in the private market. Increasingly, retirement plans are offered on a defined contribution basis. The large indigenous companies lead the retirement market.

History: South Africa was colonized by the Portuguese in the 16th century and captured by the Dutch 200 years later. At the Congress of Vienna in 1814, the Cape territory was assigned to the British, later leading to the Boer wars in 1899-1902. The British brought with them branch offices of insurers, establishing the market in South Africa. The country left the British Commonwealth in 1961 because of apartheid, rejoining in 1994 after multiracial elections were held, ending white minority rule.

Life Premium Distribution 1997



Source: The Registrar of Insurance (FSB).

Insurance regulation: The insurance laws provide for oversight by the Financial Services Board. The Registrar of Insurance oversees entry to the market and other day-to-day matters. Regulation is consistent with the sophisticated nature of the market, but as South Africa is fundamentally an open market, regulation is light-handed and the main concern is solvency.

Compulsory insurance: None.

Product regulation: Nontariff rates. VAT of 14% on insurance premiums.

Distribution: Primarily through tied agents and brokers; direct selling of life products is also popular, and bancassurance is common. The top five banks all own or have ties to major insurers. Chain stores such as Shop Rite and Pick'n'Pay also sell insurance.

Degree of reinsurance: There are essentially no restrictions on foreign reinsurance. There are essentially no indigenous reinsurers; the large direct writers (Munich, Swiss, General and Hannover Re) are locally incorporated and dominate the market.

Top Non-Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
Swiss Re	$209.2	35.7%	78.7%
Munich Re	$184.9	31.6%	-15.1%
Hollandia Re	$117.2	20.0%	26.2%
Gerling Global Re	$43.2	7.4%	20.5%
Zimbabwe Re	$3.2	0.6%	78.1%
Others	$0.0	0.0%	N/A
Total	$585.2	100.0%	19.5%

Source: The Registrar of Insurance (FSB)

Constraints on placement with foreign insurers: Lloyd's is the only permissible nonadmitted insurer.

Top Life Reinsurers – 1997

Company	DWP	Mkt. Share	Percent Change
Swiss Re L&H	$125.3	63.0%	N/A
Munich Life	$25.8	13.0%	4.5%
Cologne/Keulse	$21.5	10.8%	33.5%
Hollandia Life	$19.0	9.6%	24.7%
Gerling Global	$7.4	3.7%	-11.9%
Top 5	$199.0	100%	18.1%

Source: The Registrar of Insurance (FSB)

Investment restrictions: Pension fund investments are restricted; there are no investments in employer stock; most asset classes are limited to 20% of the plan. Exceptions include investments in Krugerrands, which are limited to 10%; real estate, to 25%; and equities, to 75%. Life insurers have significant flexibility in their investing practices.

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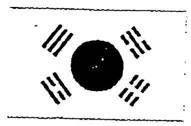
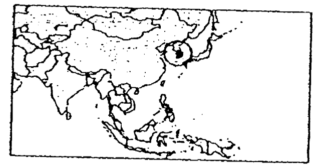
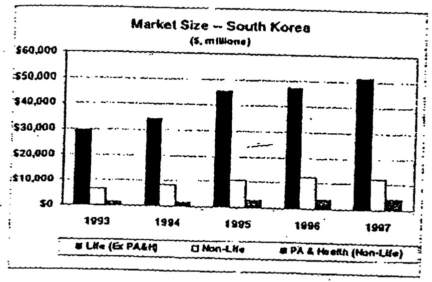
The Republic of Korea





Population: 45.5 million. The annual growth rate has slowed to about 0.75% from almost 3% two decades ago. Average life expectancy is 67.7 years for men, 75.7 for women.

Government: The Republic of Korea is a constitutional democracy headed by a president. The Republic of Korea (South Korea) was created in the division of Korea in the wake of the Korean War, which broke out in June 1950. Military rule of Korea ended in 1988.



Market ease of entry: Foreign companies have traditionally been allowed to set up wholly owned subsidiaries or branches in Korea. Shareholdings in Korean joint ventures have been limited to 50%, although it now seems likely that the government will permit foreign companies to acquire controlling interests.

Foreign operations are obliged to retain assets in Korea up to the value of their statutory reserves. Foreign branches have traditionally faced numerous official and unofficial impediments, which explain their small numbers and negligible market shares. Foreign companies are also precluded from insuring any Korean company that contributes to the national defense effort.

The Economic Needs Test, which regulated the number of foreign insurers allowed to set up shop in Korea, was abolished in 1997, but unofficial impediments remain. Foreign companies face the Korean preference for doing business with their own people. Foreign companies are invited to share risks only by means of reinsurance rather than coinsurance, so that their participation is invisible to the client. Foreign companies also are precluded from offering the personal inducements that are an intrinsic part of Korean business practices.

Market opportunity: Korea's insurance industry is in transition in terms of both access for foreign companies and financial health. In late 1999, the government took over six insurers and nationalized them with public money. Now the industry appears poised to emerge in a healthier state, perhaps offering products that are more conservatively designed from a financial perspective. This should make Korea a more desirable and easier market to penetrate for foreign companies, but change is happening slowly.

Earlier this year, Pacific Life Insurance Co. was acquired by two U.S.-based funds in partnership with another Korean insurer, Tong Yang Life Insurance Co. Ltd. The $250 million Asia Recovery Fund invested $40 million; the $200 million WLR Recovery Fund, $10 million; and Tong Yang, $100 million.

These investors are attracted to the Korean insurance industry, because, like the Japanese, Koreans are eager insurance buyers and, on average, live longer than Americans. Plus, economic recovery now appears to be in full swing. The Pacific Life investment, however, illustrates the challenges for foreigners looking to gain a foothold; it took a year of negotiating to complete this deal.

In another recent example, efforts to sell Kookmin Life to New York Life fell through. Instead, the property was sold to a domestic company, SK Group, one of Korea's largest conglomerates, further suggesting that the country's efforts to break down barriers to international trade in financial services are going to proceed only gradually.

Korea, an "Asian tiger economy," graduated from Third World status to become the world's 11th-largest economy, but then caught the "Asian contagion" and saw the value of its currency cut in half. The country had to request a $60 billion bailout from the International Monetary Fund and to negotiate a rollover of more than $100 billion of private sector debt.

Economic reforms are under way to liberalize the economy. These have taken three main forms: increased monetary policy independence for the central bank, new structures for the regulation of the financial industry, and the lifting of the 50% foreign ownership limit on Korean companies. These are designed to increase competition and to create the funds to revive the economy.

Top 10 Life Insurers – 1997/98

Company	DWP	Mrkt. Share	Percent Change
Samsung Life	$16,782.1	32.6%	40.7%
Kyobo Life	$9,633.6	18.7%	36.6%
Korea Life	$8,179.0	15.9%	22.7%
First Life	$1,689.4	3.3%	1.3%
Hungkuk Life	$1,549.0	3.0%	10.3%
Shinhan Life	$1,254.1	2.4%	26.8%
Daishin Life	$1,253.7	2.4%	78.2%
Dongah Life	$1,206.9	2.3%	-7.4%
Handuk Life	$1,129.7	2.2%	47.0%
Kookmin Life	$1,089.3	2.1%	37.6%
Top 10	$43,766.7	85.0%	31.5%
Total	$51,478.3	100.0%	28.3%

Source: KLIA & KIDI

In 1998, total premium income was $48.0 billion, including $35.7 billion for life and $12.29 billion for non-life. Non-life premium income grew by an average of 23.4% per year from 1991 to 1996. The growth rate slowed to 14.7% in 1997 and went into reverse in 1998, shrinking 7%. On the life side, premiums grew 21.6% in 1997, then shrank 11.9% in 1998. Korea's position in the world insurance market dropped one notch to seventh as a result of the Asian economic crisis.

Nearly 40% of non-life income is made up of long-term savings-type policies and private annuities, which were hit particularly hard by surrenders as anxious consumers transferred savings to banks. The non-life market consists of 11 domestic general insurers, two specialist surety and bond underwriters, three foreign branches and the local professional reinsurer KRIC. All of the leading insurers are controlled by "chaebols," the family-owned industrial conglomerates that dominate the Korean economy. The largest insurer, Samsung, had a 1996-97 market share of 22%; the top four insurers' combined market share was 58%.

One of the unusual features of the Korean non-life market, which it shares with Japan, is the popularity of long-term, savings-type policies. Long-term structures are mainly applied to household comprehensive insurance and to personal accident policies, including traffic accident and trip personal accident.

A long-term savings policy essentially is a combination of insurance and a regular bank savings account. Unlike a bank savings account, however, the long-term policy imposes a surrender charge when canceled. When the policy is acquired, a risk premium of as much as 10% is immediately deducted, along with an expense load of up to 20%. Hence, the policyholder gets credit for only 70% of the initial payment. This was a great product for insurers to sell, until a run on the bank occurred during the economic crisis. The lapse ratio on these products is generally thought to be very high—40%.

Korean non-life insurance companies have been heavily dependent on long-term business, with some companies deriving more than 50% of their premium income from this source. Because the business trespasses on areas normally reserved for banks or life companies, it is vulnerable both to interest rate competition and to the vagaries of consumer confidence.

The attraction of these policies arises partly from the Korean predisposition to save, and partly from the fact that the personal savings and loan services of the local banking industry are relatively undeveloped.

Further attractions include a consolidated rate of income tax on financial earnings, and the fact that bank interest rates have been government-controlled and set at a lower level than the insurance companies could offer. Thus, if a long-term policyholder is a saver, the higher returns offered by his insurance company should put him in a slightly better position than if he had bought a conventional insurance policy and put the balance of his savings in a bank deposit account. If he is a borrower, on the other hand, his insurance company can advance him a house purchase loan secured against the maturity value and insurance protection of his policy.

Aggressive selling by insurance company agents must also have an effect in giving long-term policies a higher consumer profile than other forms of saving. As the Korean market opens up to well-capitalized foreign companies, long-term products are likely to face price competition.

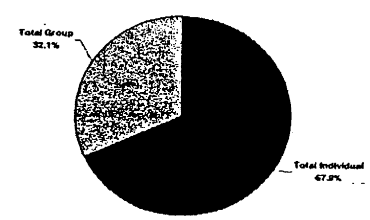
A second unusual feature of the non-life market is its involvement in private annuity business. Annuities were introduced five years ago and are offered by life and non-life companies and banks. These long-term retirement savings plans carry variable interest rates and are intended to supplement the lump sums provided by employers on retirement.

In the year ended March 31, 1997, long-term business generated premiums of $6.53 billion, equivalent to 39% of non-life premium income. Long-term insurance has been the fastest-growing class of non-life insurance.

The Korean market statistics divide the Korean life market into five groups: major insurers, new insurers, local insurers, joint insurers and foreign insurers. The major insurers, the six largest life companies, received over 75% of the total premium income in 1997, with the five foreign companies only sharing 0.34% among them.

American Life Insurance Co. (AIA Korea) and American Home Assurance (Korea) operate as AIG branches. AHA wrote $39.3 million of business in 1996 for a 0.2% sliver of the market. ALICO wrote $12 million in 1997-98 for a negligible market share.

Life Premium Distribution 1997



Source: KLIA and KIDI.

One final market opportunity on the far horizon in Korea is the prospect of normalized relations with North Korea. An inter-Korean summit is scheduled for this June, and the Korea Peninsula Energy Development Organization plans to select an insurance firm in connection with the construction of nuclear reactors in North Korea and related projects. All 11 of South Korea's non-life companies have placed bids, but beyond this one project, the industry believes demand for insurance products will surge, if and when travel between South and North Korea is permitted after the June summit.

Meanwhile, numerous foreign companies are positioning themselves to participate in the gradual recovery and opening of the Korean insurance market, including, most recently, Allianz Group; Cardif, a French bancassurance company; Royal & Sun Alliance; and Transamerica Reinsurance, the reinsurance arm of Transamerica and Aegon USA.

AIG itself has shown interest in expanding its presence in Korea, but management has taken a cautious approach in reviewing potential partners. Several insurers have passed up partnership opportunities in Korea because of serious asset-value problems.

Top 10 Non-Life Insurers – 1998

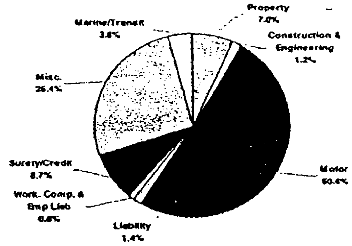
Company	DWP	Mrkt. Share	Percent Change
Samsung	$2,511.1	24.9%	-8.5%
Hyundai	$1,335.1	13.2%	-6.6%
Dongbu	$1,261.0	12.5%	-7.9%
LG	$1,168.7	11.6%	-11.3%
Oriental	$792.9	7.9%	-5.2%
Seoul Guarantee*	$613.3	6.1%	-30.7%
Ssangyong	$522.7	5.2%	-5.3%
Shindongah	$507.2	5.0%	-7.5%
First	$478.4	4.7%	-11.4%
Daehan	$386.3	3.8%	-11.8%
Top 10	$9,576.7	94.9%	-10.2%
Total	$10,092.1	100.0%	-11.4%

Source: KLIA & KIDI

Insurance regulation: The Korean insurance market has been undergoing a process of deregulation as a condition of the country's accession to the OECD, which occurred in 1996. Almost every aspect of deregulation, however, has been met with a combination of bureaucratic obstruction and market agreements that has had the effect of reinstating controls on a voluntary basis.

The 1998 law changed the function of the ratemaking body, the Korea Insurance Development Institute (KIDI). Legislation is also being considered to allow the creation of composite life and non-life insurance companies and to increase the number of lines of business that both sectors of the industry can write. A particular bone of contention is corporate pensions business that is currently the monopoly of the life companies. Both the banks and the non-life insurance companies are lobbying to enter the market.

Non-Life Premium Distribution 1998



Source: KLIA and KIDI.

Compulsory insurance: The compulsory classes are auto, fire insurance for certain types of buildings such as schools and hospitals, and liability for gas accidents, recreational facilities and nuclear risks. Most industries are obliged to join the State Workmen's Compensation Scheme. Exempt industries must provide the same level of benefits as the state plan, and normally purchase cover from the private insurance sector.

Product regulation: KIDI continues to set premiums for all lines of non-life business, despite liberalization. And despite the formal loss of its priority cessions, KRIC continues to be the market's exclusive reinsurer for proportional business. By a series of market agreements, insurers have undertaken either to obtain their rates from KRIC or to operate within a maximum.

The tariff regime has been undergoing a gradual process of reform as one of the conditions of Korea's accession to the OECD. Insurers were allowed a two-year transition period of "range-rating" in preparation for the free-rating system that now applies, in theory, to almost all classes of business.

Life insurers, effective this year, are now free to set the risk and expense factors in their premiums. Non-life insurers will gain their freedom on expense factors, with complete rate liberalization taking effect in 2002.

Distribution: Insurance distribution is in the hands of agents and the companies' in-house production departments. Direct selling of auto policies was permitted in April 1995 but has been inhibited by new regulations preventing insurers from using banks' customer lists. Domestic insurance brokers were permitted in April 1997 and foreign insurance brokers were permitted in April 1998.

Direct marketing of insurance was first permitted in 1995. Samsung, followed by Hyundai, LG and Dongbu, launched telesales of auto insurance. Unsolicited telephone calls focus on highly informed prospect lists, one of the main sources of which is KIDI's policyholder database, available to all insurers.

Banks are prohibited from marketing insurance products, although they will informally recommend particular insurers. Earlier this year, government regulators indicated a willingness to gradually allow banks to sell insurance products.

Agents and "solicitors" are the predominant means of insurance distribution in Korea. The legal difference between agent and solicitor is that the former may "conclude insurance contracts on behalf of an insurer" while the latter may act only as an intermediary in the conclusion of a contract. In 1997, there were 46,385 non-life agents and 115,042 solicitors. A large portion of life business is sold through the field organizations of the Korean life companies, which consist of 1,038 regional home offices and district offices plus 10,341 branch and sub-branch offices. About half of the life companies are trying the newly opened direct sales channel.

Top Non-Life Reinsurers – 1998

Company	DWP	Mrkt. Share	Percent Change
Korean Reinsurance	$834.8	100.0%	11.0%
Total	$834.8	100.0%	11.0%

Source: KLIA & KIDI

Top Life Reinsurer – 1997/98

Company	DWP	Mrkt. Share	Percent Change
Korean Re	$132.5	75.0%	20.0%
Total	$176.66	100.0%	N/A

Source: KLIA & KIDI

Degree of reinsurance: KRIC continues to enjoy a near monopoly of proportional reinsurance business. Companies continue to quote tariff rates less a maximum (usually 30%) discount.

Constraints on placement with foreign insurers: The strict laws regarding nonadmitted insurance are gradually being relaxed. Nonadmitted insurance is allowed for cargo, marine hull, aviation and life. Otherwise, nonadmitted insurance is allowed only with regulatory approval, if the cover for a specific risk is unavailable in the local market.

Investment restrictions: The only investment provision insisted upon by the authorities is that a certain proportion of the technical reserves be held in government bonds and the remainder in approved assets, including property. As of March 31, 1997, the non-life insurance industry's assets were distributed as follows: cash and deposits, 24.8%; securities, 37.0%; loans, 27.8%; and real estate, 10.4%.

On the life side, maximum limits are set for the investment of total assets in certain classes: securities, 30%; real estate, 15%; foreign investment, 10%; loans to one particular party, 3%; loans and investments to one particular party, 5%; and loans and investments to companies in the same investment group, 10%.

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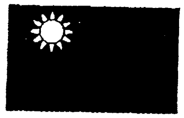
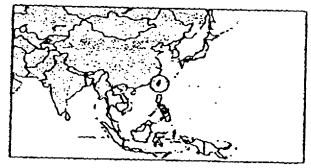
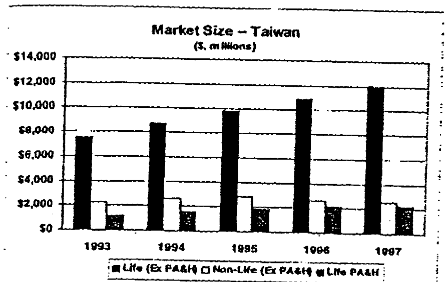
Taiwan, Republic of China





Population: 21.9 million as of 1998, growth rate 0.7% and has been slowing. The population density is 596 persons per square kilometer, making Taiwan one of the most densely populated areas in the world. Life expectancy: 72 years for men and 77 for women.

Government: Democratic Republic, multiparty. The recent electoral change in power, in which the Democratic Progressive Party replaced the Nationalist party, has added to uncertainty with respect to relations with the People's Republic of China.



Source: Insurance Institute of the Republic of China.

Special note: Taiwan is AIG's second-largest international market, representing by our estimates approximately 20% of non-U.S. premiums. Although insurance is well developed in Taiwan, there is significant growth potential due to a healthy economy and ongoing deregulatory measures, including regular approval of new insurance products and gradual relaxation of investment policies. Additionally, the market is benefiting from higher income and living standards, the opportunity to introduce differentiated products, aging of the population, and significant consolidation pressures.

Market ease of entry: Complex administrative process to form a company. In June 1994, the Ministry of Finance (MOF) opened the market to non-U.S. insurers. Since 1995, 100% foreign ownership has been allowed. Domestic firms continue to dominate the market. The first joint-venture insurance company was established in 1996. Foreign insurers must carry an A rating.

As of year-end 1998, there were 33 life insurance companies, 17 of which were branch offices of foreign companies. The foreign companies comprise 12 U.S. companies, two Australian companies, one Dutch company, one Swiss company and a French company. Many of these companies operate joint ventures with local partners. Foreign insurers with representative offices cannot write business.

Foreign companies only account for approximately 7-10% of the market's premium volume. AIG's insurance subsidiary, Nan Shan Life, is the second-largest insurer and is considered a domestic company for all statistical reporting purposes. As of year-end 1999, AIG owned 94.12% of Nan Shan.

The non-life market comprises 27 insurance companies, among which nine were branch offices of foreign companies. The foreign companies comprise five American companies, two English companies, one French company and one Hong Kong company. Foreign non-life insurers only accounted for approximately 2-4% of the market.

Market opportunity: Taiwan has experienced a shift away from labor-intensive industries toward capital- and technology-intensive industries. Taiwan has a 20% market share of global computer hardware production and is a leading supplier of electronic components. The services sector continues to grow. The number of foreign insurers being granted access to Taiwan is on the rise.

Top 10 Life Insurers — 1996

Company	DWP	Mrkt. Share
Cathay Life	$5,162.7	39.6%
Shin Kong Life	$2,552.0	19.6%
Nan Shan Life	$2,099.2	16.1%
Kuo Hua Life	$640.1	4.9%
Aetna Life	$554.5	4.2%
Taiwan Life	$447.4	3.4%
China Life	$284.5	2.2%
Life Ins. Dept. of CTC	$269.4	2.1%
Mercuries Life	$197.1	1.5%
Chinfon Life	$104.0	0.8%
Top 10	$12,311.0	94.3%
Total	$13,052.3	100.0%

Source: Insurance Institute of China

Taiwan's GDP grew in real terms at an average rate of 9.1% in the 1960s, 10.2% in the 1970s and 8.2% in the 1980s. From 1993-98, GDP grew at 8.1% annually.

The individual life insurance market has been growing at double-digit rates. Market penetration in 1998 was 5.3%. Life insurers write both savings- and protection-type policies. Savings policies are the preferred product. Cathay Life holds a 44% market share. AIG is ranked third with a 16% market share, as of 1996. The next player drops off significantly, with less than a 5% market share.

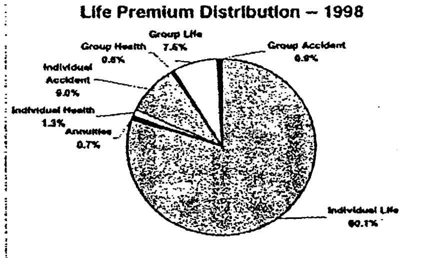
Over the past ten years, the life market has sustained an 18% average annual growth rate. With $14.6 billion of premiums, Taiwan is the third-largest life insurance market in Asia. Rapid economic development and growth of national income has fueled the growth in the insurance industry.

The Asian financial crises ripped through the economies of many Asian nations, including Taiwan. However, the Taiwanese insurance industry fared very well, posting handsome premium growth of 15% in 1998.

Premium per capita is $775. As of 1998, there were 21,713,000 life insurance policies in force, which equates to an insured rate of 99.28% (essentially each person holds one life insurance policy). By way of comparison, Japan's insured rate of life insurance policies is running near 600%. Life premiums increased in the midteens during 1998 and 1997, and grew 14% in 1999, in original currency. AIG grew 10% in 1999, and recently pulled ahead of Shin Kong Life to become the number two life insurer in Taiwan.

The trend toward higher income and living standards is causing a rise in demand for personal accident and health insurance. Personal accident is the most popular coverage. Accident and health insurance products represented 85% of new contracts sold in 1998. As of 1996, AIG was the number two writer of personal accident with a 24% market share. The government runs the social security system.

Life Premium Distribution – 1998

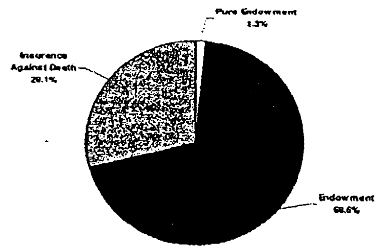


Source: Ministry of Finance

Individual life policies account for the greatest portion of the life insurance market.

With considerations of an aging population, the insurance department recently approved the sale of annuity products. Having been recently introduced to the market, product awareness is still low. However, given the demographics, prospects for significant growth in annuity products is excellent. Variable life products are scheduled to be approved by January 1, 2001.

Life Premium Distribution 1997



Source: Insurance Institute of the Republic of China.

Nan Shan is known to offer competitive products with attractive and innovative features. The company appears to have a pipeline of product introductions, with a launch schedule that overlays the deregulatory process set by the Department of Insurance. We understand from market sources that Nan Shan's underwriting processes are stricter than the competition's. From the consumer standpoint, products appear quite simple. We believe these factors, and other considerations mentioned later in this section, will continue to permit Nan Shan to grow faster than the market. Additionally, we believe the market is ripe for a significant wave of consolidation activity, which AIG should take part in.

For 1999, the non-life market posted premium income of $2.7 billion while growing a record 12%, and achieving double-digit growth for the first time in ten years. AIG, which operates through AIU, does not rank in the top ten for non-life insurance. AIU, which historically focused on jumbo-type risks, is expanding into the personal lines. As of first quarter 2000, motor insurance represented 42.9% of AIU's premium mix.

The introduction of compulsory motor liability for automobiles in 1998 and for motorcycles in 1999 contributed to the accelerating premium growth. Auto liability and motorcycle insurance jumped 77%. There are 13.5 million motorcycles licensed in Taiwan. Excluding the surge from this compulsory change, premiums would have declined by approximately 5-7% for 1999. Commercial line rates were under severe pressure, a phenomenon that should ease in 2000 and could turn up by 2001. At January 1 renewals, we understand that premium rates on larger risks renewed flat to upward, depending on loss experience.

