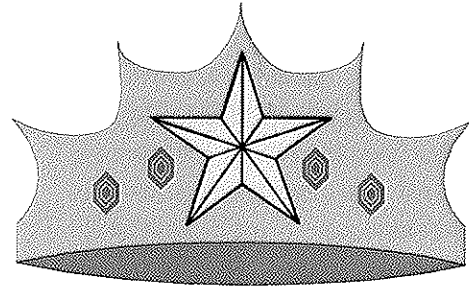


THE STARR IN THEIR CROWN

By Robert N. Hughes, CPCU, ARM



Those of you who have followed the recent insurance industry's major train wreck, aka AIG, may have noticed frequent references to the name C.V. Starr. Numerous companies related to AIG incorporate all or part of that name. C.V. Starr, the founder of the group now known as AIG, was arguably among the brightest and the best (no pun intended) but now, unfortunately, rests in relative obscurity. I recently reviewed a brief history of AIG, and the references to Mr. Starr triggered in my spirit an unusual combination of admiration and pity that seems to reflect almost everyone's current feelings about the state of AIG and its own "Casey Jones standin' at the throttle," Maurice R. "Hank" Greenberg. I thought this impression was worth sharing as we view this incredible transformation from insurance juggernaut to den of what -

thievery, fraud, deception? Who knows? Whatever it has become, however, it is certainly not of the ilk of C. V. Starr. I'm sure that if anyone has ever turned over in his grave, Starr is certainly writhing at this moment.

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The story, for all practical purposes, begins in Shanghai, China, in 1919. A young American named Cornelius Vander Starr, bent on taking entrepreneurial advantage of the vibrant and growing economies in the Far East, opened an insurance agency that he called American Asiatic Underwriters, or AAU. Basically, the company sold fire and marine coverage offered by American insurers to American expatriates, military personnel, etc.

The young Mr. Starr did well and decided to leverage his success in the property insurance business by entering the life insurance market. He formed Asia Life Insurance Company and, of all things, opted to sell his products to the local Chinese. It took him only a decade to build a thriving operation spanning China, Hong Kong, Jakarta, Indochina, Kuala Lumpur and the Philippines. The strength of his genius, according to reports and according to the people I have talked to who knew him, was in hiring local people, training them, promoting them and, eventually, making them very wealthy.

Starr's first American venture, American International Underwriters (AIU), opened in New York in 1926. Its initial purpose was to provide insurance coverage on American risks outside the U.S. Operating as a general agent to American insurers, this new venture fared well and became a mainstay in the Starr family of businesses.

IN THIS ISSUE:

- **Starr in Their Crown**
- **From Near and Far**
- **A New Associate**

(STARR, continued inside)

(STARR, continued from cover)

In the 1930s, Starr shrugged off the traditional domination of European insurers in Latin America and, working from a headquarters in Havana, rapidly spread out over several Latin countries. Since the war in Europe reduced the European companies' capacity to write non-European business, Starr's Latin and Asian business boomed. Unfortunately, the unrest in the 1930s that spread through China and eastern Asia forced him to move his operations to New York, and eventually World War Two forced the closing of the Far Eastern operation.

One of my favorite examples of Mr. Starr's character is embodied in the tradition that the executive

dining room at AIG was arguably the finest Chinese-cuisine dining room in New York. I was told that this resulted from the fact that, when Mr. Starr fled China just ahead of the communist army, he took all or most

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of his Chinese staff with him. When they found themselves unable to transact business in the U.S. because of their inability to speak English, Mr. Starr turned them into chefs and

waiters in the executive dining room. And tradition also has it that they continued to be paid the salaries and benefits that they had earned while serving as insurance executives, adjusted to American standards. Tradition also has it that the head chef earned as much as many senior insurance executives.

Soon after the war ended, AIU moved into Japan and Germany, again to serve the needs of American expatriates and military personnel. Starr's extensive Asian experience and connections assisted the company's growth in Japan, and the area is now listed by AIG as its largest non-U.S. operation. I had the opportunity in the 1970s to travel through Europe on a mission to meet with many of the former managers of the C.V. Starr European entities. This included England, Germany and Scandinavia. These gentlemen were known as the “C. V. Starr Millionaires.” They were indeed all extremely wealthy, and to a man they told me that they owed all of their success to the mentorship and generosity of the man who, as a young sprout, had the temerity to walk out on the streets of Shanghai as an American and open up, of all things, an insurance agency.

AIU's business, built on the Starr system of hiring great local people, training them well and sharing the wealth, continued to grow and spread. In 1952, the acquisition took place that would forever change the perception of Starr's operations

(STARR, continued on opposite page)

FROM NEAR AND FAR



North Carolina – Six people were arrested in North Carolina for allegedly staging more than 480 auto accidents since 1992. They are suspected of claiming more than \$2 million from various insurers. They could face up to 10 years in prison.



