
AIG Sells Its Asian Crown Jewel

By Editor Test *Wed, Mar 3, 2010*

The sale of Hong Kong-based AIA, would help repay some of the \$180 billion that AIG owes to the U.S. government.

Prudential plc, the large British insurer (not related to Prudential Financial in the U.S), has agreed to buy the American International Group's life insurance business in Asia in a deal valued at \$35.5 billion, the *New York Times* reported.

The sale of Hong Kong-based American International Assurance, or AIA, would lead to the partial repayment of the more than \$180 billion that the U.S. government has invested in AIG as part of its financial industry bailout.

The Federal Reserve Bank of New York, which holds preferred shares in AIA, would receive the first \$16 billion in proceeds from a sale.

Beyond the sale of AIA, the insurer is also trying to sell another life insurance unit, the American Life Insurance Company, to MetLife for about \$15 billion, according to people briefed on the matter.

AIA had an operating profit of \$1.44 billion after tax in the financial year ending Nov. 30, 2009, based on unaudited figures, according to Prudential. The combination entity of AIA and Prudential plc would be the leading life insurer in Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand and the Philippines and the leading foreign life insurance business in China and India.

The 162-year-old Prudential already draws a large part of its revenue from Asia, with more than 11 million policyholders in 13 markets. "We are combining the two strongest international life insurers in Asia," Tidjane Thiam, chief executive of Prudential, said in a conference call Monday to announce the deal.

In 2008, 44% of new profit for Prudential came from Asia, Thiam said. If AIA and Prudential had combined in 2009, the figure would have been 60%.

The new company will assume the name Prudential, have headquarters and be incorporated in Britain and be traded on the London Stock Exchange with American Depositary Receipts traded on the New York Stock Exchange. The AIA brand will not disappear, however.

Under the terms of the deal, Prudential would pay about \$25 billion in cash and about \$10.5 billion in stock, preferred shares and convertible preferred shares. The company said it would obtain the cash for the deal through a \$20 billion public offering and \$5 billion in senior debt.

The sales of new shares must be approved by shareholders, and the deal faces other regulatory approvals. Prudential said it anticipated that the offering would take place in May and that the transaction would close in the third quarter.

Several analysts downgraded Prudential shares on Monday. “It’s going to be enormously dilutive,” ING analyst Kevin Ryan told Reuters, speaking of the public offering. “No one knows exactly what AIA contains or how profitable it is, or how it overlaps with Pru’s existing businesses.”

Prudential first approached A.I.G. last year, but it was rebuffed because its offer was too low, according to people briefed on the matter.

AIA, founded in 1919 and one of AIG’s oldest divisions, is widely considered one of the top businesses within AIG. The division has about 20 million policyholders throughout Asia, served by 23,000 employees and 300,000 agents. It has customers in Australia, Brunei, China, Hong Kong, India, Indonesia, Macao, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

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