We do not expect non-life premium growth to match 1999's growth rate due to our findings from meeting with local insurance companies indicating that motorcycle retentions are running only 30%. People are risking a state-imposed penalty to avoid paying their required premium. Note that the average rider of a motorcycle is estimated at 19 years of age—an inherently riskier subset of the population and not necessarily indicative of behavior patterns demonstrated by the balance of the insurance market.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mrkt. Share	Percent Chg.
Fubon	$462.7	20.4%	2.1%
Mingtai	$252.2	11.1%	-9.9%
Central	$153.3	6.8%	5.3%
Shin Kong	$136.9	6.0%	9.9%
Taian	$134.2	5.9%	7.5%
Taiwan Fire	$130.4	5.7%	0.8%
Zurich	$113.9	5.0%	10.6%
Chung Kuo	$113.2	5.0%	-1.2%
Kuo Hua	$111.3	4.9%	11.4%
China Mariners	$100.0	4.4%	1.5%
Top 10	$1,708.0	75.3%	2.1%
Total	$2,269.0	100.0%	4.5%

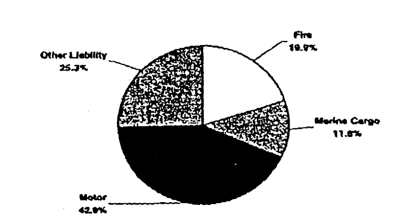
Source: Insurance Institute of the Republic of China

The recently released first quarter numbers tell the story, as total motor premiums, which include pure motor and other classes not subject to the motorcycle phenomenon, declined by 30.63%. Given the solid track record of the Department of Insurance on developing countermeasures to protect victims of traffic accidents, we anticipate stricter enforcement to rectify the situation.

In other non-life lines, 1999 premiums for aviation grew 14%, property and liability grew 13.5%, and decreases of 12.5% and 15% were recorded for the marine cargo and marine hull lines, respectively.

In addition, the 1999 earthquake has boosted positive awareness of the value of insurance ("In Taipei, young professionals are paying money out of their own pockets to attend seminars to find out about the right kinds of insurances to buy. It is every insurers' dream!" Sivam Subramanian, Editor-in-Chief, *Asia Insurance Review*).

AIU Premium Distribution Q1:2000



Source: Department of Insurance

Only 1% of homes had fire insurance before the earthquake. Significant damage was reported by commercial/industrial firms. With pressure from the government, Central Reinsurance Corp. formed a study group with the Insurance Association of Taiwan to consider a residential earthquake scheme in which all insurance companies would have to participate. The risk-transfer structure would consist of three layers with a coinsurance pool at the bottom, an excess-of-loss cover with traditional reinsurers at level two, and a cat bond on layer three.

Homes are covered under fire insurance policies, which covers property losses to families and enterprises caused by a variety of perils. Recently, a more comprehensive product was approved, called comprehensive homeowners insurance to protect against big losses. These products consolidate liability and supplemental accident insurance.

Due to the implementation of various consumer laws, greater foreign company involvement in various industries, and an increase in accidents, liability coverage is likely to grow in importance. There was a consensus among the market participants that we met with in Taipei that societal forces steadily increase the demand for liability protection.

The Taiwanese insurance market has experienced modest consolidation activity, driven by efficiency concerns and pressure to increase competitiveness as the Department of Insurance creates greater opportunities for companies with unique product expertise.

A major driver that should spur significant consolidation pressure derives from new capital requirements of insurance companies. By January 2002, the minimum capital requirement will double from NT$1 billion to NT$2 billion ($30 to $60 million USD). Several companies do not meet this minimum and will be required to rethink their strategies. Many are expected to sell to a larger partner. The market pulse based on our recent visit to Taiwan is a clear expectation that "big consolidation is coming." We suspect that AIG will partake in the action, as certain incumbents may offer attractive entrees into new markets.

Another concept we took away from our Taiwan visit is the emergence of e-commerce in insurance distribution. Almost unused today, some insurance leaders believe that Internet distribution may represent 10% of the market in five years. Currently, there are approximately 8.5 million users of the Internet in Taiwan, a high percentage of the insurance buying segment of the population. Notably, AIG has been an innovator in online distribution in certain other countries such as Brazil.

Constraints on placement with foreign insurers: Insurance: must obtain permission from the MOF. Permission is only granted if cover is not available in Taiwan, unless the product is international. Reinsurance: no approval necessary.

Insurance regulation: Ministry of Finance (MOF)—Department of Insurance led by an insurance commissioner. The market is rapidly deregulating with three main elements: privatization, foreign competition and relaxed tariffs.

The Taiwan insurance market is considered a well-regulated market that continues to attract foreign investment and ignite product differentiation, particularly among foreign companies that have substantial resources to draw upon from the parent company.

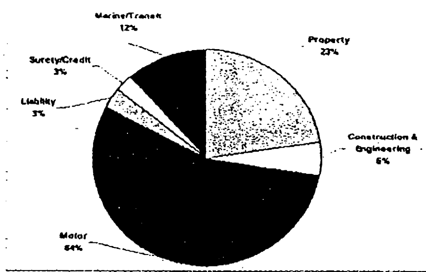
To continue fostering a healthy insurance environment for consumers and companies, the insurance department has established an insurance reformation committee to invite professionals for in-depth study and research to set out future development of insurance policies, guidelines, and reforms. Current and future measures take into account successful insurance applications, trends and systems used in advanced countries.

One non-life state reinsurer remains, Central Reinsurance Corp. (CRC, 87% state owned, 13% owned by other insurers), which takes a large obligatory cession from all insurers. With the intent to expand the reinsurance market and increase the market's reinsurance capacity, plans are under way to float the company. The privatization process is expected to follow a series of phases, with phase 1 scheduled for June, in which the MOF will release a 20% stake to the public. Phase 2 is expected in September for another 20% sale.

Currently, the Central Reinsurance Corp. receives a 60% cession from all life insurers and 20% from non-life insurers. Much speculation is circulating in the market as to whether the mandatory cession will be phased out. Our sense from meeting with the Department of Insurance, is that it will stay consistent with its other relaxation policies and institute an orderly, gradual phase-out plan.

Compulsory insurance: Motor liability (death and bodily injury only), workers' compensation, national health care, liability for specified entertainment businesses (e.g., adult), travel agents' comprehensive liability and bond insurance. On the life side, there are old age pension, national health care and retirement benefits.

Non-Life Premium Distribution 1998

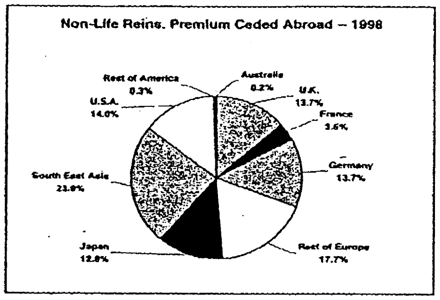


Source: Insurance Institute of the Taiwan, Republic of China.

Product regulation: Property policies are subject to rating tariffs calculated by the Taipei Insurance Association. The MOF is gradually dismantling the tariff structure with the intent to have a fully unregulated rating system. The one exception to the diminished role of tariffs relates to motor BI. As of 1997, motor BI has been nationalized, with insurers receiving a percentage of premium. There is a 5% tax on direct premiums. In 1999, the MOF exempted taxes from reinsurance income of foreign insurance companies. Policyholders are not subject to premium taxes. There is no tariff for the life market.

The process of insurance product liberalization is ongoing. In January 1998, premium rates for individual accident and travel accident insurance were lowered by 10-30%, and each company may decide the range of adjustment within the prescribed band. On property insurance, risk premiums have been adopted as the basis for premium rate setting.

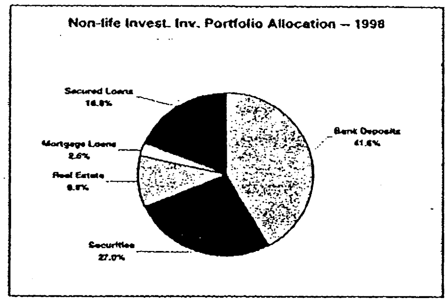
Distribution: Predominantly direct (through employee salesforce) on both non-life personal and commercial lines. Telephone sales are not an element. Brokers are gaining market share due to expertise provided on complex risks. Brokers, which include Marsh, Aon, Jardine and Willis, control 5–10% of premiums. In motor, dealer agencies control about 60% of the market, but this is declining rapidly in favor of direct methods. Homeowners' sales are primarily controlled by banks.



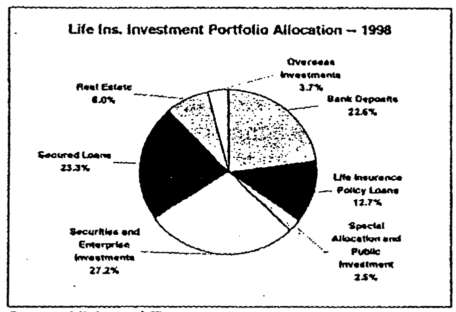
Source: Ministry of Finance

Degree of reinsurance: In 1996, 61.7% of non-life reinsurance premiums were reinsured, with 35.9% reinsured within Taiwan. Most treaty business is with direct writers.

Investment restrictions: Formerly limited to bank deposits, marketable securities, property, lending, and stock investments with certain profitability guidelines, the insurance department broadened insurers' investment scope to include higher-return special purpose and stock investment asset classes to enhance the flexibility of the use of funds of the insurance industry. The trend of broadening investment guidelines should continue. This should translate into more attractive products for consumers.

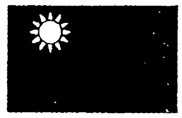


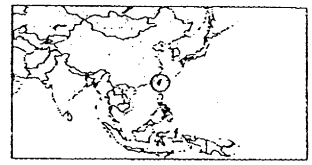
Source: Ministry of Finance



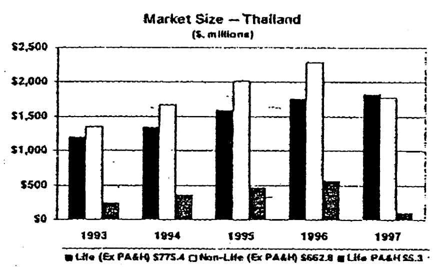
Source: Ministry of Finance

Thailand





Population: Estimated at 62.4 million, growing at 1.5% annually. The population is youthful, with 31% below age 15 and 56% between ages 15 and 49. In 1997, the average man lived to 65 and the average woman to 73. Thailand is a rural society, with a 24% urban population, and more than two-thirds of urban dwellers live in Bangkok. Bangkok residents earn five times more than suburban residents.



Source: Insurance Department of the Ministry of Finance.

Government: Constitutional monarchy with a bicameral legislature.

Market ease of entry: A recent member of the WTO, Thailand continues to make headway in liberalizing its insurance market as stipulated in Thailand's WTO agreement. Another step in the liberalization process recently permitted foreign ownership to increase to 49% from 25%; the final step will allow foreign companies to take a 100% stake in five years (2005). In 1996, foreign branches wrote only 8.5% of total life and non-life premiums.

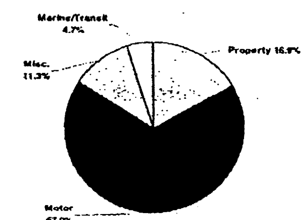
Due to liquidity, marketing and technical support concerns, domestic insurers are increasingly inviting foreign capital and joint-venture arrangements. In 1998, AIA took a 25% stake in Charoen Pokphand Life Assurance Co.

Although there are no state insurance companies, three companies that insure state risks have state shareholders. Shareholdings have recently been diversified and state enterprises can place business with other markets.

Market opportunity: As liberalization proceeds, Thailand presents a significant opportunity for foreign insurers. AIG is considering making acquisitions in this market. The country has close ties with the West, particularly the United States.

Combined life and non-life insurance penetration is 2.51%. An "Asian Tiger" economy with GDP growth averaging 8.9% from 1990-95, the economy fell into a recession triggered by the 1997 Asian economic crises. In 1998, GDP is estimated to have declined 8%. The recession resulted in a significant drop in motor premium volume, while other classes have also fallen to depressed levels. Several insurers experienced liquidity problems, and are now increasingly receptive to foreign investments.

Non-Life Premium Distribution 1997



Source: Insurance Department of the Ministry of Finance

Top 10 Life Insurers – 1997

Company	DWP	Mrkt. Share	Percent Change
AIA	$851.7	46.7%	-1.9%
Thai Life	$433.9	23.8%	5.3%
Ocean	$169.3	9.3%	7.4%
Muang Thai Life	$111.1	6.1%	8.4%
Ayudhaya Jardine	$94.3	5.2%	13.0%
Bangkok Life	$57.8	3.2%	14.6%
South East	$36.3	2.0%	38.3%
Thai Prasit	$19.6	1.1%	-4.3%
Interlife John Hancock	$16.2	0.9%	-19.0%
Siam Commercial	$18.7	1.0%	0.8%
Top 10	$1,809.0	99.1%	2.8%
Total	$1,825.2	100.0%	2.7%

Source: Insurance Department of the Ministry of Finance

Agriculture represents 50% of the workforce, but only 11% of GDP. The manufacturing industries, which represent 30% of GDP, are located around Bangkok. These include motor vehicle assembly, cement, plastics, chemicals, electrical appliances, tires, textiles, shoes and plywood.

AIG subsidiary AIA is the largest life insurer in the country, with a 46% market share. Dhalbol Bunnag, general manager for AIA's Thai operation, in a recent *Bangkok Post* article, reaffirmed the company's commitment to 20% annual growth. AIA captured $750.2 million (28.39 baht) of premium volume for 1999, a 9.6% rise from 1998 in original currency. Endowment-type products currently make up 70% of the mix. Plenty of room exists for life insurance penetration to grow, as only 12% of the population holds life insurance policies. AIA is expanding its marketing channels through direct mail and by training more full-time professional sales agents.

AIA advertises heavily, emphasizing its financial strength, while enjoying the status of being the only insurance company in Thailand with a triple-A rating. AIA Thailand has 28,000 sales agents, with 3,500 agency team-leaders who are full-time employees, supported by 40 executives.

Doing business in Thailand for more than 60 years, AIA has built a tremendous loyalty with its agents and policyholders. For example, as a gesture demonstrating its commitment to the market during the Thai financial crises, AIA made premium adjustments to financially strained policyholders, allowing them to stretch out payments or borrow from their cash surrender values. In addition to creating goodwill for the company, this minimized lapses that ultimately would have had a negative effect on market share.

Insurance regulation: Supervisory authority is the Department of Insurance, part of the Ministry of Commerce, and known as the OIC (the Office of the Insurance Commissioner). The OIC has several divisions that govern all aspects of insurance, including life and non-life, taxation and motor accident protection.

Compulsory insurance: Motor liability and workers' compensation for firms employing ten or more people. On April 1, 2000, the insurance department introduced a program to streamline auto, homeowners and personal accident insurance policies. Broader rating criteria are being used, which should result in a more stratified market by risk classification and result in lower premiums for many.

Some coverages have been broadened to cover more perils in an effort aimed at making these insurance classes more attractive. No-claims bonuses are being awarded for auto policies, along with discounts for loss-free policyholders. Commenting on the homeowners' line, Surachai Sirivallop, secretary-general for the insurance department, believes the new structure will encourage 60–70% of homeowners to take out insurance within 20 years, compared with less than 8% now.

Top 10 Non-Life Insurers – 1997

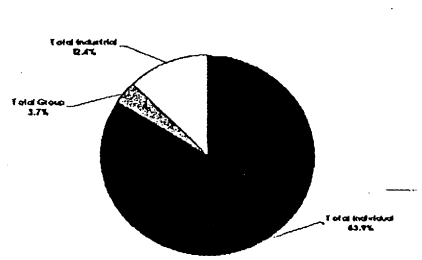
Company	OWP	Mrkt. Share	Percent Change
Viriyah	$339.5	14.1%	11.0%
Narai International	$183.3	7.6%	20.6%
Bangkok Insurance	$167.9	7.0%	17.4%
Synmunkong	$162.3	6.7%	22.9%
Liberty	$160.0	6.6%	26.3%
Dhipaya	$102.6	4.3%	8.8%
Rattanakosin	$74.9	3.1%	-0.7%
Thai Metropole	$68.4	2.8%	0.8%
New Hampshire	$66.6	2.8%	24.2%
The Safety	$64.2	2.7%	38.0%
Top 10	$1,389.8	57.6%	16.1%
Total	$2,414.6	100.0%	15.3%

Source: Insurance Department of the Ministry of Finance

Product regulation: Subject to class tariffs and to supervisory approval of companies' nontariff rating schedules. The system is gradually dissolving, but there are no "detariffication" plans. Property rates are subject to strict tariff. Compulsory motor accident is subject to statutory rating whereby companies set rates within a preset minimum and maximum. Marine cargo is subject to a tariff that is ignored and regarded as the equivalent of free rating. Life insurers enjoy open rating. Policies must be issued in baht and in the Thai language. A 3.3% policy tax has been replaced with a 10% VAT, effective in 1999.

Distribution: Primarily banks and tied agents. Agents dominate the life market. Bancassurance is used extensively, whereby banks direct all loan-related business to associated insurers. Banks often maintain stakes in insurance companies. Brokers control multinational business, and increasingly sophisticated risks. Direct marketing is limited but has shown some success in motor and credit card affinity schemes. Thai consumers generally prefer personal contact.

Life Premium Distribution 1997



Source: Insurance Department of the Ministry of Finance.

Degree of reinsurance: There are two local reinsurers: Thai Re, which receives a mandatory 5% cessions on most risk classes, including life; and Asian Re. An additional 10% of cessions are directed to the Thai Fire Pool.

Constraints on placement with foreign insurers: There are no legal restrictions on placing business with foreign entities. In practice, business stays in Thailand, with the exception of marine insurance.

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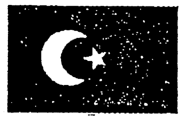
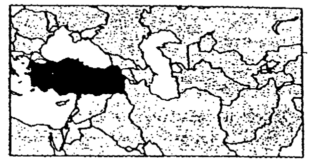
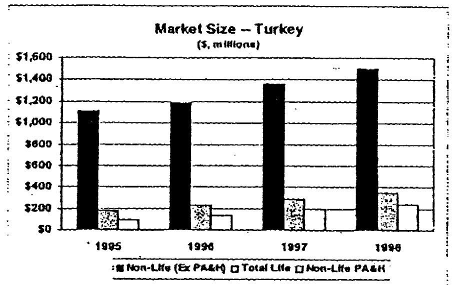
Republic of Turkey





Population: 63 million, growing 2.5% annually, average life expectancy: 70 male, 75 female.

Government: Democratic republic.



Source: Supervisory Authority.

Market ease of entry: Licensing is straightforward and foreign companies are allowed to operate as branches. There is no limit on the number of branches.

Market opportunity: The small Turkish market has been growing rapidly in U.S. dollar terms despite low consciousness of insurance, high inflation, and religious and cultural biases against the life product. However, the market is intensely competitive, often underpriced and subject to hyperinflation, which saw the currency devalued almost 38% against the dollar in 1999.

Domestic companies dominate the market, followed by affiliates of Germany companies (especially Allianz, which has a large market share) and Italian insurers, in keeping with these countries' historically strong ties with Turkey. U.S. companies have a very limited market presence. Most business is non-life, with personal accident and travel making up the majority of the remainder.

Most insurance premium is motor and/or commercial property or construction/engineering risks. Turkey is subject to severe earthquake risk. Istanbul, with a population of 10 million, is situated in a high-risk area; estimated insured losses of more than $2 billion were suffered in the 1999 Izmit quake.

History: Insurance was introduced to Turkey in the waning days of the Ottoman Empire by Italian insurers. Rivnione Adriatica established a fire and marine company in 1862, followed by Generali in 1892. Under Kemal Ataturk, modern Turkey was founded in 1922 with the expulsion of Greece from part of Turkey and the abolition of the Sultanate. In 1925, at the prompting of Ataturk, Anadolu Insurance was formed. Milli Re followed in 1929.

Top 10 Non-Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Aksigorta	$135.4	9.0%	70.6%
Koc Allianz	$125.3	8.3%	77.7%
AXA Oyak	$125.0	8.3%	95.8%
Anadolu Anonim	$112.3	7.5%	68.7%
Gunes	$105.1	7.0%	80.8%
Halk	$102.2	6.8%	88.8%
Basak	$100.3	6.7%	59.8%
Isvicre	$65.8	4.4%	72.7%
Ray	$52.4	3.5%	62.4%
Commercial Union	$49.7	3.3%	86.0%
Top 10	$973.5	64.7%	76.2%
Total	$1,504.9	100.0%	88.4%

Source: Supervisory Authority

Insurance regulation: In 1998, the Constitutional Court struck down the 1994 insurance law governing the sector. Since then, the Turkish insurance industry and the Insurance Supervisory Authority have followed the status quo, but "illegally," with no official sanctions for the regulatory structure despite calls for passage of a new insurance law.

Compulsory insurance: Motor liability and workers' compensation, which is funded under a state-owned scheme.

Top 10 Life Insurers – 1998

Company	DWP	Mkt. Share	Percent Change
Anadolu Hayat	$130.6	37.0%	115.3%
Halk Yasam	$46.9	13.3%	118.1%
Gunes Hayat	$24.6	7.0%	120.7%
Ihlas Hayat	$19.9	5.7%	118.6%
Halk	$18.1	5.1%	112.4%
Koc Allianz Hayat	$16.2	4.6%	114.0%
American Life	$15.9	4.5%	98.3%
Basak Hayat	$15.0	4.2%	N/A
Basak	$13.0	3.7%	-17.8%
AXA Oyak Hayat	$8.5	2.4%	241.1%
Top 10	$308.8	20.5%	113.1%
Total	$353.1	100.0%	105.7%

Source: Supervisory Authority

Product regulation: Nontariff rates except for motor liability, earthquake and volcanic eruption insurance.

Distribution: Tied agents and direct sales are commonly used; agents and brokers are also common. Bancassurance is also widely used.

Top Non-Life Reinsurers – 1998

Company	DWP	Mkt. Share	Percent Change
Milli Reasurans	$218.6	77.3%	56.7%
Destek Reasurans	$52.4	18.6%	133.6%
Halk Reasurans	$7.8	2.7%	92.5%
Istanbul Re	$3.8	1.4%	149.3%
Others	$0.0	0.0%	0.0%
Total	$282.6	100.0%	51.0%

Source: Supervisory Authority

Top Life Reinsurers – 1998

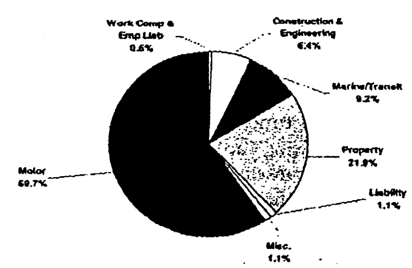
Company	DWP	Mkt. Share	Percent Change
Milli Reasurans	$3.9	98%	49.5%
Destek Reasurans	$0.1	N/A	216.7%
Others	$0.0	N/A	0.0%
Top 10	$4.0	N/A	51.0%

Source: Supervisory Authority

Degree of reinsurance: There is a compulsory cession of 15% of non-life business other than motor and 10% of motor business to Mille Re, the former state reinsurer that is now owned by Turkiye Is Bankasi, a large commercial bank. However, Mille Re sometimes declines to accept cession if it believes the business is underpriced. The mandatory cession is to be eliminated in 2001. There are several other small domestic reinsurers. A significant amount of reinsurance is placed internationally through brokers.

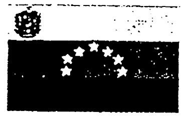
Constraints on placement with foreign insurers: Nonadmitted insurers are prohibited, but fronting is sometimes permitted.

Non-Life Premium Distribution 1998



Source: Supervisory Authority.

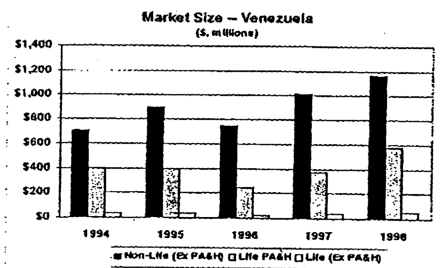
The Republic of Venezuela



Population: 23.2 million in 1998. The growth rate was about 2.2% per year in 1991-96. Average life expectancy is 70 for men, 76 for women.

Government: Federal republic.

Market ease of entry: Foreign insurers may form an insurance company in Venezuela or buy an existing one. The main restriction is that at least half of the executives must be Venezuelan. The percentage of equity that may be held is unlimited. At the end of 1998, 52% of the total equity of Venezuela insurers was held by foreign shareholders versus 41% the year before.



Source: Camara de Aseguradores de Venezuela.

Market opportunity: Auto and hospitalization business accounts for 60% of total premium income. Group and individual life produce no more than 2% of premium income, placing Venezuela in a low position in Latin America. In non-life, Venezuela is the fifth-largest market, not surprising for an economy dominated by the oil industry but otherwise impoverished.

The country had been on track to overhaul its social security system, but the direction those efforts will take is in doubt under the current leadership. One of the acts of the outgoing government was the introduction of total revisions of the social security system, pensions and health insurance. The law was expected to bring about the demise of the current Social Security system at the end of 1999. Instead, earlier this year, a budget was passed to rejuvenate the existing system.

Skyrocketing oil prices (Venezuela is the largest exporter of oil to the U.S.) might help the economy. But Venezuelan GDP, which shrank 7.2% in 1999, contracted 3.5% in the first quarter of 2000, although the government still believes it can achieve 2.5% GDP growth for the year.