London – According to an article in *Best Week*, fraud is very common when it comes to travel insurance. Direct Line Travel Insurance says that 19% of UK travel insurance claimants exaggerate claims and/or add losses that never occurred. Cameras were the most likely item to be involved in fraudulent claims.



Chattanooga – According to disability insurer UnumProvident Corp., cancer was the most common cause of long-term absence from work for 2004. UnumProvident said that cancer accounted for 12% of all disability claims that required an absence from work longer than 90 days.



Fort Collins – Colorado State University's meteorologist, William Gray, announced that the 2005 Atlantic and Gulf Coast hurricane season will be an active one, predicting that 13 named storms will develop and seven of them will become hurricanes. It is possible that the Gray team will increase its predicted number of storms when it updates its forecast at the end of May.

(STARR, continued from opposite page)

in the United States. AIU bought Globe & Rutgers Fire Insurance Companies, which included a little company called American Home Assurance Company. Within two years, the Rutgers companies were folded into American Home, and the mother of AIG's U.S. underwriting empire was born. In 1962, the next future-determining event occurred with the hiring of M. R. "Hank" Greenberg as American Home's new

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president. The AIG official position is that American Home had an "expensive and unwieldy traditional agency system" that was not working, so Greenberg was named to salvage it. He sold off the agency business and restructured American Home as a surplus lines insurer.


Many observers of the day, however, will tell you that the change resulted from a young, aggressive and opportunistic apprentice taking advantage of his aging mentor through a series of moves that positioned him to take over the entire company. Whichever is correct, the character of the company was

changed forever. There is a wealth of anecdotes regarding the transfer of power from C. V. Starr to Hank Greenberg, but since this story is about Mr. Starr, I will refrain from repeating them. Needless to say, however, by the time of his death in 1969, the company was no longer the image of C. V. Starr ... brilliant entrepreneur, benefactor and humanitarian. Of course, under the leadership of Greenberg, the company achieved enormous success, but by what methods and at what social and economic cost is yet to be determined. Wikipedia reports "In 2005, after a scandal on insurance and mutual funds the year before, AIG is under investigation for accounting fraud. The company already lost over 45 billion US dollars worth of market capitalization because of the scandal as of May. AIG has the fastest decrease in market value since the Worldcom and Enron scandals. Investigations also discovered over a billion US dollars worth of errors in accounting transactions. One such error involves a supposedly 500 million US dollar transaction with Berkshire Hathaway that drastically inflated AIG's revenues. This error involved reinsurance transactions. Reinsurance supposedly is used only for spreading out risk, but it may also be used for the questionable purpose of polishing a company's financial statements, in the same way the manner of accounting for revenue did for Enron."¹

Who would have thought that the ultimate result of Mr.

Starr's opening a little insurance agency in Shanghai would have been the establishment of one of the world's largest insurance entities? So to whose efforts is the current company a monument? Certainly the current AIG reflects C. V. Starr's penchant for entrepreneurship and growth. I'll leave it to you, dear readers, to decide whether it reflects his character and generosity. I'll also leave to you the opportunity to ponder whether the likes of Cornelius Vander Starr could achieve the same

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success in today's self-centered and short-term-goal-oriented world. Hopefully what is good and true will out, and the cream will once again rise to the top. If it doesn't, well, I guess I will be glad I'm nearer to the end rather than the beginning of a career in insurance. 

¹(http://en.wikipedia.org/wiki/American_International_Group)

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Welcoming A New Associate

Robert Hughes Associates has recently begun an associate relationship with Frank J. Panepinto, SCLA, FCLS, CFE. Frank is currently the risk manager for Barber Brothers Contracting Co. in Baton Rouge, Louisiana. His background includes a spell in the U.S. Marine Corps and U.S. Army National Guard and service in the U.S. Coast Guard Reserve. In all of his military service he held positions in law enforcement and/or investigations. He has also served in the East Baton Rouge sheriffs office.



He was an insurance claim adjuster with Underwriters Adjusting Company, where he handled workers' compensation and liability and property claims. He was then with

Premier Bank as director of security, safety and investigations as well as insurance and risk management. In 1985 he joined Risk Assessments Group. He was responsible for, among other things, insurance claims analysis, claim administration, insurance fraud detection and prevention. While president of Risk Assessments Group, he also acted as insurance claims manager for Adjustco, Inc.

His duties with Barber Brothers include but are not limited to loss prevention and asset protection, security, safety and insurance investigations, insurance selection, purchase and administration, and environmental protection. 

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