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AIG could weather CEO departure

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By Dan Wilchins and Steve Eder - Analysis

NEW YORK (Reuters) - American International Group Inc's tough talking chief executive has reportedly threatened to quit, but the giant insurer, which is showing signs of life after its brush with bankruptcy last year, could do fine without him.

Robert Benmosche threatened to quit AIG (AIG.N: Quote, Profile, Research, Stock Buzz) in part because he complains he cannot pay employees enough, according to the Wall Street Journal.

AIG declined comment, but in a letter to employees Benmosche said he was working aggressively to "overcome this compensation barrier that stands in the way of restoring AIG's value."

He also said he was "totally committed" to seeing the company through its difficulties.

As a recipient of some $180 billion in government aid, AIG falls under the purview of Obama administration compensation czar Kenneth Feinberg and Benmosche has balked at Feinberg's proposed pay restrictions.

But if Benmosche, the well regarded former CEO of MetLife Inc (MET.N: Quote, Profile, Research, Stock Buzz) makes good on his reported threats to leave AIG, it would hardly be a tragedy for the company, analysts said. He has been at the insurer for only about three months, which is not enough time for him to have become essential for its daily operations. And Wall Street is full of competent executives looking for work.

"The loss of one chief executive won't change too much for AIG," said Sean Egan, principal of ratings agency Egan-Jones Ratings Co in Haverford, Pennsylvania. "There are plenty of other people who can fill the role."

A CALCULATED RISK

What is at issue in Benmosche's conflicts with Feinberg is whether companies that rely on government support to stay in business can pay less than competitors that have shucked that support.

Feinberg has cut cash compensation for the 25 best-paid employees at companies that received multiple bailouts and is setting guidelines for pay for the next 75.

For AIG in particular, Feinberg has vowed to limit bonuses at the company's Financial Products unit, whose massive payouts earlier this year sparked huge outrage. AIG is on track to pay $198 million in bonuses to Financial Products employees in March 2010.

Making these cuts amounts to a gamble.

"He's thinking he can limit pay and that an insufficient number of people will leave for better opportunities to really harm the companies," said Robert Sedgwick, a partner in executive compensation and benefits at law firm Morrison Cohen in New York.

To some analysts, that is a reasonable bet. The pool of talent for hire is likely fairly deep now, as financial companies have announced about 400,000 layoffs since the credit crunch really accelerated in mid-2007, according to outplacement firm Challenger, Gray & Christmas. So even if people leave, others can replace them.

"There are a lot of qualified people out there who would love to work at AIG," said Bill Fitzpatrick, equity research analyst at Optique Capital Management in Milwaukee, Wisconsin.

And if it were not for several bailouts that left the government on the hook for some $180 billion of potential exposure to AIG, the insurer would be out of business now. Some argue employees should be grateful they still have jobs.

"If it weren't for government support, this firm would be gone many times over. So this is the cost of being propped up by the government," said Campbell Harvey, finance professor focusing on risk management at Duke University.

'TIRED OF THE UNCERTAINTY'

The risk to AIG and other companies under Feinberg's aegis, including Citigroup Inc (C.N: Quote, Profile, Research, Stock Buzz) and Bank of America Corp (BAC.N: Quote, Profile, Research, Stock Buzz) is that top producers will leave, Optique's Fitzpatrick said.

Steven Eckhaus, a compensation lawyer with Katten Muchin Rosenman LLP, said a "staggering" number of high-level people who work for publicly traded financial companies are already looking to leave, if they have not already.

"People are tired of the uncertainly about what they are going to be paid, about disclosure and tax issues," Eckhaus said.

But others are not convinced compensation limits are a big problem for AIG. Feinberg is only influencing compensation for the top 100 employees at AIG, but the company has a total of nearly 100,000.

"The prospect of the top 100 people leaving in the near term is probably relatively low," said David Roberts, chief executive of Verus Research, which provides compensation analysis.

But if the financial sector recovers over the longer run, pay limits may pose a problem, he added.

(Reporting by Dan Wilchins and Steve Eder; editing by Andre Grenon)