An added challenge is recovering from a flood catastrophe that struck the country last December, killing 30,000 people and incurring insured losses of $216 million, 95% of which was expected to be absorbed by reinsurers.

The life insurance market has suffered from galloping inflation and is still small. Proposed changes to health and pensions would create opportunities for insurers, but appear to be on hold for now while the government pursues a strategy of re-funding the existing system.

AIG has operated a joint venture with Banco Del Caribe Group since 1950. That 50-50 joint venture boosted its stake in a multi-line organization, consisting of American International C.A. de Seguros and Seguros Venezuela C.A., to 90% in 1995, soon after laws were changed in the wake of the 1994 banking crisis to allow foreign control. Total insurance market income was about $1.75 billion in 1998, up 22% from $1.43 billion in 1997. In 1997, the AIG venture's share was $23.7 million, or 1.7%, up 25.4% from the 1996 level.

History: The first Venezuelan Commercial Code, which took effect in 1862, regulated marine insurance. In 1935, the first insurance law was enacted. Of the companies formed before 1940, only three remain. The 1994 banking crisis crippled numerous insurers associated with collapsed banks.

Top 10 Insurers

Company	DWP	Mkt. Share	Percent Change
Seguridad C.A.	$199.6	11.1%	26.9%
Caracas C.A.V.	$160.4	9.0%	22.2%
Pan American C.A.	$117.2	6.5%	16.2%
Orinoco C.A.	$112.4	6.3%	19.2%
Adriatica de Seguros	$111.8	6.2%	48.4%
Previsora C.N.A.	$91.1	5.1%	60.2%
Multinacional C.A.	$79.4	4.4%	43.0%
Horizonte C.A.	$73.3	4.1%	96.7%
Sud America S.A.	$70.4	3.9%	57.3%
Nuevo Mundo	$61.2	3.4%	18.7%
Top 10	$1,076.8	60.1%	47.2%
Total	$1,792.5	100.0%	40.4%

Source: Camara de Aseguradores de Venezuela

Insurance regulation: The new insurance law that followed the 1994 banking crisis opened the doors to unrestricted foreign ownership but increased vigilance over solvency. For non-life insurance, bonds, group life and burial insurance, solvency margins are established on the higher of two bases, one on premiums and the other on losses. The premium basis is 17% of collected direct and inwards reinsurance premiums of the previous 12 months. The loss basis is 25% of one-third of the total losses of the previous 36 months. The Superintendency of Insurance is the regulatory authority. Since 1995, the superintendent has been Dra Morelia Corredor Ochoa, who has been with the Superintendency since 1974.

Compulsory insurance: The only compulsory class of insurance in Venezuela is auto liability.

Product regulation: The Superintendent's office, which issued and administered uniform tariffs for several classes of business, has gradually been eliminating them, and the only two that now remain are for auto liability and group life.

Distribution: Agents and brokers still dominate the market, although banks increasingly are involved in the insurance business, and first steps have been taken in direct sales.

Little business is written on a direct basis, with most insurance being placed through some form of intermediary. Some companies appear to be attacking on a direct basis the large accounts currently placed by brokers.

Some insurers are now developing direct marketing efforts via telephone and mail with some success, but not without antagonizing the intermediaries. Banks can't offer direct insurance services to the public but may do so through an associated insurance company or broker. Direct salesforces by law are not permitted for any insurance products. Agency business is placed through tied agents.

Top Reinsurers

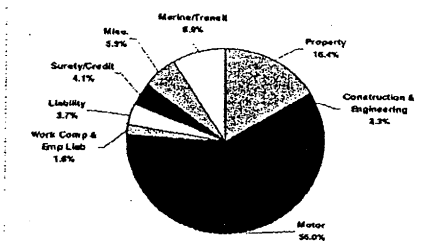
Company	DWP	Mkt. Share	Percent Change
Americana	$34.5	99.5%	41.2%
RIV	$19.9	57.4%	147.1%
Provincial	$10.3	29.6%	21.8%
Others	$0.0	0.0%	0.0%
Total	$34.7	100.0%	54.1%

Source: Camara de Aseguradores de Venezuela

Degree of reinsurance: As of the end of 1998, only four local reinsurers were operating in Venezuela. Following the abolition of the requirement for at least 40% of business to be reinsured in Venezuela, much more reinsurance is being placed abroad, especially with foreign reinsurers represented in Venezuela. The percentage of reinsurance placed in the local market had fallen to 13.9% in 1997 from around 50% in the early 1990s.

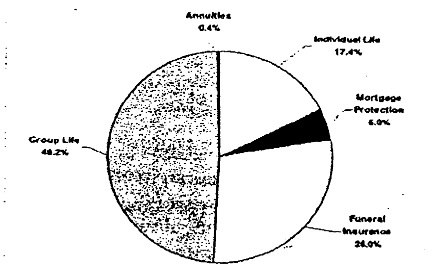
Constraints on placement with foreign insurers: None.

Non-Life Premium Distribution 1998



Source: Camara de Aseguradores de Venezuela.

Life Premium Distribution 1998



Source: Camara de Aseguradores de Venezuela.

Investment restrictions: A minimum of 30% of reserves must be in Venezuelan government or municipal bonds. No more than 20% may be in mortgage loans or bonds of banks and other stable, preferably listed companies, and not more than 50% in cash, loans, mortgages and real estate. U.S. Treasury Bonds also are now accepted as valid for the investment of reserves.

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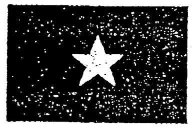
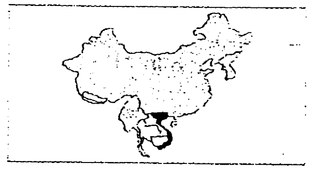
Socialist Republic of Vietnam





Population: 78 million; life expectancy: 65 male, 70 female.

Government: Socialist; the most recent constitution, enacted in 1992, established an "open door" policy encouraging foreign investment and providing assurance against nationalization.

Market ease of entry: Similar to China, Vietnam is concerned about the domestic market being overwhelmed by foreign competition and has been opening its life insurance market while protecting its domestic non-life market. However, unlike China, Vietnam moved with dramatic speed to open the life market in 1999, licensing Manulife, Allianz, Prudential (U.K.) QBE and AIG in rapid succession. John Hancock and Cigna have established representative offices.

Vietnam has a goal of increasing insurance penetration from $150 million, or 0.6% of GDP, in 1999 to $250 million, or 1% of GDP, in 2000, with GDP growing at 5–6%, the second-highest in Southeast Asia. Seventy percent of the population is employed in agriculture.

Life insurance sales quadrupled in 1999 from a small base; life insurance did not exist in Vietnam until 1996. About 0.5% of Vietnamese bought the product in 1999.

Bao Viet, the state-owned insurer, was a monopoly until 1998 and now has at least a 60% market share. Bao Viet is projecting 13.9% growth in 2000.

Foreign insurers and joint ventures are not allowed to write domestic business, although this prohibition is expected to fall. Insurers are allowed 100% ownership of their Vietnamese operations. However, Australia's Colonial Mutual has established a joint venture with Ho Chi Minh City Insurance Company.

AIG has had a presence in Vietnam since 1997 through a joint venture with Asian Infrastructure Development Thailand, building a $585 million port in Haiphong, a center of heavy industry. Twenty-five years after its departure from Vietnam, AIG was the first American company to receive a license in March 2000; it will operate as American International Assurance Co. (Vietnam) Ltd., with offices in Hanoi (estimated population: 3 million) and Ho Chi Minh City (estimated population: 5 million).

Market opportunity: Vietnam is potentially one of the largest life insurance markets in Southeast Asia due to its large population. However, per capita insurance spending is currently only $1.

Bao Viet, Vietnam's largest insurer, began selling life insurance in 1996 and has 63 branches and 8,000 agents. Bao Viet sold 37,500 policies its first year, 327,000 in 1998, and was expected to reach 400,000 by the end of 1999. England's Prudential has appointed over 1,000 agents in Hanoi and Ho Chi Minh City and sold 10,000 policies in the first quarter of 2000. Chinfon-Manulife has appointed 450 agents.

Personal accident is the largest class of business in the market, representing 21.7% of total market premiums in 1998. Many employers buy this coverage for their employees. Despite its popularity, market penetration of this product is very low and future growth prospects are excellent.

In the non-life market, Vietnam is particularly susceptible to typhoons and has moderate earthquake risk. The property market is burgeoning with the advent of international business; foreign investors are required to buy comprehensive coverage. Motor insurance is compulsory, although only about 600,000 cars exist in the country. However, mandatory motorcycle cover is an opportunity for the more than 5 million registered motorcycles. Although motor liability coverage is mandatory, an estimated 20% of the market is uninsured.

Special issues: The Vietnamese Dong is not freely traded; profits can be repatriated, but the exchange is tightly controlled and all local transactions must take place in Dong.

History: A limited insurance market existed in South Vietnam before 1963, although there was no market in the North, which had been under Communist rule since 1945. In 1963, Bao Viet was formed to write marine cargo insurance.

In 1992, Vietnam adopted a new, liberalized constitution. As a result, in 1993, Vietnam decided to develop an insurance market and in 1994, Bao Minh, an insurer based in Ho Chi Minh City, and VinaRe, a state reinsurer, were established. All three companies wrote non-life business only. Diplomatic relations with the U.S. were restored in 1995. In 1996, Bao Viet received the first license to write life insurance.

Insurance regulation: Currently, Decree 100/CP, which is very limited in scope, governs the market. The government has proposed a new insurance law that is expected to be approved in October 2000. The new law would create a specialized agency under the Ministry of Finance to supervise the market, govern licensing and establish other routine regulatory requirements.

Compulsory classes: Motor liability (including motorcycle, which is the most common form of transportation) and construction are risks. Foreign companies doing business in Vietnam must buy comprehensive coverage. Workers' compensation insurance is not mandatory, but employers are required to make statutory payments to workers who are sick, injured or killed on the job. Many companies buy insurance for this purpose.

Product regulation: Nontariff rates except for motor liability, no prior approval of rates and forms. If workers' compensation insurance is purchased, a state-approved rate and form is required.

Distribution: Mostly through brokers and agents. Aon Inchinbrok, a joint venture between Bao Viet and Aon, is the only licensed broker. Bao Viet is also experimenting with selling online at www.baoviet.com.vn.

Degree of reinsurance: Vietnamese National Reinsurance Company (VinaRe) is not a state monopoly but enjoys a 20% compulsory cession for certain non-life business (motor, personal accident, inland marine cargo and life insurance are not included). The compulsory cession is being challenged; VinaRe argues that it provides services and training for the local market and that the compulsory cession is justified.

In 1998, 55% of VinaRe's business came from compulsory cessions and VinaRe wrote $17.6 million of premium.

Reinsurance outside Vietnam is permitted once compulsory cessions are met, as long as no local company wants the business. No more than 40% can be placed with a single reinsurer.

Constraints on placement with foreign insurers: Nonadmitted insurance is prohibited but risks can be placed abroad. One hundred percent fronting is not allowed.

Investment restrictions: Investments must be made locally; the lack of developed capital markets has restricted investment opportunities. With the development of a stock market, this constraint should ease somewhat. In addition, insurers can invest in infrastructure, which would earn a higher return than bonds.

Appendix 2: Loss Reserves

21st Century Insurance Co.

Loss Development by Accident Year--All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	88.3%									
1991	95.8%	81.5%	66.8%								
1992	86.9%	81.5%	78.7%	87.9%							
1993	85.0%	78.2%	77.6%	79.7%	87.3%						
1994	82.8%	77.2%	75.8%	76.6%	80.9%	177.4%					
1995	82.6%	77.1%	75.5%	75.9%	79.3%	179.3%	81.5%				
1996	82.6%	77.1%	75.5%	75.6%	78.5%	180.3%	77.5%	79.4%			
1997	82.7%	77.1%	75.5%	75.6%	79.2%	182.0%	76.2%	71.4%	72.5%		
1998	82.6%	77.2%	75.5%	76.7%	79.2%	183.9%	76.5%	71.6%	67.4%	68.2%	
1999	82.5%	77.1%	75.5%	75.7%	79.1%	186.6%	76.7%	71.0%	65.6%	68.3%	67.8%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year--All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	88.3%										N.A.	N.A.
1991	-4.2%	-6.9%	86.8%									-7.0%	79.8%
1992	-8.9%	0.0%	-8.1%	87.9%								-10.9%	77.0%
1993	-1.9%	-3.2%	-1.1%	-8.1%	87.3%							-9.4%	77.9%
1994	-2.2%	-1.1%	-1.8%	-3.1%	-6.4%	177.4%						-11.4%	166.0%
1995	-0.2%	-0.1%	-0.2%	-0.7%	-1.6%	1.8%	81.5%					-0.5%	81.0%
1996	0.0%	0.0%	-0.1%	-0.4%	-0.8%	-1.0%	-4.0%	79.4%				-4.8%	74.6%
1997	0.1%	0.0%	0.0%	0.0%	0.7%	1.7%	-1.3%	-8.1%	72.5%			-7.3%	65.2%
1998	-0.1%	0.0%	0.0%	0.1%	0.0%	1.9%	0.2%	0.2%	-5.1%	68.2%		-2.0%	66.1%
1999	-0.1%	0.0%	0.0%	0.0%	0.0%	2.7%	0.2%	-0.6%	-1.8%	0.1%	67.8%	1.1%	69.0%
Cumulative Development	*-17.5%*	*-11.2%*	*-11.3%*	*-12.2%*	*-8.2%*	*9.2%*	*-4.9%*	*-8.4%*	*-6.9%*	*0.1%*	*0.0%*		
% of Initial Incurred Loss	*-17.5%*	*-12.7%*	*-13.0%*	*-13.9%*	*-9.4%*	*5.2%*	*-6.0%*	*-10.6%*	*-9.5%*	*0.2%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	38.5%	40.3%	42.5%	45.6%	118.3%	47.5%	44.7%	40.3%	43.4%	45.5%	50.7%	23.9%
Second Year	50.9%	68.6%	66.4%	67.8%	70.7%	164.2%	69.3%	63.7%	58.9%	62.8%		76.7%	33.0%
Third Year	73.2%	73.7%	72.6%	73.2%	76.4%	173.6%	74.0%	69.2%	64.2%			84.6%	36.2%
Fourth Year	80.0%	76.1%	74.5%	74.9%	77.7%	180.3%	75.8%	70.6%				90.0%	39.9%
Fifth Year	82.2%	76.8%	75.2%	75.3%	78.9%	182.3%	76.3%					94.1%	43.2%
Sixth Year	82.7%	77.0%	75.4%	75.5%	79.0%	186.1%						98.6%	48.9%
Seventh Year	82.7%	77.1%	75.5%	75.7%	79.1%							76.9%	1.7%
Eighth Year	82.7%	77.1%	76.5%	76.7%								76.1%	0.9%
Ninth Year	82.7%	77.2%	75.5%									76.3%	1.2%
Tenth Year	82.6%	77.2%										77.2%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	38.5%	40.3%	42.5%	45.6%	118.3%	47.5%	44.7%	40.3%	43.4%	45.5%	50.7%	23.9%
Second Year	50.9%	28.1%	26.2%	25.2%	25.1%	45.9%	21.9%	19.0%	18.6%	19.4%	*45.5%*	25.5%	8.4%
Third Year	22.3%	7.2%	6.1%	5.5%	5.7%	9.4%	4.7%	5.5%	5.3%	*62.8%*		6.2%	1.5%
Fourth Year	6.7%	2.3%	2.0%	1.7%	1.3%	6.7%	1.8%	1.4%	*64.2%*			2.4%	1.9%
Fifth Year	2.2%	0.7%	0.6%	0.4%	1.2%	2.0%	0.5%	*70.6%*				0.9%	0.6%
Sixth Year	0.5%	0.2%	0.2%	0.2%	0.2%	3.8%	*76.3%*					0.9%	1.6%
Seventh Year	0.0%	0.2%	0.1%	0.2%	0.1%	*186.1%*						0.1%	0.0%
Eighth Year	0.0%	0.0%	0.0%	0.0%	*79.1%*							0.0%	0.0%
Ninth Year	0.0%	0.0%	0.0%	*75.7%*								0.0%	0.0%
Tenth Year	-0.1%	0.0%	*75.5%*									0.0%	
Cumulative	*82.6%*	*77.2%*										0.0%	

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		43.6%	46.4%	48.4%	52.3%	66.7%	58.2%	56.3%	55.6%	63.8%	67.0%	55.8%	8.3%
Second Year	53.1%	81.7%	84.4%	85.0%	87.4%	91.6%	89.5%	89.3%	87.4%	92.0%		87.6%	3.4%
Third Year	84.2%	90.5%	93.5%	95.6%	96.4%	96.3%	97.1%	96.7%	97.8%			95.5%	2.4%
Fourth Year	94.0%	97.2%	98.4%	98.6%	99.1%	99.1%	99.1%	99.4%				98.7%	0.7%
Fifth Year	99.2%	99.5%	99.5%	99.6%	99.7%	99.1%	99.5%					99.5%	0.2%
Sixth Year	100.1%	99.9%	99.9%	99.9%	99.8%	99.7%						99.8%	0.1%
Seventh Year	100.1%	100.0%	100.0%	100.0%	100.0%							100.0%	0.0%
Eighth Year	100.0%	100.0%	100.0%	100.0%								100.0%	0.0%
Ninth Year	100.1%	100.0%	100.0%									100.0%	0.0%
Tenth Year	100.1%	100.0%										100.0%	

Reported to Incurred--Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	84.3%	84.4%	81.7%	82.8%	81.9%	76.5%	72.6%	73.8%	72.5%	67.2%	77.8%	6.0%
Second year	67.4%	58.2%	61.9%	61.6%	64.5%	62.0%	52.1%	46.7%	52.1%	54.4%		57.1%	6.0%
Third year	43.7%	41.4%	44.9%	48.9%	46.7%	43.9%	33.4%	31.8%	35.3%			40.8%	6.5%
Fourth year	24.0%	25.6%	33.7%	32.9%	30.0%	35.4%	25.2%	20.4%				29.0%	5.5%
Fifth year	10.2%	15.6%	26.0%	21.8%	20.5%	27.5%	16.3%					21.3%	4.9%
Sixth year	5.8%	9.3%	21.3%	15.1%	16.2%	20.8%						16.5%	4.9%
Seventh year	7.4%	4.7%	17.5%	12.7%	12.4%							11.8%	5.3%
Eighth year	7.3%	2.2%	16.2%	10.7%								9.7%	7.0%
Ninth year	5.1%	0.7%	13.7%									7.2%	9.2%
Tenth year	5.6%	-1.4%										-1.4%	

American Home Assurance Co.

Loss Development by Accident Year–All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	84.7%									
1991	99.6%	84.0%	84.3%								
1992	99.6%	84.0%	84.5%	86.0%							
1993	100.6%	85.3%	84.5%	85.8%	84.2%						
1994	104.3%	86.7%	81.6%	81.1%	86.8%	86.5%					
1995	109.4%	87.1%	79.4%	79.7%	86.0%	82.9%	83.6%				
1996	115.8%	87.6%	79.4%	78.4%	85.5%	81.5%	79.0%	86.1%			
1997	119.0%	88.6%	80.8%	79.4%	84.4%	79.3%	78.8%	82.9%	84.3%		
1998	121.6%	87.8%	81.4%	78.9%	83.2%	76.4%	78.2%	80.4%	79.0%	79.1%	
1999	124.8%	88.4%	81.6%	78.7%	81.9%	75.7%	80.3%	78.9%	76.6%	76.2%	77.0%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year–All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	84.7%										N.A.	N.A.
1991	-0.4%	-0.7%	84.3%									-1.2%	83.1%
1992	0.1%	0.0%	0.2%	86.0%								1.0%	87.0%
1993	1.0%	1.3%	-0.1%	-0.2%	84.2%							1.5%	85.7%
1994	3.7%	1.4%	-2.8%	-4.7%	2.6%	86.5%						0.8%	87.3%
1995	5.1%	0.4%	-2.2%	-1.4%	-0.8%	-3.6%	83.6%					-1.6%	82.0%
1996	6.5%	0.5%	0.0%	-1.3%	-0.5%	-1.4%	-4.6%	86.1%				-0.3%	85.9%
1997	3.1%	1.0%	1.4%	0.9%	-1.1%	-2.2%	-0.1%	-3.2%	84.3%			-0.3%	84.0%
1998	2.6%	-0.8%	0.5%	-0.5%	-1.2%	-2.9%	-0.6%	-2.6%	-5.3%	79.1%		-10.4%	68.7%
1999	3.2%	0.5%	0.2%	-0.2%	-1.3%	-0.6%	2.1%	-1.5%	-2.4%	-2.9%	77.0%	-3.2%	73.8%
Cumulative Development	*24.8%*	*3.6%*	*-2.7%*	*-7.3%*	*-2.3%*	*-10.8%*	*-3.3%*	*-7.2%*	*-7.8%*	*-2.9%*	*0.0%*		
% of Initial Incurred Loss	*24.8%*	*4.3%*	*-3.2%*	*-8.5%*	*-2.7%*	*-12.5%*	*-3.9%*	*-8.4%*	*-9.2%*	*-3.7%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	12.7%	13.3%	15.5%	15.1%	14.9%	19.8%	22.0%	21.8%	24.9%	29.0%	18.9%	5.5%
Second Year	27.9%	32.9%	32.1%	32.5%	31.3%	32.1%	38.3%	40.2%	38.3%	38.9%		35.2%	3.6%
Third Year	47.9%	46.3%	46.6%	43.0%	44.0%	46.3%	52.0%	51.1%	49.8%			47.4%	3.3%
Fourth Year	64.4%	58.7%	56.5%	54.3%	56.4%	52.8%	56.7%	59.1%				56.4%	2.2%
Fifth Year	76.8%	67.2%	63.9%	61.5%	62.9%	58.3%	60.9%					62.5%	3.0%
Sixth Year	83.2%	73.0%	68.3%	68.7%	67.1%	62.6%						67.5%	3.7%
Seventh Year	86.2%	77.0%	71.9%	69.8%	69.7%							72.1%	3.4%
Eighth Year	91.7%	79.7%	73.9%	71.8%								75.2%	4.1%
Ninth Year	96.6%	81.3%	75.4%									78.4%	4.1%
Tenth Year	98.6%	83.0%										83.0%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	12.7%	13.3%	15.5%	15.1%	14.9%	19.8%	22.0%	21.8%	24.9%	29.0%	18.9%	5.5%
Second Year	27.9%	20.3%	18.8%	17.0%	16.1%	17.2%	18.5%	18.3%	16.4%	14.0%	*29.0%*	17.4%	1.8%
Third Year	20.0%	13.4%	14.5%	10.5%	12.7%	14.2%	13.7%	10.9%	11.5%	*38.9%*		12.7%	1.5%
Fourth Year	16.5%	12.4%	9.9%	11.3%	12.5%	6.5%	4.7%	8.0%	*49.8%*			9.3%	3.0%
Fifth Year	12.3%	8.5%	7.4%	7.2%	6.5%	5.5%	4.2%	*59.1%*				6.5%	1.5%
Sixth Year	6.4%	5.8%	4.4%	5.2%	4.1%	4.4%	*60.9%*					4.8%	0.7%
Seventh Year	3.0%	4.0%	3.6%	3.1%	2.6%	*62.6%*						3.3%	0.6%
Eighth Year	5.5%	2.7%	2.0%	2.0%	*69.7%*							2.2%	0.4%
Ninth Year	4.9%	1.5%	1.5%	*71.8%*								1.5%	0.0%
Tenth Year	2.0%	1.7%	*75.4%*									1.7%	
Cumulative	*98.6%*	*83.0%*											

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		15.0%	15.8%	18.0%	18.0%	17.2%	23.7%	25.5%	25.9%	31.5%	37.6%	22.8%	7.5%
Second Year	28.0%	39.2%	38.0%	37.8%	36.0%	38.7%	48.6%	48.5%	48.4%	51.1%		42.9%	6.0%
Third Year	48.1%	55.1%	55.2%	53.0%	51.1%	56.8%	66.0%	63.7%	65.0%			58.2%	5.8%
Fourth Year	64.1%	68.8%	69.2%	68.1%	66.0%	66.6%	72.5%	74.9%				69.4%	3.2%
Fifth Year	73.6%	77.5%	80.5%	78.4%	74.6%	76.3%	75.8%					77.2%	2.1%
Sixth Year	76.1%	83.8%	86.0%	84.0%	80.6%	82.7%						83.4%	2.0%
Seventh Year	74.4%	87.9%	88.9%	88.5%	85.0%							87.6%	1.8%
Eighth Year	77.1%	90.0%	90.8%	91.3%								90.7%	0.7%
Ninth Year	79.5%	92.6%	92.4%									92.5%	0.1%
Tenth Year	79.0%	94.0%											
												94.0%	

Reported to Incurred--Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	85.0%	84.2%	82.0%	82.0%	82.8%	76.3%	74.5%	74.1%	68.5%	62.4%	77.2%	7.5%
Second year	72.0%	60.8%	62.0%	62.2%	64.0%	61.3%	51.4%	51.5%	51.6%	48.9%		57.1%	6.0%
Third year	51.9%	46.3%	44.8%	47.0%	48.9%	43.2%	34.0%	36.3%	35.0%			41.8%	5.8%
Fourth year	35.9%	31.2%	30.8%	31.9%	34.0%	33.4%	27.5%	25.1%				30.6%	3.2%
Fifth year	26.4%	22.5%	19.5%	21.6%	25.4%	23.7%	24.2%					22.8%	2.1%
Sixth year	23.9%	16.2%	14.0%	16.0%	19.4%	17.3%						16.6%	2.0%
Seventh year	25.6%	12.1%	11.1%	11.5%	15.0%							12.4%	1.8%
Eighth year	22.9%	10.0%	9.2%	8.7%								9.3%	0.7%
Ninth year	20.5%	7.4%	7.6%									7.5%	0.1%
Tenth year	21.0%	6.0%											
												6.0%	

American International Underwriters

Loss Development by Accident Year—All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	63.7%									
1991	100.3%	63.4%	65.7%								
1992	99.6%	63.4%	62.8%	65.7%							
1993	101.9%	61.9%	62.8%	62.2%	62.4%						
1994	102.1%	62.1%	61.6%	61.0%	61.2%	61.2%					
1995	106.3%	62.1%	61.2%	60.3%	60.6%	58.6%	56.7%				
1996	111.3%	62.6%	60.6%	59.6%	59.5%	57.0%	56.7%	58.6%			
1997	113.6%	62.8%	60.4%	59.2%	59.1%	55.9%	55.5%	57.3%	60.4%		
1998	115.8%	62.8%	60.5%	59.0%	58.8%	55.2%	54.1%	56.4%	56.7%	58.7%	
1999	118.0%	62.9%	60.5%	59.0%	58.5%	55.0%	54.4%	55.0%	54.6%	56.5%	58.5%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year—All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	63.7%										N.A.	N.A.
1991	0.3%	-0.3%	65.7%									-0.2%	65.5%
1992	-0.7%	0.0%	-2.9%	65.7%								-3.7%	62.0%
1993	2.3%	-1.5%	-0.1%	-3.6%	62.4%							-2.8%	59.6%
1994	0.2%	0.1%	-1.1%	-1.1%	-1.2%	61.2%						-2.6%	58.6%
1995	4.2%	0.0%	-0.5%	-0.7%	-0.6%	-2.6%	56.7%					-2.7%	53.9%
1996	5.0%	0.5%	-0.5%	-0.7%	-1.1%	-1.6%	0.1%	58.6%				-1.9%	56.7%
1997	2.3%	0.3%	-0.2%	-0.4%	-0.5%	-1.2%	-1.3%	-1.3%	60.4%			-4.3%	56.1%
1998	2.2%	-0.1%	0.1%	-0.2%	-0.3%	-0.7%	-1.4%	-0.9%	-3.7%	58.7%		-7.4%	51.3%
1999	2.2%	0.1%	0.0%	0.0%	-0.3%	-0.1%	0.2%	-1.4%	-2.1%	-2.3%	58.5%	-5.2%	53.3%
Cumulative Development	*18.0%*	*-0.8%*	*-5.2%*	*-6.8%*	*-3.9%*	*-6.2%*	*-2.3%*	*-3.7%*	*-5.8%*	*-2.3%*	*0.0%*		
% of Initial Incurred Loss	*18.0%*	*-1.3%*	*-7.9%*	*-10.3%*	*-6.3%*	*-10.1%*	*-4.1%*	*-6.3%*	*-9.6%*	*-3.8%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	23.9%	23.4%	25.9%	26.9%	26.7%	27.8%	28.7%	30.7%	25.8%	26.6%	26.6%	2.2%
Second Year	34.0%	41.3%	41.2%	40.7%	40.6%	43.4%	42.7%	42.8%	40.4%	38.3%		41.3%	1.5%
Third Year	56.1%	48.7%	47.4%	45.8%	47.9%	48.2%	47.3%	46.5%	45.1%			47.1%	1.2%
Fourth Year	71.3%	53.7%	50.3%	49.1%	52.9%	50.4%	49.6%	50.5%				50.9%	1.7%
Fifth Year	81.0%	56.5%	52.4%	51.0%	54.4%	51.5%	50.5%					52.7%	2.3%
Sixth Year	86.8%	58.1%	53.5%	52.2%	55.2%	52.2%						54.3%	2.5%
Seventh Year	89.6%	59.8%	54.4%	52.9%	55.6%							55.7%	3.0%
Eighth Year	93.7%	60.6%	54.8%	53.4%								56.2%	3.8%
Ninth Year	97.3%	61.1%	55.1%									58.1%	4.2%
Tenth Year	98.9%	61.6%										61.6%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	23.9%	23.4%	25.9%	26.9%	26.7%	27.8%	28.7%	30.7%	25.8%	26.6%	26.6%	2.2%
Second Year	34.0%	17.4%	17.8%	14.8%	13.7%	16.7%	15.0%	14.1%	9.7%	12.5%	*26.6%*	14.6%	2.6%
Third Year	22.2%	7.4%	6.2%	5.0%	7.2%	4.8%	4.6%	3.7%	4.6%	*38.3%*		5.4%	1.3%
Fourth Year	15.2%	5.0%	2.9%	3.3%	5.1%	2.2%	2.3%	3.9%	*45.1%*			3.5%	1.2%
Fifth Year	9.7%	2.8%	2.1%	2.0%	1.5%	1.1%	0.9%	*50.5%*				1.7%	0.7%
Sixth Year	5.7%	1.7%	1.1%	1.2%	0.7%	0.8%	*50.5%*					1.1%	0.4%
Seventh Year	2.8%	1.6%	0.9%	0.6%	0.4%	*52.2%*						0.8%	0.5%
Eighth Year	4.1%	0.8%	0.4%	0.5%	*55.6%*							0.6%	0.2%
Ninth Year	3.7%	0.5%	0.3%	*53.4%*								0.4%	0.1%
Tenth Year	1.6%	0.5%	*55.1%*									0.5%	
Cumulative	*98.9%*	*61.6%*											

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		37.4%	35.6%	39.4%	43.1%	43.6%	49.0%	48.9%	50.9%	44.0%	45.5%	43.7%	5.1%
Second Year	33.9%	65.1%	65.6%	65.5%	68.4%	74.0%	75.3%	74.8%	71.3%	67.8%		69.5%	4.3%
Third Year	56.4%	76.8%	75.4%	75.0%	79.0%	84.5%	85.2%	82.5%	82.6%			80.1%	4.1%
Fourth Year	70.0%	86.7%	81.6%	81.3%	88.9%	90.2%	91.6%	91.8%				87.5%	4.4%
Fifth Year	79.3%	91.0%	85.7%	85.6%	92.2%	93.3%	93.0%					90.1%	3.5%
Sixth Year	81.6%	93.6%	88.3%	88.3%	93.9%	94.9%						91.8%	3.2%
Seventh Year	80.5%	95.5%	90.1%	89.6%	95.0%							92.6%	3.1%
Eighth Year	82.5%	96.4%	90.6%	90.5%								92.5%	3.4%
Ninth Year	84.1%	97.3%	91.1%									94.2%	4.4%
Tenth Year	83.8%	97.9%										97.9%	

Reported to Incurred–Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	62.6%	64.4%	60.6%	56.9%	56.4%	51.0%	51.1%	49.1%	56.0%	54.5%	56.3%	5.1%
Second year	66.1%	34.9%	34.4%	34.5%	33.6%	26.0%	24.7%	25.2%	28.7%	32.2%		30.5%	4.3%
Third year	43.6%	21.9%	24.6%	25.0%	21.0%	15.5%	14.8%	17.5%	17.4%			19.7%	4.0%
Fourth year	30.0%	13.3%	18.4%	18.7%	11.1%	9.8%	8.4%	8.2%				12.5%	4.4%
Fifth year	20.7%	9.0%	14.3%	14.4%	7.8%	6.7%	7.0%					9.9%	3.5%
Sixth year	18.4%	6.4%	11.7%	11.7%	6.1%	5.1%						8.2%	3.2%
Seventh year	19.5%	4.5%	9.9%	10.4%	5.0%							7.4%	3.1%
Eighth year	17.5%	3.6%	9.4%	9.5%								7.5%	3.4%
Ninth year	15.9%	2.7%	8.9%									5.8%	4.4%
Tenth year	16.2%	2.1%										2.1%	

Lexington Insurance Co.

Loss Development by Accident Year–All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	82.4%									
1991	96.6%	80.8%	84.7%								
1992	98.2%	80.8%	82.3%	88.7%							
1993	92.7%	84.2%	82.1%	93.1%	82.7%						
1994	87.0%	81.8%	85.2%	88.2%	89.0%	84.8%					
1995	82.6%	79.6%	79.8%	90.5%	90.5%	86.4%	85.6%				
1996	96.7%	73.6%	74.6%	86.9%	87.3%	80.2%	87.1%	87.9%			
1997	96.2%	71.6%	70.7%	86.8%	87.5%	78.3%	87.8%	90.4%	88.3%		
1998	101.5%	67.6%	67.2%	85.0%	86.8%	77.0%	83.0%	91.5%	84.9%	86.0%	
1999	100.2%	66.7%	69.4%	82.0%	85.5%	77.6%	84.0%	88.9%	83.9%	90.8%	84.2%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year–All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	82.4%										N.A.	N.A.
1991	-1.4%	-1.5%	84.7%									-4.1%	80.6%
1992	-0.4%	0.0%	-2.4%	88.7%								-3.6%	85.2%
1993	-5.5%	3.3%	-0.2%	4.4%	82.7%							-2.8%	79.9%
1994	-5.7%	-2.4%	3.1%	-4.9%	6.3%	84.8%						-4.0%	80.8%
1995	-4.5%	-2.2%	-5.4%	2.3%	1.5%	1.6%	85.6%					-5.8%	79.8%
1996	14.1%	-6.0%	-5.3%	-3.6%	-3.2%	-6.2%	1.5%	87.9%				0.0%	87.9%
1997	-0.5%	-1.9%	-3.9%	-0.1%	0.2%	-1.9%	0.7%	2.5%	88.3%			-2.2%	86.1%
1998	5.3%	-4.0%	-3.5%	-1.8%	-0.7%	-1.3%	-4.8%	1.1%	-3.4%	86.0%		-10.4%	75.5%
1999	-1.3%	-0.9%	2.3%	-2.9%	-1.3%	0.6%	1.1%	-2.5%	-0.9%	4.9%	84.2%	-1.2%	83.0%
Cumulative Development	*0.2%*	*-15.7%*	*-15.3%*	*-6.7%*	*2.8%*	*-7.2%*	*-1.6%*	*1.0%*	*-4.4%*	*4.9%*	*0.0%*		
% of Initial Incurred Loss	*0.2%*	*-19.0%*	*-18.1%*	*-7.6%*	*3.4%*	*-8.5%*	*-1.8%*	*1.2%*	*-5.0%*	*5.7%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	4.0%	3.5%	10.5%	5.2%	10.4%	10.9%	18.8%	17.9%	30.4%	14.1%	12.6%	8.2%
Second Year	16.5%	17.7%	16.2%	27.7%	29.2%	30.1%	36.4%	48.7%	50.0%	56.1%		34.7%	14.3%
Third Year	29.7%	28.5%	28.1%	39.1%	42.1%	44.3%	53.7%	70.0%	64.9%			46.3%	15.5%
Fourth Year	34.2%	36.5%	39.3%	48.7%	56.9%	52.9%	67.3%	81.5%				54.7%	15.7%
Fifth Year	44.2%	43.7%	47.8%	57.6%	67.5%	66.3%	73.6%					59.4%	11.8%
Sixth Year	48.5%	48.5%	53.2%	62.7%	76.2%	71.3%						62.4%	11.7%
Seventh Year	48.8%	55.3%	56.4%	73.5%	78.3%							65.9%	11.8%
Eighth Year	53.3%	59.2%	60.9%	75.3%								65.1%	8.9%
Ninth Year	67.2%	61.9%	63.8%									62.9%	1.4%
Tenth Year	71.2%	62.9%										62.9%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	4.0%	3.5%	10.5%	5.2%	10.4%	10.9%	18.8%	17.9%	30.4%	14.1%	12.6%	8.2%
Second Year	16.5%	13.6%	12.7%	17.2%	24.0%	19.7%	25.5%	29.9%	32.1%	25.7%	*14.1%*	22.3%	6.9%
Third Year	13.2%	10.8%	11.9%	11.4%	12.9%	14.2%	17.3%	21.3%	14.8%	*56.1%*		14.3%	3.5%
Fourth Year	4.5%	8.1%	11.2%	9.6%	14.7%	8.6%	13.5%	11.5%	*64.9%*			11.0%	2.5%
Fifth Year	9.9%	7.1%	8.5%	8.8%	10.7%	13.5%	6.4%	*81.5%*				9.2%	2.6%
Sixth Year	4.4%	4.8%	5.4%	5.1%	8.7%	5.0%	*73.6%*					5.8%	1.6%
Seventh Year	0.3%	6.9%	3.2%	10.8%	2.1%	*71.3%*						5.8%	3.9%
Eighth Year	4.5%	3.8%	4.5%	1.8%	*78.3%*							3.4%	1.4%
Ninth Year	13.9%	2.7%	2.9%	*75.3%*								2.8%	0.1%
Tenth Year	4.0%	1.0%	*63.8%*									1.0%	
Cumulative	*71.2%*	*62.9%*											

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		4.9%	4.2%	11.8%	6.3%	12.3%	12.7%	21.4%	20.2%	35.3%	16.7%	14.6%	9.4%
Second Year	16.8%	21.8%	19.7%	29.7%	32.8%	34.8%	41.8%	53.9%	58.9%	61.8%		39.5%	15.6%
Third Year	30.3%	35.2%	34.2%	44.3%	46.5%	55.2%	61.2%	76.5%	77.3%			53.8%	16.9%
Fourth Year	36.9%	43.4%	46.2%	53.9%	65.2%	67.5%	81.1%	91.6%				64.1%	17.8%
Fifth Year	50.7%	53.4%	59.9%	66.2%	77.2%	86.1%	87.6%					71.7%	14.1%
Sixth Year	58.8%	60.9%	71.3%	72.2%	87.8%	91.9%						76.8%	12.8%
Seventh Year	50.5%	75.2%	79.8%	86.5%	91.6%							83.3%	7.2%
Eighth Year	55.4%	82.6%	90.7%	91.8%								88.4%	5.0%
Ninth Year	66.2%	91.5%	92.0%									91.8%	0.3%
Tenth Year	71.0%	94.3%										94.3%	

Reported to Incurred--Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	95.1%	95.8%	88.2%	93.7%	87.7%	87.3%	78.6%	79.8%	64.7%	83.3%	85.4%	9.4%
Second year	83.2%	78.2%	80.3%	70.3%	67.2%	65.2%	58.2%	46.1%	41.1%	38.2%		60.6%	15.6%
Third year	69.7%	64.8%	65.8%	55.7%	53.5%	44.8%	38.8%	23.5%	22.7%			46.2%	16.9%
Fourth year	63.1%	56.6%	53.8%	46.1%	34.8%	32.5%	18.9%	8.4%				35.9%	17.8%
Fifth year	49.3%	46.6%	40.1%	33.8%	22.8%	13.9%	12.4%					28.3%	14.1%
Sixth year	41.2%	39.1%	28.7%	27.8%	12.2%	8.1%						23.2%	12.8%
Seventh year	49.5%	24.8%	20.2%	13.5%	8.4%							16.7%	7.2%
Eighth year	44.6%	17.4%	9.3%	8.2%								11.6%	5.0%
Ninth year	33.8%	8.5%	8.0%									8.2%	0.3%
Tenth year	29.0%	5.7%										5.7%	

National Union Insurance Co. of PA

Loss Development by Accident Year--All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	85.2%									
1991	99.6%	84.5%	85.0%								
1992	99.4%	84.5%	85.2%	87.1%							
1993	100.5%	85.9%	85.1%	86.8%	85.5%						
1994	104.1%	87.3%	82.2%	82.0%	88.1%	87.9%					
1995	109.1%	87.6%	79.9%	80.6%	87.4%	84.0%	85.4%				
1996	115.5%	88.1%	80.0%	79.3%	86.9%	82.6%	80.7%	88.0%			
1997	118.6%	89.2%	81.4%	80.3%	85.8%	80.4%	80.6%	84.7%	86.1%		
1998	121.2%	88.4%	82.0%	79.7%	84.6%	77.3%	80.0%	82.1%	80.5%	80.7%	
1999	124.4%	88.9%	82.2%	79.6%	83.3%	76.6%	82.2%	80.6%	78.0%	77.6%	78.6%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year--All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	85.2%										N.A.	N.A.
1991	-0.4%	-0.7%	85.0%									-1.2%	83.8%
1992	-0.2%	0.0%	0.1%	87.1%								0.6%	87.7%
1993	1.1%	1.4%	-0.1%	-0.3%	85.5%							1.6%	87.1%
1994	3.7%	1.4%	-2.9%	-4.7%	2.6%	87.9%						0.9%	88.7%
1995	5.0%	0.4%	-2.3%	-1.4%	-0.7%	-3.9%	85.4%					-1.7%	83.7%
1996	6.4%	0.5%	0.0%	-1.3%	-0.5%	-1.4%	-4.7%	88.0%				-0.1%	87.9%
1997	3.1%	1.0%	1.4%	1.0%	-1.1%	-2.3%	-0.1%	-3.3%	86.1%			-0.2%	85.9%
1998	2.6%	-0.8%	0.5%	-0.5%	-1.2%	-3.0%	-0.6%	-2.6%	-5.6%	80.7%		-10.9%	69.8%
1999	3.2%	0.5%	0.2%	-0.2%	-1.3%	-0.7%	2.2%	-1.5%	-2.5%	-3.1%	78.6%	-3.4%	75.2%
Cumulative Development	*24.4%*	*3.7%*	*-2.9%*	*-7.5%*	*-2.2%*	*-11.2%*	*-3.2%*	*-7.4%*	*-8.1%*	*-3.1%*	*0.0%*		
% of Initial Incurred Loss	*24.4%*	*4.3%*	*-3.4%*	*-8.7%*	*-2.6%*	*-12.8%*	*-3.8%*	*-8.4%*	*-9.4%*	*-3.8%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	12.5%	13.2%	15.4%	15.1%	14.5%	19.8%	22.1%	21.9%	25.2%	29.4%	18.9%	5.6%
Second Year	28.0%	32.9%	32.1%	32.4%	31.2%	31.5%	38.5%	40.5%	38.4%	39.1%		35.2%	3.8%
Third Year	48.0%	46.4%	46.7%	43.1%	44.2%	46.1%	52.7%	51.8%	50.3%			47.7%	3.5%
Fourth Year	64.6%	58.9%	56.7%	54.7%	57.0%	52.9%	57.6%	60.0%				56.8%	2.4%
Fifth Year	76.8%	67.5%	64.2%	62.0%	63.7%	58.6%	61.9%					63.0%	3.0%
Sixth Year	83.3%	73.4%	68.7%	67.3%	68.0%	63.1%						68.1%	3.7%
Seventh Year	86.3%	77.4%	72.4%	70.5%	70.6%							72.7%	3.2%
Eighth Year	91.7%	80.2%	74.4%	72.6%								75.7%	4.0%
Ninth Year	96.6%	81.8%	75.9%									78.8%	4.1%
Tenth Year	98.5%	83.5%										83.5%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	12.5%	13.2%	15.4%	15.1%	14.5%	19.8%	22.1%	21.9%	25.2%	29.4%	18.9%	5.6%
Second Year	28.0%	20.4%	18.8%	17.0%	16.1%	17.0%	18.7%	18.5%	16.6%	13.9%	*29.4%*	17.4%	1.9%
Third Year	20.0%	13.5%	14.6%	10.7%	13.0%	14.6%	14.2%	11.3%	11.9%	*39.1%*		13.0%	1.5%
Fourth Year	16.6%	12.5%	10.0%	11.5%	12.8%	6.7%	4.9%	8.2%	*50.3%*			9.5%	3.0%
Fifth Year	12.2%	8.6%	7.6%	7.3%	6.7%	5.7%	4.3%	*60.0%*				6.7%	1.5%
Sixth Year	6.5%	5.8%	4.4%	5.3%	4.3%	4.5%	*61.9%*					4.9%	0.7%
Seventh Year	3.0%	4.1%	3.7%	3.2%	2.7%	*63.1%*						3.4%	0.6%
Eighth Year	5.4%	2.8%	2.0%	2.1%	*70.6%*							2.3%	0.4%
Ninth Year	4.9%	1.6%	1.6%	*72.6%*								1.6%	0.0%
Tenth Year	2.0%	1.8%	*75.9%*									1.8%	
Cumulative	*98.5%*	*83.5%*											

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		14.7%	15.6%	17.7%	17.7%	16.5%	23.1%	25.1%	25.4%	31.3%	37.4%	22.4%	7.5%
Second Year	28.2%	38.9%	37.7%	37.4%	35.4%	37.5%	47.7%	47.8%	47.7%	50.4%		42.3%	5.9%
Third Year	48.3%	54.9%	54.9%	52.6%	50.5%	55.8%	65.4%	63.1%	64.5%			57.7%	5.7%
Fourth Year	64.3%	68.7%	68.9%	67.8%	65.6%	65.8%	72.0%	74.5%				69.0%	3.2%
Fifth Year	73.8%	77.4%	80.4%	78.2%	74.3%	75.7%	75.3%					76.9%	2.2%
Sixth Year	76.3%	83.7%	85.9%	83.9%	80.3%	82.3%						83.2%	2.0%
Seventh Year	74.7%	87.8%	88.9%	88.4%	84.8%							87.5%	1.8%
Eighth Year	77.3%	89.9%	90.7%	91.2%								90.6%	0.6%
Ninth Year	79.7%	92.5%	92.4%									92.4%	0.1%
Tenth Year	79.2%	93.9%										93.9%	

Reported to Incurred--Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	85.3%	84.4%	82.3%	82.3%	83.5%	76.9%	74.9%	74.6%	68.7%	62.6%	77.6%	7.5%
Second year	71.8%	61.1%	62.3%	62.6%	64.6%	62.5%	52.3%	52.2%	52.3%	49.6%		57.7%	5.9%
Third year	51.7%	45.5%	45.1%	47.4%	49.5%	44.2%	34.6%	36.9%	35.5%			42.3%	5.8%
Fourth year	35.7%	31.3%	31.1%	32.2%	34.4%	34.2%	28.0%	25.5%				31.0%	3.2%
Fifth year	26.2%	22.6%	19.6%	21.8%	25.7%	24.3%	24.7%					23.1%	2.2%
Sixth year	23.7%	16.3%	14.1%	16.1%	19.7%	17.7%						16.8%	2.0%
Seventh year	25.3%	12.2%	11.1%	11.6%	15.2%							12.5%	1.8%
Eighth year	22.7%	10.1%	9.3%	8.8%								9.4%	0.6%
Ninth year	20.3%	7.5%	7.6%									7.6%	0.1%
Tenth year	20.8%	6.1%										6.1%	

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Loss Development by Accident Year–All Lines
(Loss Ratio)

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990	100.0%	80.4%									
1991	100.1%	80.0%	80.8%								
1992	103.1%	80.0%	78.3%	85.5%							
1993	105.7%	76.0%	78.2%	87.9%	75.1%						
1994	107.7%	75.4%	78.3%	89.1%	75.1%	77.5%					
1995	108.8%	76.1%	78.5%	87.4%	74.5%	77.4%	76.6%				
1996	112.0%	74.0%	76.5%	90.3%	73.4%	77.5%	74.4%	74.5%			
1997	110.7%	71.9%	75.5%	92.2%	73.5%	77.5%	73.8%	74.9%	75.1%		
1998	110.2%	69.1%	71.6%	90.3%	70.8%	74.4%	72.5%	74.5%	76.9%	78.5%	
1999	109.7%	66.2%	66.9%	89.5%	66.4%	69.9%	70.0%	72.9%	79.3%	83.3%	80.6%

Prior Development
Calendar Year Loss Ratio

Year/Year Development by Accident Year–All Lines

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Prior Year Develop. as % of P.E.	Calendar Year Loss Ratio
1990	100.0%	80.4%										N.A.	N.A.
1991	0.1%	-0.4%	80.8%									-0.3%	80.5%
1992	3.0%	0.0%	-2.5%	85.5%								-0.5%	85.0%
1993	2.6%	-3.9%	-0.1%	2.3%	75.1%							3.9%	79.0%
1994	2.0%	-0.7%	0.0%	1.3%	0.0%	77.5%						2.1%	79.5%
1995	1.2%	0.7%	0.2%	-1.8%	-0.7%	0.0%	75.6%					0.0%	75.6%
1996	3.1%	-2.1%	-1.9%	2.9%	-1.1%	0.0%	-1.2%	74.5%				-0.4%	74.1%
1997	-1.3%	-2.1%	-1.0%	1.9%	0.1%	0.0%	-0.6%	0.3%	75.1%			-1.1%	74.0%
1998	-0.5%	-2.8%	-3.9%	-1.9%	-2.7%	-3.0%	-1.4%	-0.3%	1.9%	78.5%		-4.6%	73.9%
1999	-0.5%	-2.9%	-4.7%	-0.8%	-4.4%	-4.5%	-2.4%	-1.6%	2.4%	4.8%	80.6%	-2.3%	78.3%
Cumulative Development	*9.7%*	*-14.2%*	*-13.9%*	*4.0%*	*-8.7%*	*-7.5%*	*-5.6%*	*-1.6%*	*4.2%*	*4.8%*	*0.0%*		
% of Initial Incurred Loss	*9.7%*	*-17.7%*	*-17.3%*	*4.6%*	*-11.6%*	*-9.7%*	*-7.4%*	*-2.2%*	*5.6%*	*6.1%*	*0.0%*		

Cumulative Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	6.6%	7.2%	13.8%	11.2%	16.8%	16.0%	16.2%	19.1%	24.5%	22.9%	15.3%	6.0%
Second Year	18.5%	18.9%	17.6%	31.1%	27.7%	15.4%	29.2%	32.8%	38.1%	43.8%		28.3%	9.8%
Third Year	29.7%	32.9%	35.9%	49.0%	21.9%	28.8%	37.9%	42.3%	49.9%			37.3%	9.6%
Fourth Year	40.3%	39.4%	43.6%	46.5%	33.7%	38.6%	44.9%	50.7%				42.5%	5.6%
Fifth Year	48.7%	46.2%	39.5%	58.7%	46.2%	45.5%	51.6%					48.0%	6.5%
Sixth Year	30.0%	40.4%	46.8%	64.9%	43.7%	51.1%						49.4%	9.5%
Seventh Year	39.8%	43.4%	50.5%	69.4%	48.5%							53.0%	11.4%
Eighth Year	48.5%	47.5%	53.0%	74.0%								58.1%	14.0%
Ninth Year	55.6%	51.1%	55.3%									53.2%	3.0%
Tenth Year	64.3%	55.2%										55.2%	

Annual Pts. Paid Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year	0.0%	6.6%	7.2%	13.8%	11.2%	16.8%	15.0%	16.2%	19.1%	24.5%	22.9%	15.3%	6.0%
Second Year	16.5%	12.3%	10.5%	17.3%	16.6%	-1.3%	14.3%	16.6%	19.0%	19.3%	*22.9%*	13.8%	6.4%
Third Year	11.2%	14.0%	18.3%	17.9%	-5.8%	13.4%	8.7%	9.5%	11.8%	*43.8%*		11.0%	7.6%
Fourth Year	10.7%	6.5%	7.8%	-2.5%	11.8%	10.0%	7.0%	8.3%	*49.9%*			7.0%	4.5%
Fifth Year	8.3%	6.8%	-4.2%	12.2%	12.5%	6.7%	6.9%	*50.7%*				6.8%	6.0%
Sixth Year	-18.7%	-5.8%	7.3%	6.2%	-2.5%	5.6%	*51.8%*					2.2%	5.9%
Seventh Year	9.8%	3.0%	3.7%	4.5%	4.8%	*51.1%*						4.0%	0.8%
Eighth Year	8.7%	4.1%	2.4%	4.5%	*48.5%*							3.7%	1.1%
Ninth Year	7.0%	3.6%	2.4%	*74.0%*								3.0%	0.8%
Tenth Year	8.7%	4.1%	*55.3%*									4.1%	
Cumulative	*64.3%*	*55.2%*											

Paid/Incurred Losses

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First Year		8.2%	8.8%	16.1%	14.8%	21.6%	19.8%	21.7%	25.4%	31.2%	28.4%	19.6%	7.7%
Second Year	16.5%	23.7%	22.5%	35.4%	36.9%	19.9%	39.3%	43.8%	49.5%	52.6%		35.9%	11.9%
Third Year	28.8%	41.2%	45.9%	54.9%	29.4%	37.2%	51.4%	56.8%	62.9%			47.5%	11.1%
Fourth Year	38.2%	51.8%	55.8%	53.2%	45.9%	50.1%	62.0%	69.5%				55.5%	7.9%
Fifth Year	45.2%	61.2%	50.3%	65.0%	62.8%	61.2%	74.0%					62.4%	7.6%
Sixth Year	27.6%	53.1%	61.1%	70.4%	61.7%	73.0%						63.9%	8.0%
Seventh Year	35.6%	58.7%	66.9%	76.9%	73.0%							68.8%	7.9%
Eighth Year	43.9%	66.1%	73.9%	82.6%								74.2%	8.3%
Ninth Year	50.4%	73.9%	82.7%									78.3%	6.2%
Tenth Year	58.6%	83.4%										83.4%	

Reported to Incurred--Development by Accident Year

	Prior	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average	St. Dev.
First year	100.0%	91.8%	91.2%	83.9%	85.2%	78.4%	80.2%	78.3%	74.6%	68.8%	71.6%	80.4%	7.7%
Second year	81.5%	76.3%	77.5%	64.6%	63.1%	80.1%	60.7%	56.2%	50.5%	47.4%		64.1%	11.9%
Third year	71.2%	57.5%	54.1%	45.1%	70.6%	62.8%	48.6%	43.2%	37.1%			52.4%	11.0%
Fourth year	61.8%	48.2%	44.2%	46.8%	54.1%	49.9%	36.0%	30.5%				44.5%	7.9%
Fifth year	54.8%	38.8%	49.7%	35.0%	37.2%	38.8%	26.0%					37.6%	7.6%
Sixth year	72.4%	46.9%	38.9%	29.6%	38.3%	27.0%						36.1%	8.0%
Seventh year	64.4%	41.3%	33.1%	23.1%	27.0%							31.2%	7.9%
Eighth year	56.1%	33.9%	26.1%	17.4%								25.8%	8.3%
Ninth year	49.6%	26.1%	17.3%									21.7%	6.2%
Tenth year	41.4%	16.6%										16.6%	

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Appendix 3: Earnings Model

Earnings Model
Dollars in millions

Company has not restated prior year quarters for FAS 128

Property-Casualty	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Net written premium	$10,886.8	$11,893.0	$12,691.7	$13,407.5	$14,586.1	$16,223.9	$17,307.8	$18,942.8	$20,457.2	$22,094.6	$23,858.7	$25,768.3
change	8.4%	8.8%	6.7%	5.6%	8.8%	11.2%	6.7%	9.4%	8.0%	8.0%	8.0%	8.0%
Earned premium	$10,288.8	$11,405.7	$11,854.8	$12,421.0	$14,098.0	$15,543.8	$16,749.4	$18,169.0	$19,703.7	$21,279.9	$22,974.5	$24,812.2
change	7.8%	10.9%	3.9%	4.8%	13.5%	10.3%	7.8%	8.5%	8.4%	8.0%	8.0%	8.0%
Paid losses	$7,143.7	$7,365.7	$8,280.8	$8,512.1	$7,208.3	$11,756.7	$11,653.9	$12,267.0	$13,310.0	$14,471.7	$15,627.8	$16,872.8
Reserve change	$841.6	$1,274.2	$714.5	$784.2	$3,447.4	($16.2)	$1,001.7	$1,541.5	$1,664.5	$1,809.7	$1,633.1	$1,964.6
Expenses	$2,080.7	$2,329.2	$2,428.1	$2,574.2	$2,810.5	$3,137.1	$3,360.8	$3,675.2	$3,999.8	$4,319.2	$4,594.8	$4,962.4
Underwriting p/l	$200.5	$418.8	$448.8	$480.2	$630.7	$658.2	$733.1	$685.4	$729.0	$787.2	$919.0	$892.5
Loss ratio	77.8%	75.9%	75.9%	75.3%	75.6%	75.8%	75.8%	76.0%	76.0%	76.0%	76.0%	76.0%
Expense ratio	20.2%	20.4%	20.5%	20.7%	20.6%	20.2%	20.1%	20.2%	20.3%	20.3%	20.0%	20.0%
Combined ratio	98.1%	96.3%	96.3%	96.1%	96.2%	95.7%	95.6%	96.2%	96.3%	96.3%	96.0%	96.0%
Accident year C.R.	98.5%	96.6%	96.7%	99.1%	98.2%	98.2%						
Net investment income	$1,434.3	$1,647.4	$1,690.8	$1,853.8	$2,181.8	$2,516.7	$2,719.6	$2,996.2	$3,327.1	$3,679.5	$4,081.6	$4,482.4
A-tax NII	$1,210.8	$1,298.6	$1,398.6	$1,513.1	$1,743.6	$1,956.0	$2,107.2	$2,323.6	$2,578.5	$2,850.8	$3,147.7	$3,473.8
change	7.4%	7.1%	7.7%	8.3%	15.2%	12.2%	7.7%	10.3%	11.0%	10.6%	10.4%	10.4%
NII/share	$0.79	$0.84	$0.91	$0.98	$1.12	$1.25	$1.35	$1.48	$1.66	$1.82	$2.01	$2.21
change	-6.2%	7.2%	7.3%	6.4%	14.3%	11.2%	7.9%	10.2%	10.9%	10.5%	10.3%	10.3%
Life insurance	$1,078.8	$1,329.8	$1,653.0	$2,057.3	$2,447.1	$3,005.5	$3,632.8	$4,306.9	$5,095.6	$6,006.1	$7,056.3	$8,342.0
Agency and Service Fee[1]	$0.0	$0.0	$0.0									
Financial Services	$385.7	$423.6	$501.2	$671.0	$869.0	$1,061.3	$1,270.3	$1,526.6	$1,787.0	$2,003.2	$2,275.3	$2,666.7
Equity in Other Operations	$56.0	$61.7	$99.4	$113.8	$37.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Asset Management					$181.2	$314.1	$460.5	$609.3	$822.5	$1,069.3	$1,390.1	$1,753.6
Other	($387.6)	($469.9)	($383.1)	($492.7)	($123.1)	($196.7)	($222.2)	($244.4)	($268.8)	($288.6)	($325.3)	($367.8)
Net income	$2,307.3	$2,704.8	$3,171.7	$3,711.4	$4,281.9	$5,055.4	$5,773.0	$6,636.8	$7,705.8	$8,900.4	$10,334.8	$12,019.7
Realized gains/losses	$42.8	$25.2	$37.0	$58.2	$54.5	$63.6	($13.3)	($15.7)	$31.2	$0.0	($15.7)	$0.0
Operating income	$2,264.8	$2,679.3	$3,134.6	$3,653.2	$4,227.4	$4,991.8	$5,786.3	$6,652.5	$7,674.6	$8,900.4	$10,350.5	$12,019.7
Net income/share	$1.50	$1.75	$2.05	$2.40	$2.78	$3.23	$3.68	$4.24	$4.92	$5.68	$6.59	$7.64
"Fresh start"	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Extraordinary	($0.02)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Realized g(l)/share	$0.03	$0.02	$0.02	$0.04	$0.04	$0.04	($0.01)	($0.01)	$0.02	$0.00	($0.01)	$0.00
Operating /share	$1.47	$1.73	$2.02	$2.36	$2.72	$3.19	$3.70	$4.25	$4.90	$5.68	$6.60	$7.64
Weighted avge. shares	1538.081	1537.696	1543.026	1541.719	1563.801	1564.780	1564.895	1565.895	1566.595	1567.595	1568.595	1569.595
Statutory surplus	$7,503.6	$8,605.6	$9,449.9	$10,929.5	$12,292.3	$13,352.3	$13,752.3	$14,152.3	$14,552.3	$14,952.3	$15,352.3	$15,752.3
Shareholders equity (GAAP)	$14,421.7	$21,940.2	$23,704.8	$28,585.2	$30,123.3	$33,306.4	$36,695.9	$44,902.5	$52,125.3	$60,480.3	$70,208.6	$81,643.1

Property-Casualty	98:Q3	98:Q4	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A	00:Q2E
Net written premium	$3,760.2	$3,827.3	$4,053.7	$4,190.9	$3,972.4	$4,006.3	$4,228.3	$4,504.4
change	8.6%	12.6%	19.9%	15.9%	5.6%	4.7%	4.3%	7.5%
Earned premium	$3,699.1	$3,776.7	$3,775.0	$3,978.1	$3,626.1	$4,165.8	$4,108.8	$4,134.3
change	19.7%	21.0%	16.6%	17.6%	-2.0%	10.2%	8.6%	4.0%
Paid losses	($246.5)	$2,741.5	$2,747.0	$2,975.8	$2,743.6	$3,290.2	$3,066.6	$2,931.1
Reserve change	$3,046.1	$73.6	$96.6	($311.5)	$12.1	($95.4)	$22.0	$166.6
Expenses	$773.5	$807.7	$738.5	$808.4	$740.3	$846.6	$808.8	$827.7
Underwriting p/l	$124.0	$125.8	$192.9	$225.0	$129.1	$122.2	$211.5	$208.9
Loss ratio	78.7%	74.5%	75.3%	74.0%	76.0%	76.7%	75.2%	75.0%
Expense ratio	20.8%	22.2%	19.6%	20.3%	20.4%	20.4%	19.6%	20.0%
Combined ratio	96.6%	96.7%	94.9%	94.3%	96.4%	97.1%	94.8%	95.0%
Accident year C.R.								
Net investment income	$564.6	$604.6	$620.0	$617.2	$632.2	$647.3	$663.2	$666.8
A-tax NII	$466.5	$469.1	$494.7	$488.8	$480.5	$491.8	$514.0	$518.1
change	22.8%	17.4%	21.3%	22.2%	3.0%	4.9%	3.9%	5.8%
NII/share	$0.30	$0.30	$0.32	$0.31	$0.31	$0.31	$0.33	$0.33
change	30.6%	-0.2%	20.3%	21.2%	2.0%	3.8%	4.2%	5.8%
Life insurance	$625.6	$632.3	$671.4	$764.2	$762.5	$807.4	$812.1	$829.2
Agency and Service Fee[1]								
Financial Services	$226.4	$266.9	$250.6	$255.0	$250.2	$325.5	$280.6	$302.3
Equity in Other Operations	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Asset Management	$45.0	$51.0	$58.0	$73.1	$86.8	$96.2	$103.6	$109.7
Other	($36.5)	($26.7)	($41.8)	($46.6)	($47.8)	($61.6)	($60.0)	($54.1)
Net income	$1,076.0	$1,119.8	$1,198.7	$1,277.1	$1,267.4	$1,312.2	$1,346.1	$1,451.8
Realized gains/losses	$10.8	($10.7)	$32.5	$17.6	$35.2	($6.9)	($13.2)	$0.0
Operating income	$1,065.2	$1,130.5	$1,166.2	$1,259.5	$1,232.2	$1,318.1	$1,359.3	$1,451.8
Net income/share	$0.69	$0.72	$0.76	$0.81	$0.81	$0.84	$0.86	$0.93
"Fresh start"	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Extraordinary	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Realized g(l)/share	$0.01	($0.01)	$0.02	$0.01	$0.02	($0.00)	($0.01)	$0.00
Operating /share	$0.68	$0.73	$0.75	$0.80	$0.79	$0.84	$0.87	$0.93
Weighted avge. shares	1552.634	1551.561	1568.269	1568.793	1567.555	1567.537	1564.220	1564.470
Statutory surplus	$11,666.4	$12,292.3	$12,278.6	$12,909.1	$12,801.2	$13,252.3	$13,452.3	$13,552.3
Shareholders equity (GAAP)	$28,797.3	$30,123.3	$30,967.5	$31,672.0	$32,300.0	$33,306.4	$34,562.1	$35,922.5

[1] Beginning 97:Q1 this line is included in property-casualty.

Source: Company data and PaineWebber estimates

Operating Statistics
Dollars in millions

	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A	00:Q2E
Net written premium growth YOY	8.4%	9.5%	6.7%	5.6%	6.6%	11.2%	6.7%	8.4%	8.0%	8.0%	8.0%	8.0%	19.9%	15.9%	8.6%	4.7%	4.3%	7.6%
Earned premium growth YOY	7.5%	10.9%	3.9%	4.6%	13.5%	10.3%	7.8%	6.5%	8.4%	8.0%	8.0%	8.0%	16.8%	17.8%	-2.0%	10.2%	6.6%	4.0%
Calendar loss ratio	77.8%	75.9%	75.9%	75.2%	75.6%	78.5%	75.6%	78.0%	78.0%	76.0%	76.0%	76.0%	75.3%	74.0%	76.0%	76.7%	75.2%	75.0%
Points of development	(1.49)	(2.42)	(2.33)	(3.03)	(1.99)	(2.47)												
Accident loss ratio	79.3%	78.3%	78.2%	78.4%	77.6%	78.0%												
Points of catastrophes	2.46	0.99	0.75	0.14	0.78	1.00							0.0	0.0	2.0	2.0	0.6	
Each point =	$0.04	$0.05	$0.05	$0.05	$0.06	$0.06	$0.07	$0.08	$0.08	$0.09	$0.10	$0.10	$0.02	$0.02	$0.02	$0.02	$0.02	$0.02
Paid loss ratio	69.4%	64.6%	69.9%	69.2%	51.1%	75.6%	69.8%	67.5%	67.8%	66.0%	66.0%	68.0%	72.8%	74.4%	75.1%	79.0%	74.7%	71.0%
Paid/incurred losses	89.2%	85.3%	92.0%	91.8%	67.7%	100.2%	92.1%	88.8%	86.9%	89.5%	89.5%	89.5%	96.6%	101.1%	99.6%	103.0%	99.3%	94.6%
Reserve change ratio	8.4%	11.2%	6.0%	6.2%	24.5%	-0.1%	6.0%	6.5%	6.4%	8.0%	8.0%	8.0%	2.5%	-0.8%	0.3%	-2.3%	0.5%	4.0%
Net investment income	$1,436.3	$1,547.6	$1,690.8	$1,853.5	$2,191.8	$2,616.7	$2,719.0	$2,998.2	$3,327.1	$3,678.5	$4,061.6	$4,462.4	$620.0	$617.2	$632.2	$647.3	$663.2	$665.9
Average pretax yield	6.2%	6.1%	6.1%	6.1%	6.2%	6.5%	6.6%	6.7%	6.7%	6.7%	6.7%	6.7%	6.4%	6.4%	6.5%	6.6%	6.7%	6.7%
NII/share	$0.81	$0.86	$0.93	$1.00	$1.15	$1.28	$1.38	$1.50	$1.66	$1.84	$2.03	$2.24	$0.32	$0.32	$0.31	$0.32	$0.33	$0.33
% change	-3.7%	6.5%	7.4%	8.4%	14.4%	10.0%	7.8%	10.2%	10.9%	10.5%	10.3%	10.3%	18.9%	18.8%	1.1%	2.8%	4.0%	6.7%
Premiums: surplus	144.8%	135.1%	134.3%	122.7%	118.7%	121.5%	125.9%	133.6%	140.6%	147.7%	155.4%	163.6%	124.3%	122.6%	124.4%	121.5%	121.9%	123.3%
Reserves: surplus	245.8%	223.6%	216.0%	193.7%	200.3%	184.2%	186.2%	191.8%	198.0%	204.0%	210.6%	217.9%	201.3%	191.2%	181.4%	184.2%	183.0%	182.9%
Change in:																		
Life Insurance	48.4%	23.3%	24.3%	24.5%	18.9%	22.8%	20.9%	18.6%	18.0%	17.9%	17.5%	16.2%	20.2%	23.2%	21.9%	23.8%	20.9%	21.6%
Agency and Service Fee[1]																		
Financial Services	-1.1%	9.8%	18.4%	33.9%	29.5%	24.4%	17.5%	20.3%	15.6%	13.4%	13.6%	17.2%	46.5%	24.9%	10.3%	21.8%	12.1%	18.5%
Equity in Other Operations	41.5%	45.9%	21.6%	14.4%	-49.7%	100.0%	NM	NM	NM	NM	NM	NM						
Other	-8.4%	33.1%	-7.6%	11.8%	43.3%	47.8%	13.0%	10.0%	10.0%	10.0%	10.0%	10.0%	42.9%	17.7%	24.8%	130.1%	43.6%	19.0%
ROE operating	13.1%	13.7%	13.3%	14.2%	14.6%	15.8%	16.1%	15.9%	15.8%	15.8%	15.8%	15.8%	14.9%	15.2%	15.5%	13.5%	15.6%	15.7%
ROE net	13.8%	14.1%	13.8%	14.4%	14.7%	15.8%	16.0%	15.9%	15.9%	15.8%	15.8%	15.8%	15.3%	15.5%	15.8%	15.9%	15.8%	15.9%
Operating cash flow	$5,366.6	$6,693.0	$9,375.0	$3,035.0	$7,036.0	$10,320.3							$948.0	$1,179.0	$5,824.0	$2,369.0		
Per Share	$3.61	$4.43	$6.35	$2.01	$4.63	$6.87							$0.61	$0.76	$3.79	$1.53		
Book value per share	$11.25	$13.66	$16.42	$17.33	$18.85	$21.50	$24.82						$20.00	$20.58	$20.86	$21.50	$21.65	$22.63
Book value at market	$11.28	$14.06	$15.58	$17.81	$16.46	$19.06	$19.21						$20.34	$20.79	$20.09	$21.55	$21.95	$22.63
Price/Trailing 12-Month PE	15.8	19.0	19.0	24.5	28.4	33.9	29.8	26.0	22.6	19.4	16.7	14.4	33.9	31.6	29.3	34.0	33.2	32.2
Price/book	207%	240%	250%	335%	393%	503%	448%						463%	456%	417%	503%	499%	484%
Price/book at market	206%	234%	247%	326%	418%	567%	575%						475%	451%	414%	502%	498%	484%

[1] Beginning 97:Q1 this line is included in property-casualty.

Source: Company data and PaineWebber estimates

Confidential

AIG-F 00186054

Supplemental Statistics
Dollars in millions

	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Long-term debt	$8,194.8	$8,918.3	$13,299.3	$13,885.4	$18,085.7	$19,150.6						
Debt: equity	49.9%	47.1%	56.1%	52.2%	60.0%	57.5%						
Debt: total capital	33.3%	32.0%	35.9%	34.3%	37.5%	36.5%						
Shares outstanding	1560.3	1554.0	2900.2	1531.9	1532.4	1549.1	1549.9	1550.9	1551.9	1552.9	1553.9	1554.9
% change	0.0%	-0.4%	86.6%	-47.2%	0.0%	1.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Goodwill	$646.49	$628.36	$610.23	$592.11	$573.98	$555.86	$537.73	$519.61	$501.48	$483.35	$465.23	$447.10
Goodwill per share	$0.41	$0.40	$0.21	$0.39	$0.37	$0.36	$0.35	$0.34	$0.32	$0.31	$0.30	$0.29
Tangible book per share	$10.83	$13.26	$15.21	$16.94	$19.27	$21.14	$24.27	$28.29	$32.95	$38.35	$44.62	$51.92
Op. EPS (ex GW)	$1.49	$1.74	$2.03	$2.34	$2.73	$3.20	$3.71	$4.28	$4.77	$5.68	$6.60	$7.66
Dividend	$0.10	$0.11	$0.13	$0.15	$0.17	$0.19	$0.21	$0.24	$0.26	$0.29	$0.33	$0.37
Payout of earnings	6.8%	6.6%	6.4%	6.3%	6.2%	5.9%	5.7%	5.6%	5.4%	5.2%	5.0%	4.8%
Yield	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%
Total return (Net + URGLs)	$602.3	$4,696.7	$3,060.2	$3,648.8	$4,282.6	$5,078.4						
Total return ROE	3.6%	24.7%	13.4%	14.9%	14.6%	8.2%	17.0%	15.9%	15.9%	15.8%	15.6%	15.6%
Op. ROE at cost	14.3%	14.6%	14.9%	15.4%	15.7%	16.5%	16.7%	16.6%	16.3%	16.2%	16.2%	16.1%
Total return value added	-10.70	9.86	-1.57	-0.42	-1.09	-8.23	0.28	-0.58	-0.40	-0.40	-0.37	-0.30
Total return ROE (ex GW)	3.7%	24.8%	13.4%	15.0%	14.7%	15.6%	15.7%	15.6%	15.2%	15.6%	15.6%	15.7%
Op. ROE at cost (ex GW)	14.4%	14.8%	14.9%	15.4%	15.7%	13.1%	11.6%	13.6%	15.8%	16.2%	16.2%	16.1%
Cash flow	$5,388.8	$6,693.0	$9,575.0	$3,035.0	$7,006.0	$10,320.3						
Cash flow / share	$3.50	$4.35	$6.21	$1.97	$4.53	$0.59						
% change	-27.2%	24.3%	42.5%	-68.3%	130.0%	45.5%						
Net reserves	$18,416.9	$19,692.9	$20,407.8	$21,171.5	$24,818.9	$24,599.7						
Reserves / share	$11.60	$12.67	$7.03	$13.82	$16.07	$15.88						
Reserve development	$162.6	$275.6	$278.0	$378.4	$261.0	$364.0						
Reserve development / share	$0.06	$0.12	$0.12	$0.16	$0.12	$0.16						
AY op. earnings–initial	$1.41	$1.62	$1.91	$2.21	$2.60	$3.03						
AY total return ROE	3.0%	23.7%	12.6%	14.0%	14.1%	14.9%						
AY Op. ROE at cost	13.7%	13.8%	14.1%	14.3%	15.0%	15.6%						
AY Op. ROE at cost-Ex cats	14.7%	14.2%	14.4%	14.4%	15.3%	16.0%						
Per share data:												
Underwriting p/l	$0.08	$0.15	$0.19	$0.21	$0.22	$0.26	$0.30	$0.28				
NII	$0.79	$0.84	$0.91	$0.96	$1.12	$1.25	$1.35	$1.48				
Other	$0.62	$0.74	$0.93	$1.16	$1.38	$1.66	$2.05	$2.48				
Operating EPS	$1.47	$1.73	$2.02	$2.36	$2.72	$3.19	$3.70	$4.25				

	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A	00:Q2E
Long-term debt	$18,428.0	$20,938.0	$20,062.0	$19,150.6	$0.0	$0.0
Debt: equity	59.5%	65.7%	62.1%	57.5%	0.0%	0.0%
Debt: total capital	37.3%	39.6%	38.3%	36.5%	0.0%	0.0%
Shares outstanding	1548.6	1548.2	1548.2	1549.1	1549.1	1549.4
% change	1.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Goodwill						
Goodwill per share						
Tangible book per share						
Op. EPS (ex GW)						
Dividend	$0.04	$0.04	$0.05	$0.05	$0.05	$0.06
Payout of earnings	5.9%	6.5%	6.2%	6.0%	5.8%	5.4%
Yield	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total return (Net + URGLs)	$1,656.3	$3,266.8	$3,142.1	$2,831.1	$3,823.9	$4,672.8
Total return ROE	12.2%	10.8%	10.1%	8.2%	11.6%	13.7%
Op. ROE at cost	15.9%	15.9%	15.9%	16.0%	16.0%	15.9%
Total return value added	-3.63	-5.26	-5.77	-7.77	-4.38	-2.17
Total return ROE (ex GW)						
Op. ROE at cost (ex GW)						
Cash flow	$949.0	$1,179.0	$5,624.0	$2,369.0	$0.0	$0.0
Cash flow / share	$0.61	$0.75	$3.72	$1.51	$0.00	$0.00
% change	-3.8%	322.0%	1022.3%	-55.5%	-100.0%	-100.0%
Net reserves	$24,714.6	$24,663.0	$24,695.1	$24,599.7	$24,621.7	$24,768.3
Reserves / share	$15.96	$15.94	$15.95	$15.88	$15.89	$16.00
Reserve development						
Reserve development / share						
AY op. earnings–initial						
AY total return ROE						
AY Op. ROE at cost						
AY Op. ROE at cost-Ex cats						
Per share data:						
Underwriting p/l	$0.08	$0.09	$0.05	$0.05	$0.09	$0.09
NII	$0.32	$0.31	$0.31	$0.31	$0.33	$0.33
Other	$0.35	$0.40	$0.43	$0.48	$0.45	$0.51
Operating EPS	$0.75	$0.80	$0.79	$0.84	$0.87	$0.93

Source: Company data and PaineWebber estimates

General Insurance Operations
Dollars in millions

	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A
Gross Written Premium	$16,392.4	$17,695.1	$18,319.1	$18,742.1	$20,684.3	$22,569.4	$23,638.8	$25,530.0	$27,572.3	$29,778.1	$32,160.4	$34,733.2	$5,900.4	$5,627.7	$5,436.2	$5,603.1	$6,136.4
% Change	10.0%	9.2%	2.4%	2.3%	10.4%	9.1%	4.7%	8.0%	8.0%	8.0%	8.0%	8.0%	13.3%	13.6%	1.2%	8.8%	4.0%
Net Written Premium																	
Domestic General Brokerage	$6,436.1	$6,749.0	$7,023.8	$7,885.0	$8,001.8	$8,119.1	$8,606.2	$9,294.7	$9,904.6	$10,511.7	$11,147.9	$11,816.8	$2,099.3	$2,093.3	$1,946.3	$1,981.2	$2,225.3
Domestic General Personal Lines	$492.1	$692.7	$725.3	$811.7	$1,422.2	$2,162.2	$2,378.4	$2,663.8	$2,957.5	$3,312.4	$3,709.9	$4,155.0	$479.3	$577.0	$556.0	$550.9	$527.3
Mortgage Guaranty	$204.2	$248.4	$317.7	$340.6	$362.7	$396.3	$418.1	$436.9	$471.9	$514.3	$565.8	$622.4	$93.5	$96.6	$100.5	$105.7	$98.1
Domestic General Insurance	$7,132.4	$7,690.2	$8,366.8	$9,037.5	$9,786.7	$10,677.6	$11,290.1	$12,395.5	$13,334.0	$14,338.4	$15,423.5	$16,594.2	$2,672.1	$2,766.9	$2,600.8	$2,637.8	$2,740.0
Foreign General Insurance	$3,733.4	$4,202.8	$4,324.8	$4,370.0	$4,799.4	$5,546.3	$6,017.6	$6,547.1	$7,123.3	$7,750.1	$8,432.1	$9,174.2	$1,381.6	$1,424.1	$1,271.6	$1,369.1	$1,486.3
Total	$10,865.8	$11,893.0	$12,691.7	$13,407.5	$14,586.1	$16,223.9	$17,307.6	$18,942.6	$20,457.2	$22,088.6	$23,855.7	$25,768.9	$4,053.7	$4,190.9	$3,872.4	$4,006.9	$4,226.3
% Change in Net Written Premium																	
Domestic General Brokerage	0.2%	4.9%	8.5%	7.7%	1.5%	1.5%	6.0%	8.0%	6.6%	6.1%	6.1%	6.0%	6.1%	1.1%	-2.1%	0.8%	6.0%
Domestic General Personal Lines	22.5%	40.8%	4.7%	11.9%	75.2%	52.0%	10.0%	12.0%	11.0%	12.0%	12.0%	12.0%	135.4%	103.6%	26.7%	5.3%	10.0%
Mortgage Guaranty	14.2%	21.7%	27.9%	7.3%	6.4%	9.3%	5.0%	5.0%	8.0%	9.0%	10.0%	10.0%	9.5%	8.7%	5.9%	13.0%	5.0%
Domestic General Insurance	1.8%	7.8%	8.8%	8.0%	8.3%	9.1%	5.7%	9.8%	7.8%	7.5%	7.6%	7.6%	17.9%	13.2%	3.5%	2.9%	2.5%
Foreign General Insurance	23.2%	12.6%	2.9%	1.0%	9.8%	15.6%	6.5%	8.8%	8.8%	8.8%	8.8%	8.8%	24.0%	21.3%	10.0%	8.3%	7.6%
Total	8.3%	9.5%	6.7%	5.8%	8.8%	11.2%	6.7%	9.4%	8.0%	8.0%	8.0%	8.0%	19.8%	15.9%	5.6%	4.7%	4.3%
Net/Gross Written Premium	66.3%	66.5%	69.3%	71.5%	70.5%	71.9%	73.2%	74.2%	74.2%	74.2%	74.2%	74.2%	68.7%	74.5%	73.0%	71.5%	68.9%
Distribution of Net Written Premium																	
Domestic General Brokerage	59.2%	56.7%	57.7%	58.8%	54.9%	50.0%	49.7%	49.1%	48.4%	47.6%	46.7%	45.9%	51.8%	49.9%	49.0%	49.4%	52.7%
Domestic General Personal Lines	4.5%	5.8%	5.7%	6.1%	9.8%	13.3%	13.7%	14.1%	14.5%	15.0%	15.6%	16.1%	11.8%	13.8%	14.0%	13.7%	12.5%
Mortgage Guaranty	1.9%	2.1%	2.5%	2.5%	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%	2.4%	2.4%	2.3%	2.3%	2.5%	2.6%	2.3%
Domestic General Insurance	65.6%	64.7%	65.9%	67.4%	67.1%	65.8%	65.2%	65.4%	65.2%	64.9%	64.7%	64.4%	65.9%	66.0%	65.5%	65.8%	64.8%
Foreign General Insurance	34.4%	35.3%	34.1%	32.0%	32.9%	34.2%	34.8%	34.6%	34.8%	35.1%	35.3%	35.6%	34.1%	34.0%	34.5%	34.2%	35.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Combined Ratio (SAP)																	
Domestic General Brokerage	102.3%	101.3%	101.3%	102.3%	100.1%	100.9%							100.5%	102.0%	100.0%	101.4%	
Domestic General Personal Lines	104.8%	101.1%	100.3%	97.5%	94.2%	96.3%							96.1%	90.0%	95.9%	102.0%	
Mortgage Guaranty	83.8%	69.0%	72.5%	88.4%	60.1%	43.7%							51.7%	40.6%	40.3%	42.2%	
Domestic General Insurance	101.4%	99.3%	100.0%	100.3%	100.1%	97.7%							97.7%	97.1%	96.7%	99.2%	
Foreign General Insurance	94.2%	92.0%	89.6%	87.8%	88.6%	94.2%							90.8%	91.1%	96.3%	98.9%	
Total	89.9%	97.0%	96.5%	96.2%	96.4%	96.4%							95.3%	94.6%	96.6%	99.0%	
Net Investment Income																	
Domestic General Brokerage	$1,034.9	$1,146.3	$1,241.8	$1,356.2	$1,570.6	$1,736.6							$442.1	$424.8	$410.2	$481.5	
Domestic General Personal Lines	$34.7	$41.3	$47.3	$51.7	$87.0	$112.8							$26.7	$26.6	$27.3	$26.0	
Mortgage Guaranty	$44.6	$49.6	$55.6	$62.7	$68.1	$76.2							$18.2	$16.6	$19.1	$20.3	
Domestic General Insurance	$1,147.6	$1,242.0	$1,351.6	$1,484.6	$1,733.6	$1,994.6							$505.9	$467.5	$474.0	$527.1	
Foreign General Insurance	$287.5	$305.6	$339.2	$369.0	$436.1	$522.1							$114.0	$129.7	$158.3	$120.1	
Total	$1,435.1	$1,547.6	$1,690.8	$1,853.6	$2,191.9	$2,516.7							$620.0	$617.2	$632.2	$647.3	
Change in Net Investment Income																	
Domestic General Brokerage	4.6%	10.8%	8.3%	9.2%	15.8%	10.7%							19.4%	17.8%	0.7%	6.8%	
Domestic General Personal Lines	22.8%	19.2%	14.5%	9.4%	68.2%	29.7%							110.1%	90.9%	-0.7%	-10.9%	
Mortgage Guaranty	8.5%	11.5%	12.2%	12.8%	8.6%	12.0%							9.1%	12.7%	12.6%	13.2%	
Domestic General Insurance	5.7%	8.2%	8.8%	9.8%	16.1%	13.7%							24.2%	22.2%	3.3%	7.8%	
Foreign General Insurance	13.0%	6.3%	11.0%	8.8%	18.7%	19.2%							21.6%	26.3%	25.6%	3.7%	
Total	7.1%	7.8%	9.3%	9.8%	18.3%	14.8%							23.7%	23.1%	6.2%	7.1%	

Source: Company data and PaineWebber estimates

Life Insurance Operations
Dollars in millions

Premium Income	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Domestic	$370.1	$463.5	$535.8	$553.2	$759.8	$947.2	$1,190.3	$1,420.8	$1,669.5	$1,919.9	$2,150.3	$2,408.3
Foreign	$6,354.2	$7,574.8	$8,442.7	$9,372.4	$9,509.3	$10,994.6	$12,588.3	$14,540.4	$17,012.3	$19,904.4	$23,286.1	$27,247.1
Total	$6,724.3	$8,038.2	$8,978.2	$9,925.6	$10,269.2	$11,941.9	$13,778.6	$15,961.2	$18,681.8	$21,824.3	$25,436.4	$29,655.4
% change												
Domestic	37.9%	26.2%	15.5%	3.3%	37.4%	24.8%	25.7%	19.4%	17.5%	15.0%	12.0%	12.0%
Foreign	16.0%	19.2%	11.5%	11.0%	1.5%	15.6%	14.5%	15.5%	17.0%	17.0%	17.0%	17.0%
Total	17.0%	19.5%	11.7%	10.6%	3.5%	16.3%	15.4%	15.6%	17.0%	16.8%	16.6%	16.6%
Net Investment Income												
Domestic	$600.6	$846.3	$931.4	$838.9	$2,414.5	$3,496.8	$3,846.4	$4,231.1	$4,654.2	$5,119.6	$5,631.6	$6,194.7
Foreign	$1,147.8	$1,418.6	$1,745.6	$2,057.5	$2,311.8	$2,709.2	$3,115.5	$3,582.9	$4,120.3	$4,738.3	$5,449.1	$6,266.5
Total	$1,748.4	$2,264.9	$2,676.9	$2,896.5	$4,726.3	$6,205.9	$6,962.0	$7,813.9	$8,774.5	$9,857.9	$11,080.7	$12,461.2
% change												
Domestic	27.4%	40.9%	10.0%	-9.9%	187.8%	44.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Foreign	11.6%	23.6%	23.0%	17.9%	12.4%	17.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Total	16.6%	29.6%	18.2%	8.2%	63.2%	31.3%	12.2%	12.2%	12.3%	12.3%	12.4%	12.5%
Operating Earnings												
Domestic	$36.2	$59.0	$100.5	$124.9	$617.5	$1,062.2	$1,351.0	$1,625.6	$1,918.2	$2,225.2	$2,558.9	$2,942.8
Foreign	$827.5	$998.9	$1,188.5	$1,425.4	$1,664.5	$1,943.3	$2,281.9	$2,681.2	$3,177.3	$3,780.9	$4,499.3	$5,399.2
Total	$865.6	$1,057.9	$1,289.0	$1,550.3	$2,281.9	$3,005.6	$3,632.9	$4,306.9	$5,095.6	$6,006.1	$7,058.3	$8,342.0
% change												
Domestic	97.9%	64.3%	70.3%	24.3%	394.2%	72.0%	27.2%	20.3%	16.0%	16.0%	15.0%	15.0%
Foreign	16.9%	20.7%	19.0%	19.9%	16.8%	16.8%	17.4%	17.5%	16.5%	19.0%	19.0%	20.0%
Total	19.1%	22.2%	21.8%	20.3%	47.2%	31.7%	20.9%	18.6%	18.3%	17.9%	17.5%	18.2%
Insurance in Force												
Domestic	$43,849.7	$54,272.1	$60,419.3	$59,516.7	$61,223.6	$73,468.3	$88,162.0	$105,794.4	$126,953.2	$152,343.9	$182,812.7	$219,375.2
Foreign	$289,529.1	$321,825.0	$361,563.8	$377,056.4	$437,943.8	$525,532.5	$630,639.1	$756,766.9	$908,120.2	$1,089,744.2	$1,307,693.1	$1,569,231.8
Total	$333,378.8	$376,097.1	$421,983.1	$436,573.1	$499,167.4	$599,000.8	$718,801.0	$862,561.2	$1,035,073.5	$1,242,088.2	$1,490,505.8	$1,788,607.0
% change												
Domestic	156.4%	23.8%	11.3%	-1.5%	2.9%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Foreign	20.6%	11.2%	12.3%	4.3%	16.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total	28.6%	12.8%	12.2%	3.5%	14.3%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

Premium Income	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A
Domestic	$223.4	$207.6	$243.9	$272.1	$285.5
Foreign	$2,650.1	$2,776.9	$2,522.5	$3,046.1	$2,992.2
Total	$2,873.5	$2,983.6	$2,766.4	$3,318.2	$3,277.8
% change					
Domestic	12.4%	5.3%	34.7%	49.3%	27.8%
Foreign	21.0%	14.8%	13.7%	13.9%	12.9%
Total	20.3%	14.1%	14.9%	18.1%	14.1%
Net Investment Income					
Domestic	$842.5	$879.7	$878.0	$896.5	$926.8
Foreign	$659.4	$655.4	$633.6	$760.8	$758.3
Total	$1,501.9	$1,535.1	$1,511.6	$1,657.3	$1,685.1
% change					
Domestic	280.1%	22.2%	13.9%	21.0%	10.0%
Foreign	24.4%	15.6%	16.4%	13.4%	15.0%
Total	99.8%	19.3%	16.4%	17.4%	12.2%
Operating Earnings					
Domestic	$229.4	$274.5	$273.1	$285.1	$299.2
Foreign	$442.0	$489.7	$489.4	$522.3	$512.9
Total	$671.4	$764.2	$762.5	$807.4	$812.1
% change					
Domestic	26.2%	42.7%	818.2%	38.0%	30.4%
Foreign	17.3%	17.2%	15.8%	16.6%	16.1%
Total	20.2%	25.2%	65.6%	23.6%	20.9%
Insurance in Force					
Domestic	$100,578.7	$102,622.1	$103,480.1	$73,468.3	$120,694.5
Foreign	$440,026.9	$447,393.3	$476,806.3	$525,532.5	$528,031.2
Total	$540,604.7	$550,015.4	$580,286.4	$599,000.8	$648,725.7
% change					
Domestic	84.3%	2.0%	0.8%	-29.0%	64.3%
Foreign	0.5%	1.7%	6.6%	10.2%	0.5%
Total	8.3%	1.7%	5.5%	3.2%	8.3%

Source: Company data and PaineWebber estimates

Financial Services
Dollars in millions

	1994	1995	1996	1997	1998	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Revenues												
ILFC	$1,097.6	$1,378.4	$1,560.2	$1,858.8	$2,002.0	$2,194.1	$2,523.2	$2,901.7	$3,337.0	$3,837.5	$4,413.1	$5,075.1
AIGFP	$279.1	$289.0	$389.2	$452.1	$550.1	$736.6	$847.1	$974.2	$1,120.3	$1,288.3	$1,417.2	$1,558.9
Trading	$246.6	$317.2	$288.8	$561.6	$373.6	$227.3	$250.0	$275.0	$302.5	$332.8	$366.0	$402.8
Other	$159.9	$219.5	$337.5	$402.9	$118.3	$182.4	$230.0	$250.4	$275.4	$303.0	$333.3	$366.6
Total	$1,783.2	$2,204.1	$2,655.5	$3,273.5	$3,044.1	$3,340.4	$3,850.3	$4,401.3	$5,035.2	$5,761.8	$6,529.6	$7,403.2
% Change												
ILFC	24.8%	25.6%	13.2%	19.0%	7.8%	9.6%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
AIGFP	-17.0%	3.6%	27.7%	22.4%	21.7%	33.9%	15.0%	15.0%	15.0%	15.0%	10.0%	10.0%
Trading	8.5%	28.6%	-9.0%	94.7%	-33.5%	-39.2%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Other	88.1%	37.3%	53.8%	19.4%	-70.6%	54.2%	26.1%	8.9%	10.0%	10.0%	10.0%	10.0%
Total	16.6%	23.6%	15.9%	23.1%	-7.0%	9.7%	15.3%	14.3%	14.4%	14.4%	13.3%	13.4%
Operating Earnings												
ILFC	$246.2	$263.6	$308.9	$382.4	$495.7	$590.1	$648.8	$773.7	$892.0	$1,025.8	$1,179.7	$1,356.6
AIGFP	$131.0	$140.2	$189.2	$241.0	$322.8	$482.2	$596.6	$719.5	$822.9	$921.6	$1,032.2	$1,156.1
Trading	$55.2	$69.6	$80.2	$126.5	$123.5	$109.4	$117.0	$140.0	$165.0	$180.0	$200.0	$228.0
Other	$15.6	($10.8)	$8.0	$21.4	($10.2)	($15.1)	($0.9)	$0.0	$0.0	$0.0	$0.0	$0.0
Intercompany	($46.4)	($44.2)	($60.3)	($70.0)	($62.9)	($65.2)	($93.3)	($102.6)	($112.8)	($124.2)	($136.6)	($74.0)
Interest (ILFC purchase)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$10.0	$16.0	$16.0	$16.0	$16.0	$16.0
Total	$404.9	$417.7	$523.9	$701.3	$869.0	$1,081.3	$1,280.3	$1,544.6	$1,783.0	$2,019.2	$2,291.3	$2,682.7
% Change												
ILFC	12.8%	6.3%	18.3%	24.6%	29.8%	19.0%	10.0%	19.5%	15.0%	15.0%	15.0%	15.0%
AIGFP	-12.7%	7.0%	34.9%	27.4%	34.0%	49.4%	24.1%	19.5%	15.0%	12.0%	12.0%	12.0%
Trading	-20.9%	24.5%	16.6%	57.9%	-2.4%	-11.4%	7.0%	19.7%	17.9%	9.1%	11.1%	14.0%
Other	563.4%	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Intercompany	6.2%	-2.7%	36.3%	16.1%	-10.2%	35.5%	9.5%	10.0%	10.0%	10.0%	10.0%	-45.8%
Interest (ILFC purchase)	-100.0%	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Total	3.8%	3.2%	25.4%	33.9%	23.9%	24.4%	18.4%	20.6%	15.4%	13.3%	13.5%	17.1%
Distribution												
ILFC	61.3%	63.1%	58.6%	54.5%	57.0%	54.6%	50.7%	50.2%	50.0%	50.8%	51.5%	50.8%
AIGFP	32.4%	33.8%	36.1%	34.4%	37.1%	44.6%	48.8%	48.3%	46.2%	45.6%	45.0%	43.1%
Trading	13.6%	18.9%	15.3%	18.0%	14.2%	10.1%	8.1%	9.1%	9.3%	8.9%	8.7%	8.5%
Other	3.9%	-2.6%	1.6%	3.1%	-1.2%	-1.4%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Intercompany	-11.2%	-10.6%	-11.5%	-10.0%	-7.2%	-7.9%	-7.3%	-6.4%	-6.3%	-6.1%	-6.0%	-2.8%
Interest (ILFC purchase)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	1.0%	0.9%	0.8%	0.7%	0.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Aircraft Statistics												
On Lease	267	278	314	321	352	357						
Orders	236	292	243	328	303	331						
Options	81	34	35	0	0	63						
Equipment Under Lease	$10,724	$12,422	$13,809	$14,438	$16,330	$17,334						
% change		15.8%	11.2%	4.6%	13.1%	6.1%						

	98:Q3	98:Q4	99:Q1	99:Q2	99:Q3	99:Q4	00:Q1A
Revenues							
ILFC	$311.3	$527.7	$512.4	$564.3	$558.2	$559.1	$569.3
AIGFP	$147.0	$198.3	$167.6	$138.5	$189.2	$241.1	$193.0
Trading	$121.0	$57.6	$63.6	$64.2	$25.5	$73.6	$70.1
Other	$41.1	$44.4	$44.7	$47.0	$28.7	$64.0	$56.0
Total	$620.4	$826.2	$788.7	$814.0	$799.8	$938.1	$908.4
% Change							
ILFC	4.1%	8.2%	11.1%	12.5%	9.2%	6.0%	15.0%
AIGFP	40.9%	24.6%	44.8%	52.4%	28.7%	22.9%	15.0%
Trading	-16.5%	-70.8%	-16.8%	-45.8%	-78.9%	27.8%	10.0%
Other	-70.1%	-57.2%	117.6%	286.3%	-35.2%	44.0%	25.2%
Total	-6.5%	-12.8%	16.8%	12.6%	-2.5%	13.5%	15.2%
Operating Earnings							
ILFC	$123.3	$142.4	$133.2	$150.6	$145.7	$180.3	$138.8
AIGFP	$82.6	$120.9	$100.6	$95.2	$120.4	$188.0	$139.4
Trading	$40.4	$18.9	$38.6	$27.7	$10.3	$32.6	$21.9
Other	($4.3)	($1.1)	$2.1	$4.6	($2.7)	($19.1)	($0.9)
Intercompany	($15.2)	($14.2)	($24.0)	($23.3)	($23.3)	($14.4)	($16.3)
Interest (ILFC purchase)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0
Total	$226.8	$266.9	$250.6	$255.0	$250.2	$325.5	$261.6
% Change							
ILFC	13.6%	48.4%	28.7%	19.2%	18.2%	12.6%	4.2%
AIGFP	57.1%	34.9%	48.5%	84.5%	45.7%	37.4%	38.7%
Trading	27.5%	-56.1%	76.1%	-34.2%	-74.6%	72.4%	-43.7%
Other	-181.9%	-133.8%	-10.7%	-164.7%	-37.9%	1696.3%	-143.8%
Intercompany	-13.2%	-18.8%	-2.4%	162.6%	54.5%	1.2%	-23.7%
Interest (ILFC purchase)	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Total	25.6%	24.8%	48.5%	24.9%	10.2%	21.9%	12.5%
Distribution							
ILFC	54.4%	53.4%	63.2%	59.1%	58.2%	49.3%	49.2%
AIGFP	36.4%	45.3%	40.1%	37.3%	48.1%	51.0%	48.5%
Trading	17.8%	7.1%	15.5%	10.9%	4.1%	10.0%	7.6%
Other	-1.9%	-0.4%	0.8%	1.8%	-1.1%	-5.9%	-0.3%
Intercompany	-6.7%	-5.3%	-9.6%	-9.1%	-9.4%	-4.4%	-6.5%
Interest (ILFC purchase)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Aircraft Statistics							
On Lease	341	352	365	368	361	357	
Orders	313	303	283	328	327	331	
Options	0	0	0	0	93	63	
Equipment Under Lease	$16,035	$16,330	$17,198	$17,215	$17,312	$17,334	
% change	5.5%	13.1%	14.2%	7.4%	6.0%	6.1%	

Source: Company data and PaineWebber estimates

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Appendix 4: Ownership Structure

AMERICAN INTERNATIONAL GROUP, INC. OWNERSHIP STRUCTURE

The following 1998 ownership information is also available in a poster in organization-chart format. For a copy, contact Mari Giordano at PaineWebber at (212) 713-4983 or by e-mail (mgiordano@painewebber.com) or fax (212) 713-9833.

The Directors of C.V. Starr & Co., Inc. as a group own 91.63% of the voting stock of Starr International Company, Inc.

Starr International Company, Inc. (owns 16.17% of AIG common)
- Back O\92Beyond, Inc.

The Starr Foundation (owns 3.41% of AIG common)

C.V. Starr & Co., Inc.(owns 2.41% of AIG common)
- Goodwood Oil Corporation (80%)
- Albert Ullman Marine Office, Inc.
- American International Marine Agency (California)
- C.V. Starr Service Corporation
- Lamberth Services, Inc.
- Mid-Atlantic Aviation Corporation
- Starr Land Company
- Starr Realty Corporation
- Starr Equipment Corporation
- Starr Realty Management MGP Corp.
- C.V. Starr International Investment Management Company, Ltd.
- Starr Associates, Inc.
  - Starr Associates of Georgia
  - Starr Associates of Illinois, Inc.
  - Starr Associates of Massachusetts, Inc.
- Starr Technical Risks Agency, Inc.
  - Starr Technical Risks Agency of Illinois, Inc.
  - Starr Technical Risks Agency of Texas, Inc.
  - Starr Technical Risks Agency of Georgia, Inc.
- C.V. Starr & Company
  - C.V. Starr & Company of Illinois
  - Pacific Starr of New York, Inc.
  - Pacific Starr Insurance Agency of Massachusetts, Inc.
  - C.V. Starr & Company of Georgia
- American International Aviation Agency, Inc.
  - Redholm Underwriting Agents, Ltd.
- American International Marine Agency of New York, Inc.
  - American International Marine Agency of Florida, Inc.
  - American International Marine Agency of Georgia, Inc.
  - American International Marine Agency of (Ill), Inc.
  - American International Marine Agency of Pennsylvania, Inc.
  - American International Marine Agency of Texas, Inc.
  - Amarine, Inc.
    - American International Marine Agency of Louisiana, Inc.
    - Ullman International Marine Agency, Inc.

American International Group, Inc.'s Subsidiaries

AIG Investment Corporation
  AIG Investment Corporation (Europe), Inc.
    IFM Holdings Ltd. (75%)
      International Financial Markets Trading Limited
      IFM Asset Management Limited
        FM Asia Limited
        IFM North America, Inc.
AIG S, Inc.
  AIG U, Inc.
    Steppe Securities L.L.C. (10%) (90% AIG, Inc.)
    Finance Advisory Company, L.L.C.
  AIG R, Inc. (99.9%) (0.1% AIG U, Inc.)
    AIG Russia Asset Management Company
    REM Securities
  AIG RNMM, L.D.C. (99.99%)

World Pass Co. Ltd. (70%)

American International Aviation Corporation

American International Corporation

AIG Equity Sales Corp.

American International Marketing Systems, Inc.

American International Surplus Lines Agency, Inc.

Fischbach Corporation

Forty One Fifty Corporation

AIG Funding, Inc.

AIG Investment Advisors, Inc.

AIG Liquidity Corp.

Latin American Technical Consultants

AIG Asset Management Inc.

AIG Relocation, Inc.

AIG Consumer Finance Group, Inc.
  AIGAM Inc.
  American International Credit Card Company (Philippines) Inc. (50%; also 50% owned by Philippine American Life and General Insurance Company)
  AIG Bank Polska S.A. (98.67%)
  Compania Financiera Argentina S.A. (92.70%)
    Cobranzas & Servicios S.A.
  CLA - Credit Leasing Assistance S.A. (80%)
    CLA - Market Service Sp. z.o.o.
  AIG Finance (Thailand) Public Company Limited (75.24%)

Russian American Advisory Services, Inc.

AIG Russian American Investors, Inc.

AIG Structured Finance Limited

AIG Finance Holdings, Inc.
- SPC Credit Limited
  - American International Credit Card Company, Ltd (51%; also 49% owned by AIG, Inc.)

Caravan Investment Inc.

AIG Radio Holding Company, Inc.

AIG Marketing Inc.
- AIG International Services Inc. (50%; also 10% owned by AIG Financial Products Corp.)

AIG Credit Corporation
- AIG Credit (UK) Limited
  - Premium Payment Plan Finance Limited
    - Premium Select Limited
- AIG Finanzas Sociedad Anonima de Credito Hipotecario (91.96%; also 8.04% owned by Hyperion Partners, L.P.)
  - AC Correduria de Seguros S.L.
  - Canovas Finances, S.L. (51%)
  - GTA - Finanzas, S.L.
- AIBS, Inc.

A.I. Credit Corp.
- AICCO, Inc.
- A.I. Credit Consumer Discount Company
- Credit Securities Corp.
- AIG Credit Corp. of Canada
- A.I. Receivables Corp. (50%; also 50% owned by AIU North America, Inc.)

AIG Financial Products Corp.
- AIG-FP Deutschland Limited
- AIG-FP Deutschland GmbH
- Nyala Investments L.C. (99%; also 1% owned by AIG-FP Capital Preservation Corp.)
  - Nyala Financial Products (Cayman) Limited (99%; also 1% owned by AIG-FP Investment Company (Bermuda) Limited)
- Italco S.r.l. (89%; also 11% owned by AIG-FP Capital Preservation Corp.)
  - Finparte S.r.l.
  - AIG-FP (Madeira) Gestao e Asesoria Economics S.A. (81.1%; also 18.9% owned by AIG Financial Products Corp.)
- Financiere Laperouse SCA (11.4%; also 11.4% owned by AIG Financial Products (Australia) Limited)
- AIG Financial Products (Australia) Limited
- AIG Financial Products Japan Ltd.
- AIG Financial Products (Jersey) Limited
- AIG Financial Securities Corp.
- AIG-FP (UK) Trustee Limited
- AIG-FP Broadgate Limited
- AIG-FP Holdings Corp.
- AIG-FP Investments Corp.

AIG-FP Matched Funding Corp.
AIG Matched Funding Corp.
Hart Canyon Holdings I Corp.
NF ONE CORP.
NF Two Corp.
AIG Financial Products Asia Limited
NF One (Cayman) Limited
NF Seven (Cayman) Limited
Nyala Finance (Cayman) Limited
AIG-FP General Partners IB Limited
Elmstead Investment Corp.
International Investment Company (Bermuda) Ltd.
Cedarstead Investment Corp.
NF Twelve Corp.
AIG-FP Leasing Corp.
AIG-FP Capital Preservation Corp.
  Financiere Vespucci SCA (19.17%; also 19.17% owned by AIG-FP Investments Corp.)
AIG-FP Investment Company (Bermuda) Limited
  NF Two (Cayman) Limited
  AIG-FP Special Finance (Cayman) Limited
  AIG-FP Special Funding (Cayman) Limited
Banque AIG (70%; also 10% owned by AIG Matched Funding)
  CEPAR 1 (99.60%)
NF Nine Corp.
  Sherwood Holding Corp. (79%)
  Sherwood Managed Investment Corp.
AIG-FP Pinestead Holdings Corp.
  Linden Holding Company, L.L.C.
  AIG FP (NZ) No. 3 Limited
  Willow Holding Company L.L.C.
  Maitengrove Finance Corp.
  Palmgrove Finance Company Limited
  Lumagrove Finance Company Limited
  Willowgrove Finance Company Limited
  Beechstead Investment Corp.
  Platane Holding Company L.L.C.
  Bakeri Holding Company L.L.C.
  Dorindi Holding Company L.L.C.
  Georgiana Holding Company L.L.C.
  Financiere Garcie S.C.A. (20%)
  Pinestead Investment Corp. (80%)
  AIG-FP New Zealand Finance Limited (90%)
  Alberti Holding Company L.L.C. (33.335% owned by Bakeri Holding Company L.L.C.)
    Cooperatieve AIG-FP Michiel de Ruyter Finance U.A. (66.67%)
  Elizia Holding Company L.L.C.
  Clusiana Holding Company L.L.C. (33.335% owned by Derindi Holding Co. L.L.C.)
    Cooperative AIG-FP Barents Finance U.A. (66.67%)
  Firenze Holding Company L.L.C. (33.335% owned by Georgiana Holding Co. L.L.C.)
    Cooperative AIG-FP Tasman Finance U.A. (66.67%)
Hold Oak Corporation
  NF Ten (Cayman) Limited
  NF Nine (Cayman) Limited
    Hold Oak Investments (99.999%)
    Cobroad Investments

Oakstead Holdings Corp.
- Oakstead Investment Corp. I
- Oakstead Investment Corp. II
- Oakstead Investment Corp. III

Glenwood Preferred Holding Corp.
- Glenwood Holding Corp. (79%)
- Glenwood Managed Investment Corp (90%)

Glenwood Holding Corp. II
- Glenwood Managed Investment Corp. II (90%)

AIG Financial Products Hong Kong Limited (99.99%)

AIG Financial Securities Hong Kong Limited
- Elgibright Investments Limited (90%; also 10% owned by AIG Financial Products Corp.)

AIG Global Investment Group, Inc.
- AIG Global Investment Corp. (Latin America) S.A.
- AIG Asset Management (Jersey) Limited
- AIG Global Securities Lending (Bermuda) Ltd.
- AIG Global Investment Corp. (Europe) Ltd.
- AIG Property Development Company Ltd.
- Pine Street Investments, Ltd
- Global Investment Corp. (Ireland) Ltd.
  - AIG Asset Management Ltd.
  - AIG Global Investment Trust Services Ltd.
  - AIG Asset Management Services Ltd.
- AIG Global Investment Corp.
  - AIMIC Investment Management Ltd. (50%)
  - AIG Global Investment Corp. (Canada)
  - AIG Global Investment (Brasil)Lida
  - AIG Private Equity Group, L.L.C.
- AIG Asset Management Services, Inc.
  - AIG Asset Management Holdings Limited
    - AIG Asset Management Limited
    - AIG Asset Management Services Limited
  - AIG M.B., Inc.
  - AIG Capital Management Corp.
    - AIG Global Emerging Markets Fund L.L.C.
  - AIG Hyperion, Inc. (50%; also 50% owned by The Philippine American Life & General Insurance Company)
  - Philamlife Fund Management, Inc. (50%)
  - AIG Indian Equity Advisors L.L.C.
- AIG Capital Partners, Inc.
  - AIG - CET Capital Advisors, Ltd. (70%)
    - AIG-CET Capital management (Poland) Sp. z.o.o.
  - AIG Latin America Sponsors Ltd.
  - AIG Latin America Investment Advisors, Inc.
  - AB Asesores CFMB, SL (30%)
    - AB Asesores Bursatiles Bolsa, S.V.B., S.A.
    - AB Asesores Moneda, S.A. (50%)
    - AB Asesores Electra Capital Privado S.G.E.C.R., S.A.
    - AB Asesores Red, S.A. (77.5%; also 22.6% owned by AIG Asset Management Services, Inc.)
      - AB Asesores Gestion Fondos, S.G.I.I.C., S.A.
        - AB Asesores Gestion Carteras S.G.C., S.A.
        - AB Asesores Gestion Pensiones, E.G.E.P., S.A.
  - AIG Brunswick Capital Management Ltd. (60%)
    - Millenion Employment Limited

AIG-AVP Advisors, Ltd.
Southern Cone Advisors, Ltd.
AIG Brunswick Capital Management. L.L.C. (95%; also 5% owned by AIGCP III, Inc.)
AIGIC-PRDF, Inc.
AIGCP III, Inc.
AIGCP II, Inc.
AIG Capital Partners (Bermuda) Limited
AIG Silk Road Capital Management, Ltd.
AIG New Europe G.P., Co.
AIG Southern Cone G.P., Co.
AIGCPI, Inc.
AIG Millennium G.P. L.L.C. (95%; also 5% owned by AIGCP II, Inc.)

AIG Aviation, Inc.
AIG Aviation Adjustment Services, Inc.
AIG Aviation (Canada), Inc.
AIG Aviation (Illinois), Inc.
AIG Aviation (New York), Inc.
AIG Aviation (Texas), Inc.
Southeastern Aviation Underwriters, Inc.

American International Group Data Center, Inc.
American International Technology Enterprises, Inc.
American International Group, K.K. (80%; also 10% owned by American Life Insurance Co.; 10% by AIU Insurance Co.)
AI Service K.K.
AIU Staff Service K.K.
Tokyo Private Emergency Center K.K. (20.4%; also 10% owned by Amer. Home Assurance Co; 10% by Amer. Life Ins. Co)

AIU North America, Inc.
AIU North America (Colorado), Inc.
AIU North America (Connecticut), Inc.
AIU North America (Illinois), Inc.
AIU North America (Louisiana), Inc.
AIU North America (Massachusetts), Inc.
AIU North America (New Jersey), Inc.
AIU North America (North Carolina), Inc.
AIU North America (Ohio), Inc.
AIU North America (Texas), Inc.

American International Underwriters Corporation
American International Underwriters Agency, Inc. (Illinois)
American International Underwriters (West Coast), Inc.
American International Underwriters Agency Corporation of Texas, Inc.
AIU Canada Limited AIU Canada Limitee
American International Underwriters Agency of Ohio, Inc.
Norgulf, Inc.
American International Underwriters of Louisiana, Inc.

AIG Private Bank Ltd.
PRISMA AG, Beratung Fuer Vermoegensverwaltung und Versicherung
AIG Global Investment Corp. (Schweiz) A.G.
UBZ Fondleitungs AG
Uebersee Investment Services Limited
UB Investments Limited

Ueberseebank Investment Company Limited
UBZ International Trust Management SA
Convest 21 Strategische Vermoegensverwaltung A.G.
Arges S.A.

Equitable Investment Co. (Hong Kong) Ltd.
Malaysian American Holdings, Bbd.
Realty Management Berhad
SEA Insurance Co. Limited
SEA Insurance Sdn. Bhd.
AIG Asset Management Company (Asia) Ltd.

AIG Risk Management, Inc.
AIG Insurance Management Service, Inc.
AIG Risk Management (Illinois), Inc.
American International Financial and Risk Services, Inc.
AIG Captive Management Company, Inc.

Reciprocal Managers Inc.

Risk Portfolio Managers, Inc.

AIG Combined Risks Holding, Inc.
AIG Structured Risks Inc.

Risk Specialists Companies, Inc.
American International Entertainment, Inc.
AI Entertainment Insurance Agency of Massachusettes, Inc.
Medical Excess Insurance Services, Inc. (70%)
A.I. Risk Specialists of Missouri, Inc.
A.I. Risk Specialists, Inc.
Florida Risk Specialists, Inc.
Hawaii Risk Specialists, Inc.
Louisiana Risk Specialists, Inc.
Michigan Risk Specialists, Inc.
Midwestern Risk Specialists, Inc.
New England Risk Specialists, Inc.
Northwestern Risk Specialists, Inc.
Northeastern Risk Specialists, Inc.
Southern Risk Specialists, Inc.
Southeastern Risk Specialists, Inc.
Western Risk Specialists, Inc.
Eastern Risk Specialists, Inc.
Alabama Risk Specialists Company, Inc.
Arkansas Risk Specialists Company, Inc.
Nevada Risk Specialists Company, Inc.
Virginia Risk Specialists Company, Inc.
Risk Specialists Company of Indiana, Inc.
Risk Specialists Company of Maryland
Risk Specialists Company of Minnesota, Inc.
Risk Specialists Company of New Jersey, Inc.
Risk Specialists Company of New York, Inc.
Risk Specialists Company of North Carolina, Inc.
Risk Specialists Company of Ohio, Inc.
Risk Specialists Company of Tennessee, Inc.
Risk Specialists Company of Wisconsin, Inc.
Risk Specialists Company of Colorado, Inc.

Risk Specialists Company of Connecticut, Inc.
Risk Specialists Company (Bermuda), Inc.

The Philippine American Life & General Insurance Company (98.78%)
The Philippine American General Insurance Company, Ltd.
Philam Insurance Company, Inc.
American International Group Services Corp. (93.74%; also 6.26% owned by Amer. Int. Underwriters (Philippines) Inc.)
AIG Data Center Manila
Liberty Aviation Corporation
Philam Plans, Inc.
Entrepreneurs & Exporters (Entreco) Inc.
Philam Properties Corp.
Pacific Union Assurance Company
Seguros Oriente Services Inc.
Philam Savings Bank (40%)
Kapatiran Realty, Inc.(40%)
Beacon Property Ventures Corp. (40%)
Perf Realty Corporation (39%)
Philamcare Health Systems, Inc. (30%)
Philamcare Hospital ManagementServices, Inc.
Phil-Seven Properties Corp. Investment & Capital Corporation of the Philippines (20%)
Bauang Private Power Corp. (6.75%)
Science Park of the Phillippines (15.26%)
Philam Fund, Inc. (26.77%; also 01.83% owned by Philamcare Health Systems, Inc.; 01.83% by New Hampshire Insurance Company; 00.11% by Philam Provident Fund; 17.54% by Philippine American Life Insurance Company; 10.54% by Philamlife Fund Management Services, Inc.; 02.58% by Philamlife Insurance Co. FAO Escrow Fund; 01.27% by Philam Insurance Company, Inc.)
Philam Systems, Inc. (80%; also 20% owned by Philam Insurance Company)

AIG Life Insurance Company (78.9%; also 21.1% owned by Commerce and Industry Insurance Company)
Seville Plaza Management Corporation (16.57%)
AIG Life (Ireland) Limited

AIG Managing General Agency, Inc.

AIGM Insurance Services, Inc.

AIG Reinsurance Advisors, Inc.

A.I. Lloyds, Inc.

American International Assistance Services, Inc.

AIG Russia/NIS Financial Services, Inc.

AIG Global Investment Company (East Africa) Limited (51%)

AIG Trading Group
AIG Trading Services Inc.
AIG Options Inc.
AIG International Securities Inc.
AIG International GC Inc.
AIG Trading LTD (UK)

AIG International Asset Management Inc. (70%; also 30% owned by AIG Global Investment Group, Inc.)
AIG International Asset Management Limited (Bermuda)
AIG International Management Company, Inc.
AIG International Asset Management Partners, Inc.
AIG International Management Company (UK) Limited
AIG International Inc.
AIG Trading S.A.
AIG International (Singapore) Pte. Limited
AIG International (South Africa), Inc.
AIG International (BVI) Limited
AIG International (Bermuda) Limited
AIG International (Hong Kong) Limited
AIG Clearing Corporation
AIG International Holdings Limited
AIG International Limited
AIG International (UK) Limited
AIG Trading Group Capital Corporation
AIG Telecommunications, Inc.
AIG Telecommunications, L.L.C. (92%)

A.I. Trade Finance inc.
AIG Trade Finance AG

North American Managers, Inc.
NAM, Inc.
N.A.M. Managing General Agency, Inc.
NAM, Inc. (Massachusetts)
NAM Managers, Ltd.

AIG Warranty Guard Inc. (80%)
AIG Warranty Guard Telemarketing
AIG Warranty Guard Agency Inc.
AIG Warranty Guard Insurance Agency of Texas, Inc.

AIG Warranty Services and Insurance Agency, Inc.
AIG Warranty Services Holding Company
AIG Warranty Services Company
Lions Gate Marketing Company

Mt. Mansfield Company, Inc.

AIG Capital Corp.

American International Facilities Management, Inc.

Hawaii Insurance Consultants Ltd.
50th State Risk Management Services, Inc.

AIG Life Insurance Company of Puerto Rico

Delaware America Life Insurance Company

American International Life Insurance Company of Delaware, Inc.

AIG Global Trade & Political Risk Insurance Company

Birmingham Fire Insurance Company of Pennsylvania

AIG Life Insurance Company of Canada

Commerce & Industry Life Insurance Company of Canada

American Property Catastrophe Reinsurance Company

A.I. Lloyds Insurance Company

Landmark Insurance Company

AIG El Salvador – Uniony Disarollo Companiade Seguros S.A. (51%)

AIG United Healthcare L.L.C. (50%)
    AIA United Healthcare Limited

AIG Bulgaria Insurance and Reinsurance Company AD
    Poistovna AIG Slovakia a.s.

Private Insurance Company "Seasam" (45%)

TATA AIG Risk Management Services Ltd. (50%)

Seasam International Insurance Company, Ltd. (30%)

AIU Insurance Company (52%; also 8.0% owned by The Ins. Co. of the State of Pennsylvania; 8.0% by Birmingham Fire Insurance Company of Pennsylvania; 32% by National Union Fire Insurance Company of Pittsburgh, PA)

China America Holding Company (50%)
    China America Insurance Company, Ltd.

American Security Life Insurance Company (Switzerland) Ltd.
    Agenziadi Assicurazione Sulla Vita S.A.

American International Life Assurance Company of New York (77.52%; also 22.48% owned by Amer. Home Assurance Co.)
    AIG Spring Ridge I, Inc.

AIG Golden Ltd. (50.01%)

American International Reinsurance Company, Ltd.
    American International Assurance Company, Ltd.
        C.P.- AIA Co. Ltd (49%)
        Metropolitan Land Company (63.24%)
        Universal Finance Company (65%; also 35% owned by American International Reinsurance Company, Ltd.)
            Asiatic American Agency Inc.
        AIA-Walden Management Pte. Ltd. (50%)
        American International Data Center Ltd. (84%; also 16% owned by American International Underwriters, Ltd. (Hong Kong))
        Decomat Industries Pte. Ltd. (48%)
        P.T. Asuransi AIA Indonesia (60%; also 21.33% owned by American International Underwriters Overseas, Ltd.)
            Dana Pensium Lembaga Keugangan AIA Indonesia
        AIA Capital Asia Growth Fund Limited (66.67%)

- American International Assurance Company (Trustee) Ltd. (20%: also 60% owned by Amer. Int. Trustee, Ltd.: 20% by American International Assurance Company (Bermuda) Ltd.)
- American International Assurance Co. Ltd. (New Zealand)
- Australian American Assurance Co. Ltd. (Fiji)
- Pacven II Pte. Ltd.
- AIA Information Technology (Guangzhou) Co. Ltd.
- AIA united Healthcare Ltd.

American International Assurance Company (Bermuda) Ltd.
- AIG Investment Corporation (Asia) Ltd
  - Premier Finance & Securities Co. Ltd. (14.47%)
  - AIA Partners Investment Management Limited (51%)
  - China Retail Management DC (49.25%)
  - AIG Asian Opportunity G.P. L.L.C.
- AIG Investment Corporation (Taiwan), Ltd.
- AIGIC (Malaysia) Sdn. Bhdid.
- AIG Investment Corporation (Mauritius) Limited
- AIG Investment Corporation (Singapore) Ltd.
- AIG Securities Investment & Trust Co., Ltd.
- PT. AIA Fund Management of Indonesia (60%; also 40% owned by P.T. Asuransi AIA Indonesia)
- AIG Taiwan Fund Limited (63.61%)

AIA Pension and Trustee Co. Ltd. Commonwealth Management and Service Corporation

American Golf Centers Limited (50.90%)

AIA Capital Corporation (Holdings) Limited (63.27%)
- AIA Acquisition Funding Limited
- AIA Acquisition Funding (BVI) Limited
- AIA Capital Corporation Limited
- AIA Capital Corporation (BVI) Limited
- AIA Capital Corporation (Mauritius) Limited
- AIA Capital Corporation (Philippines)
- AIA Capital Investment Advisors Limited
- AIA Capital Investment Management Limited
- AIA Capital Corporation (Korea) Limited
- AIA Capital Investment Co., Ltd. (92.25%)
- AIA Capital Corporation (Japan) Ltd. (60%)
- AIA Capital Corporation (Taiwan) Ltd. (60%)
- AIA Capital India Private Limited (51%)

AIG Asian Infrastructure Management Ltd. (50%)

AIG Asian Infrastructure Management II Ltd. (50%)

Boston AIG Company Limited (50%)
- A.F.J.P. Previnter S.A. Prevision InternacionalInternacional Compania de Seguros de Retiro S.A. (50%)

American International Company Limited (40%; also 40% owned by American International Underwriters Overseas, Ltd.)

AIG Mexico Seguros Interamericana, S.A. de C.V.
- AIG-Cuidando tu Salud, S.A. de C.V.

AIA Capital Assets Company Ltd. (63.41%)

Franchise Investment Corp. of Asia Ltd. (HK) (26%; also 25% owned by Amer. Int. Assurance Company (Bermuda) Ltd.)

American International Assurance Company (Australia) Ltd.
- AIA Superannuation Company Limited Broker Life (NZ) Limited

Finance Re, SA

AIG Insurance Commodities Trading Ltd.
- The Bermuda Commodities Exchange Clearing House (51%)

AIG-GE Capital Latin America Infrastructure Fund Management Limited (50%)
- Brazil Cable Holdings Ltd. (83.33%)

American International Underwriters Overseas. Ltd.
    AIG Europe (U.K.) Limited
        Techmark Services Limited
        Computer Services Europe Limited
        AIG Medical & Rehabilitation Limited
    American International Underwriters Ltd. (Hong Kong)
        AIG Banking Insurance Services, Ltd.
    FAMLAT First International Insurance Company of Latvia, A/S (45%)
    UZ AIG Uzbek-American Insurance Company AIG Uzbekinvest Limited (51%)
    Compania Anonima de Seguros American International (46.69%)
    Uzbekinvest International Insurance Company (20%)
    La Meridional Compania Argentina de Seguros, S.A. (99.91%)
    La Interamericana Compania de Seguros Generales S.A. (Chile)
        LegalChileS.A. (26%)
    AIG Zimbabwe Ltd. (80%)
    American International Underwriters (Guatemala) S.A.
    La Seguridad de Centroamerica Compania de Seguros Sociedad Anonima (Guatemala)
    American International Underwriters para Representaciones y Mandatos en la Argentina, S.A.
    Administradora Atlaya (Panama)
    AIG do Brasil-Services. Administracaoe Participacoes Ltda.
    American International Underwriters C.A. (Venezuela)
    American International Underwriters de Colombia, Ltda.
    American International Underwriters (Honduras) S.A.
    American International Underwriters (Latin America) Inc.
    American International Underwriters Representacoes S.A. (Brazil)
    American International Underwriters S.A. (Uruguay)
    AIU (Aruba) N.V.
    American International Management Company (Barbados) Ltd.
    American International Underwriters (Caribbean), Inc.
    American International Underwriters (Santo Domingo) S.A.
    American International Insurance Company of Puerto Rico
        American International Insurance Agency, Inc.
    AIG Europe (Ireland) Limited
    AIG Reinsurance Services Limited
    American International Underwriters Spain, S.A.
    AIG China Real Estate Investors, Ltd.
    AIG (Mauritius) L.L.C.
    AIU (Singapore) Pte. Limited
    American Asiatic Underwriters, Ltd.
    American International Underwriters KabishikiKaisha (Japan)
    American International Underwriters (Pakistan) Limited
    American International Underwriters Proprietary Ltd. (Australia)
    American International Underwriters (Philippines), Inc.
    Sapatini Enterprises Limited
    AIG Uganda Limited
    American International Group (Australia) Pty. Ltd.
        AIG Workers Compensation (Vic) Pty. Ltd.
        Workers Compensation (NSW) Pty. Ltd.
    Compania de Seguros La Tandilense, S.A. (96.99%)
    Edman Property Proprietary Holdings
    Informatica y Servicios Latec, S.A.
        AIG Assist S.A. (50%) (50% ElPacifico Peruano Suiza Compania de Seguros y Reaseguros)
    AIG South Africa Limited
        Sakh'Ubuntu SANCO AIG (Pty) Ltd.

Sapatini Enterprises
AIG Irish Telecommunications Ltd. (85%)
Societe Anonyme d\'92Intermediares Luxembourgeois, S.A.
    European American Excess Reinsurance S.A.
European American Underwriters Agency GmbH (25%)
Hellas Insurance Co. Societe Anonyme
Inversiones Segucasai, C.A.
AIA Partners Indonesia Ventures Limited
American International Underwriters Mediterranean, Inc.
American International Underwriters Italy S.A.R.L. (99.81%)
Underwriters Adjustment Company, Inc. (Panama)
    Claims Adjustment Service Pty. Ltd.
    Guam Insurance Adjusters, Inc.
    Hong Kong Adjusters and Surveyors Company, Ltd.
    Japan Adjustment Company, Ltd.
    Underwriters Adjustment Company (Columbia)
    Underwriters Adjustment Company (United Kingdom) Limited
    Underwriters Adjustment Company (Puerto Rico)
    Underwriters Adjustment Company, C.A. (Venezuela)
    Shanghai-AIG Technical Advisory Services Co. Ltd.
    Manila Adjusters and Surveyors Company (40%; also 40% owned by Philippine American Life & General Insurance Co.)
        Philippine Japan Marine Surveyors & Sworn Measures Corp. (PN-K-KK) (60%)
Zavetti e Simoncini, SRL (51%)
P.I. Asuransi AIU Indonesia (60.96%)
S.J. Zevlaris Management Co. Ltd. (60%)
Landmark Insurance Company Limited
    Auto Elite Limited
    Landmark Express Limited
    Landmark Programmes Limited
    Landmark Protect Limited
    Landmark Select Limited
AIG Consultants Holding Limited (51%)
    AIG Remediation Limited
    AIG Consultants, Ltd.
UNAT Direct, S.A.
AIG Insurance Management Services (Gibraltar) Limited
AIG Insurance Management Services (Isle of Man) Ltd.
AIG Insurance Management Services (Guernsey) Ltd.
AIG Latin America Equity Partners, Ltd. (45.45%)
American International Assistance (New Zealand) Limited
    American International Underwriters (New Zealand) Limited
AIG Insurance Management Services (Ireland) Ltd.
    AIG Insurance Management Services (Luxemboug) S.A.
    AIG International Consulting Ltd.
Inversiones Segucasai, C.A. (50%)
    Compania Anonima de Seguros American International (93.39%)
AIG Interamericana Companhia de Seguros Gerais (Brasil) (50.0001%)
    Unibanco AIG Warranty Ltda.
AIG- Metropolitana Compania de Seguros y Reaseguros S.A. (32%; also 19% owned by American Home Assurance Co.)
AIG Uganda Limited
AIG Sigorta A.S.
AIG Uruguay Compania de Seguros S.A.
Senaco, Seguros Aruba N.V.

- American Life Insurance Company
  - A.I.G. Limited
  - ALICO Limited
  - ALICO Ltd.
  - ALICO Middle East Limited
  - AlicoProtection Nominees Ltd.
  - American Insurance Brokers, Ltd.
  - American Home Life Hayat Sigorta A.S.
  - American Life Limited
  - Payment Protection Limited
  - First American Slovak Insurance Company
  - American Security Life Insurance Company Ltd.
  - American Life Insurance Company Gestora de Fondos y Planos de Pensiones S.A.
  - La Seguridad de Panama Compania de Reaseguros, S.A.
  - ALICO S.A.
  - ALICO Compania de Seguros, S.A.
  - ALICO Compania de Seguros de Vida S.A.
  - International Technical and Advisory Services Limited
    - Alico Trustees U.K. Ltd. (50%; also 50% owned by American Life Insurance Company)
  - ALICO Eurobank Mutual Fund Management S.A. (40%)
  - Euromerchant Insurance Services, S.A. (25%)
  - AlicoProperties, Inc. II
    - Global Properties, Inc. II
    - Alpha Properties, Inc.
    - Beta Properties, Inc.
    - Gamma Properties, Inc.
  - ALICOProperties, Inc. (51%; also 49% owned by AIU Insurance Company)
    - Global Properties, Inc.
  - American Life Insurance Company (Pakistan) Limited
  - First American Hungarian Insurance Company, Rt. (50%; also 50% owned by Commerce and Industry Insurance Co.)
  - Colmena-AIG Holding, S.A. (50%)
  - Colmena-AIG Holding, S.A.
    - Sociedad Administradora de Cestanias y Pensiones Colmena-AIG S.A. (94%; also 3% owned by American Life Ins. Co.)
    - Seguros de Vida Colmena AIG S.A. (94%)
  - American Life and General Insurance Company (Trinidad) Ltd. (80%)
    - ALGICO Properties Limited
    - Miraflores Development Limited
      - Miraflores Townhouses Limited
  - American Life Insurance Company (Kenya) Ltd. (66.66%)
    - ALICO Asset Management Company (Kenya) Limited
    - Kenya Crocodile Farm (10%)
  - Unionvita S.p.A. (49%)
    - Agenvita S.r.l. (95%)
  - Inversiones Interamericana, S.A.
    - AFP Union S.A. (40%)
    - Administradora de Fondos para la Vivienda Intercajas (40%)
    - La Interamericana Administradora de Fondos de Inversiones S.A. (50.5%)
    - La Interamericana Compania de Seguros de Vida S.A. (Chile)
    - Interamericana Rentas Seguros de Vida S.A.
    - Interamericana Training Center S.A.
    - Inmobiliaria Interamericana S.A. (99%) (1.00% American Life Insurance Company)
    - Interamericana Data Center S.A.

Inversiones Inversegven, C.A.
Seguros Venezuela, C.A. (91.12%)
El Pacifico Vida Compania de Seguos y Reaseguros (38%)
First American Polish Life Insurance and Reinsurance Co. (72.5%; also 27.5% owned by Commerce & Industry Ins. Co.)
AIG Particpacoes do Brasil S.A.
Unibanco Seguros S.A. (50.001%)
Unibanco AIG Previdencia
AIG Life Companhia de Seguros (50.001%)
Unibanco AIG Saude Sistema Administracao Ltda. (50.0001%)
Gama Gestao em Saude S.A.
Oceanica Hospital Sistemas de Administracao S.A.
Pharsonic American Life Insurance Company – ALICO (49%)
First American Polish Insurance and Reinsurance Company S.A. (72.5%)
Amplico Services
ALICOCEH Balkan Holdings Limited (50%)
JTGLQ Company (66.66%)

National Union Fire Insurance Company of Pittsburgh, PA
National Union Fire Insurance Company of Louisiana
Pennsylvania Brokerage Agency
AI Portfolio Corp.
AIG Silk Road Investors, Inc. (95%; also 5% owned by AIG Capital Partners, Inc.)
Marlwood Commercial, Inc. (99.90%)
American International Specialty Lines Insurance Company (70%; also 10% owned by Birmingham Fire Ins. Co. of PA; 20% by The Insurance Company of the State of Pennsylvania)
Lexington Insurance Company (70%; also 10% owned by Birmington Fire Insurance Company of Pennsylvania; 20% by The Insurance Co. of the State of Pennsylvania)
JI Accident and Fire Insurance Company, Ltd. (50%)
Starr Excess Liability Insurance Company, Ltd.
Starr Excess Liability Insurance International Ltd.
AIG Lodging Opportunities, Inc.
Franco Investment I Corp. (95%)
Franco Investment II Corp.
Franco Investment III SARL
Franco Investment B.V.
International Lease Finance Corporation
Aircraft SPC-3, Inc.
ILFC Dover, Inc.
CABREA Inc.
ILFC Volare, Inc.
ILFC Ireland 3 Limited
ILFC Ireland 2 Limited
Aircraft SPC-1, Inc.
Aircraft SPC-4, Inc.
Aircraft SPC-6, Inc.
Aircraft SPC-7, Inc.
Aircraft SPC-8, Inc.
Aircraft SPC-9, Inc.
Aircraft SPC-10, Inc.
Aircraft SPC-11, Inc.
Aircraft SPC-12, Inc.
Aircraft SPC-14, Inc.
Euclid Aircraft, Inc.
ILFC Aircraft Holding Corporation
ILFC (Bermuda) 3, Ltd.

ILFC Ireland Ltd.
ILFC International Lease Finance Canada. Ltd.
International Lease Finance Germany ILFC No. 1 GmbH
Interlease Aviation Corporation
International Lease Finance Corporation Limited
ILFC Flugzeugverwaltungs GmbH
Interlease Management Corporation
Atlantic International Aviation Holdings, Inc.
ILFC (Bermuda) 5, Ltd.
ILFC (Bermuda) 4, Ltd.
ILFC (Bermuda) 6, Ltd.
ILFC (Bermuda) 7, Ltd.
Winkle Enterprises
Pacific Ocean Leasing, Inc.

The Insurance Company of the State of Pennsylvania
AIG Technical Services, Inc. (50%; also 50% owned by American Home Assurance Company)
AIG Claim Services, Inc. (50%; also 50% owned by American Home Assurance Company)
AI Marine Adjusters, Inc.
AI Marine Associates of Illinois
AIG Insurance Services Inc.
AIG Managed Care Inc.
AIG Healthcare Management Services, Inc.
York Claims Service Inc.
Sewell, Todd & Broxton
Piersol Appraisal Service, Inc.
Special Claims Investigations, Inc.
Special Accounts Management, Inc.
Health Direct, Inc.
AIG Consultants, Inc.
Regional Reporting, Inc. (66.66%)
Quality & Safety Technologies, Inc. (42.5%)
AIG Environmental Management, Inc.
Weston Interactive, Inc.
AIG Risk Consulting K.K.
AIG Claim Services of Illinois, Inc.
AIG Claim Services of Nevada, Inc.
York Claims Service of Nevada, Inc.

American Home Assurance Company
AIG Hawaii Insurance Company, Inc.
American Pacific Insurance Company, Inc.
American International Recovery, Inc.
Pine Street Real Estate Holdings, Corp. (31.47%; also 00.48% owned by Amer. Int. Pacific Insurance Company; 1.62% by Birmingham Fire Insurance Co. of Pennsylvania; 5.05% by Commerce & Industry Insurance Company; 00.60% by Granite State Insurance Company; 00.73% by Illinois National Insurance Company; 04.05% by The Insurance Co. of the State of Pennsylvania; 05.75% by AIU Insurance Company)
270 Carpenter Drive, Inc.
675 Bering Drive Corp.
American International Realty Corp. Eastgreen, Inc. (31.5%; also 5% owned by Commerce and Industry Ins Co.; 22% by National Union Fire Ins. Co. of Pittsburgh, PA; 1.6% by Birmingham Fire Ins. Co. of Pennsylvania; 1.7% by Lexington Insurance Company; 4.0% by The Insurance Co. of the State of Pennsylvania; 26.4% by New

Hampshire Insurance Company; 0.6% by Granite State Insurance Company; 0.7% by Illinois National Insurance Company; 5.8% by American International Insurance Company; 0.5% by American International Pacific Insurance Co.; 0.2% by New Hampshire Indemnity Company, Inc.)

Transatlantic Holdings, Inc. (33.86%; also 17.84% owned by American International Group, Inc.)

Transatlantic Reinsurance Company

Putnam Reinsurance Company

Transatlantic Re (Argentina) S.A.

Trans Re Zurich

Trans Re (Brasil) Ltda.

20th Century Industries (15.86%; also 6.18% owned by Commerce and Industry Insurance Company; 6.18% by New Hampshire Insurance Company; 29.28% by National Union Fire Insurance Company of Pittsburgh, PA)

20th Century Insurance Company of Arizona (49%; also 51% owned by American International Group, Inc.)

20th Century Insurance Company

21st Century Casualty Company

Commerce & Industry Insurance Company

American International Insurance Company (50%; also 25% owned by American Home Assurance Company; 25% by AIU Insurance Company)

Minnesota Insurance Company

American International Insurance Company of California, Inc.

American International Insurance Company of New Jersey

First American Czech Insurance Company, S.A. (50%; also 50% owned by American Life Insurance Company)

AIG Romania Insurance Company, S.A.

First American Polish Life Insurance and Reinsurance Company, S.A. (72.5%; also 27.5% owned by American Life Insurance Co.)

NHIG Holding Corp.

Audubon Insurance Company

Audubon Indemnity Company

Agency Management Corporation

Agency Management Corporation of Arkansas, Inc.

Dwight Tope State Agency, Inc.

The Gulf Agency, Inc.

Magnolia State General Agency

Specialty Reporting Services, Inc.

New Hampshire Insurance Company

New Hampshire Indemnity Company Inc.

AIG National Insurance Company, Inc.

American International Pacific Insurance Company

American International South Insurance Company

Granite State Insurance Company

New Hampshire Insurance Services, Inc.

New Hampshire Life Insurance Company

Florida Petroleum Liability Insurance Program Administrators, Inc.

Illinois National Insurance Company

100% AI Network of Texas, Inc.

Morefar Marketing, Inc.

Indian River Environmental Liability Corp.

AI Network Corporation

AI Network of Nevada, Inc.

AIG Europe, S.A. (70.48%; also 4.49% owned by American Home Assurance Company)

COFAIG, s.n.s. (50%)
Tour AIG. s.a.s.
AIG Europe (Netherlands) N.V.
AIG Europe General Partner B.V.
United Guaranty Corporation (16.95%; also 00.86% owned by The Insurance Co. of the State of Pennsylvania; 36.31% by American International Group, Inc.; 45.88% by National Union Fire Insurance Company of Pittsburgh, PA; 16.95% by New Hampshire Insurance Company)
United Guaranty Services, Inc.
United Guaranty Insurance Company
United Guaranty Partners Insurance Company
United Guaranty Mortgage Insurance Company
AIG Indemnity Limited
United Guaranty Mortgage Insurance Company of North Carolina
United Guaranty Residential Insurance Company of North Carolina
United Guaranty Residential Insurance Company (75%)
United Guaranty Mortgage Indemnity Company
United Guaranty Credit Insurance Company
United Guaranty Commercial Insurance Company of North Carolina
Ezer Mortgage Holdings 1998, Ltd. (68%)
Ezer Mortgage Insurance Company, Ltd.

AIG Global Real Estate Investment Corp.
AIG/Baker, Inc.
Pine Street Management Corp.
Collinsbrook Building Inc.
AIG Mortgage Finance Co., Inc.
AIG Global Real Estate Limited.
AIG Realty, Inc.
OCNG Holdings, L.L.C
AIG Real Estate Investment & Management Company (P.R.), Inc.
Pine Street Brokers Corp.
Chiyoda Consultants Kabushiki Kaisha PineStarr Realty, Inc.
AIG French Property Fund Management Co., (P.R.), Inc. (90%)
Team Classic Gold Services, Inc. (80%)
Phil Ritson's 19th Hole Inc.
AIG/Lincoln International, L.L.C. (67%)
AIG/Lincoln Eastern Europe, L.L.C. (44.55%)
AIG/Lincoln Development 2 s.r.o
AIG/Lincoln Development 3 s.r.o
AIG/Lincoln CZ s.r.o
AIG/Lincoln Properties GmbH
A&L Stadhaus GmbH
A&L Stadhaus GmbH & Company KG. (80%)
AIG/Lincoln Polska Sp. z.o.o
AIG/Lincoln Development 1 s.r.o (92.5%)
Saski Park Sp. z.o.o
Diamond Business Park II Sp. z.o.o
Poland Business Park IV Sp. z.o.o
Poland Business Park V Sp. z.o.o
Poland Business Park VI Sp. z.o.o
Poland Business Park VII Sp. z.o.o
Poland Business Park VIII Sp. z.o.o
Infopark Research Centre 1 Kft.
Diamond Business Park Sp. z.o.o
Diamond Business Park Warsaw II Sp. z.o.o
Diamond Business Park Warsaw III Sp. z.o.o

Koegler Morgan Investments, Inc.
Advantage Capital Corporation
Glencourt Investments Company
Spellman & Co.. Inc.
SSC Holding Company
Sentra Securities Corporation
Sun Mexico Holdings, Inc.
Sun Cancun I, Inc.
Sun Cancun II, Inc.
Sun Ixtapa I. Inc.
Sun Istapa II, Inc
Sun Hechs, Inc.
SunAmerica Travel SErvices, Inc.
SAI Investment Advisor, Inc.
Sun GP Corp.
Sun CRC, Inc.
Sun-Dollar, Inc.
Sun PLA, Inc.
Metrocorp, Inc.
Falcon Financial, L.L.C. (40%)
SunAmerica Capital Trust IV
SunAmerica Life Insurance Company
First SunAmerica Life Insurance Company
SunAmerica National Life Insurance Company
CalAmerica Life Insurance Company
Anchor National Life Insurance Company
ANLIC Insurance Company (Cayman)
Samsun Holdings Corp.
SAM Holdings Corporation
SunAmerica Asset Management Corp.
SunAmerica Capital Services, Inc.
SunAmerica Fund Services, Inc.
ANF Property Holdings, Inc.
Capital Life Mortgage Corp.
Anchor Insurance Company (Cayman)
UG Corporation
Export Leasing FSC, Inc.
SunAmerica Virginia Properties, Inc.
SunAmerica Realty Partners (85%)
SAL Investment Group, Inc.
SunQuorum L.L.C. (88.75%)
SA Investment Group, Inc.
SunAmerica Affordable Housing Finance Corp.
Stanford Ranch, Inc.
New California Life Holdings, Inc. (33%)
Aurora National Life Assurance Company
Arrorhcad SAHP Corp.
Bear Run SAHP Corp.
Chelsea SAHP Corp.
Tierra Vista SAHP Corp.
Westwood SAHP Corp.
Bryton SAHP Corp.
Churchill SAHP Corp.
Crossings SAHP Corp.
Emerald SAHP Corp.
Forest SAHP Corp.
Pleasant SAHP Corp.

Westlake SAHP Corp.
Williamsburg SAHP Corp.
Willow SAHP Corp.
Prairie SAHP Corp.
DIL/SAHP Corp.
Charleston Bay SAHP Corp.
SubGen SAHP Corp.

Source: 1998 Schedule Y Financial Statements

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Mark Altman 2504
Associate Director of Research
Robert Franks 2210
Co-Director of Research Administration
Frederick Greis 2555
Co-Director of Research Administration

INVESTMENT POLICY
Edward Kerschner, CFA 2448
Chairman, Investment Policy Committee
Thomas Doerflinger, Ph.D. 2540
Corporate Profits
Mary Farrell 2418
Small Cap Stocks
Michael Geraghty 2581
Quantitative Analysis
Michael Ryan, CFA 4671
Fixed Income

ECONOMICS
Maury Harris, Ph.D. 2472
Chief Economist

BASIC INDUSTRY
David Bleustein 2615
Machinery
Andrew Cash 2508
Chemicals
Thomas P. Ford 2450
Environmental Services
Richard Schneider 2506
Paper & Forest Products

BUSINESS SERVICES
Kelly A. Flynn 1037

COMMUNICATIONS
Christopher Dixon 2420
Entertainment; Leisure; New Media
Tom Eagan 2489
Cable; Satellite
John Hodulik, CFA 4226
Competitive Local Exchange Carriers
Walter Piecyk 4075
Wireless Communications
Eric Strumingher 2526
Telecommunications Services
Leland Westerfield 2212
Broadcasting, Publishing

CONSUMER
Jeffrey Edelman 2438
Broadlines Retail
Sara Farley 4866
E-Commerce
James Goll 1224
Consumer Special Situations
Marc Greenberg, CFA 1461
Beverages
Richard E. Jaffe 8990
Apparel Retail; Softlines
Keith Mills 3098
Lodging
John O' Neil 4984
Packaged Foods
Joseph Phillippi 3003
Auto Manufacturers, Auto Parts

CONSUMER (Continued)
R.T. Quinn 3618
Food & Drug Retailing
Aram Rubinson, CFA 1062
Specialty Retail; Hardlines

ENERGY
Ronald J. Barone 3848
Natural Gas Exploration, Pipelines, Distribution, Master Limited Partnerships
William Featherson 9701
Oil & Gas Exploration & Production
Frank Knuettel, CFA 2454
International and Domestic Oils
Christopher Stavros 2464
Diversified Oils; Refining and Marketing
James Yannello 3877
Natural Gas Pipelines

FINANCIAL SERVICES
Gary Gordon 2571
Consumer Finance
Gregory Lapin 4980
Property-Casualty Insurance
Robert Lee 2426
Life Insurance; Asset Managers; Broker/Dealers
Ruchi Madan 1237
Banks
Alice Schroeder 4977
Property-Casualty Insurance
Robert Sobhani 9009
Internet Financial Services

HEALTH CARE
Jeff Chaffkin, CFA 2432
Pharmaceuticals
Andrew Gitkin 2611
Health Care Services/Facilities
David Lothson 2442
Hospital Supply; Medical Devices
William McKeever 4053
Health Maintenance Organizations; Internet Health Care
Charles Olsziewski ....(612) 371-4157
Medical Devices (Small Cap)
Elise Wang ....(212) 713-1079
Biotechnology; Health Care Services

REAL ESTATE
Keith Mills 3098
Lodging REITs

TECHNOLOGY
Andrew Burns ....(415) 576-2944
Computer Services, Internet Software
Kevin Buttigieg ....(212) 713-3818
Enterprise Software
William H. Choi, CFA 2609
Wireline Telecom Equipment
Sara Farley 4866
E-Commerce
John Hodulik 4226
Internet Infrastructure
Walter Piecyk 4075
Telecom Equipment, Data Networking
Ben Reitzes 713-3268
Imaging Technology

TECHNOLOGY (Continued)
Robert Sobhani 9009
Internet Financial Services
David Wong, CFA, Ph.D. 2649
Semiconductors
Don Young ....(203) 978-9100
PC Hardware; PC Software; Server and Enterprise Hardware

TRANSPORTATION
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Airlines

UTILITIES
Barry Abramson, CFA 2516
Electric Utilities

CLOSED-END FUNDS
Jon Maier 3635

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Walter Kirchberger ....(248) 649-7532

EQUITY RESEARCH SALES and MARKETING
Equity Service Desk ....(800) 713-7937
CENTRAL
Kevin Grimm 8742
Judith Keating 3077
Dan McBride 6229
Michael O'Keefe 4841
NORTHEAST
Tate Carrera 2152
Michael Gearty 4326
Ian Hinchcliffe 3944
Jeremy Sunshine 4228
SOUTHERN
Ken Brodsky 4337
Margaret Darlow 3659
John Hicks 4190
Kimberly Jay 4192
WESTERN
Christian Nieman 4016
David Sirianni 8685
Al St. Jacques 2534
Steve Welker ....(213) 253-5344
SPECIAL COVERAGE
Jonathan Keller ....(212) 713-3302
International Research
Larry Wielgus 8763
Closed-end Funds
PWN
Maureen Donohoe 2537
Hugh Reilly 2537
EQUITY PRODUCT MANAGER
Mara Glassel 4219

REGIONAL INSTITUTIONAL SALES
Ted Kelleher 8934
National Sales Manager
Jim Ruddy 3508
Marketing Specialist