# Former AIG Vice President Sentenced to Four Years in Prison for Role in Fraudulent Manipulation Scheme

*by PR-Newswire*

WASHINGTON, Jan. 27 /PRNewswire-USNewswire/ -- The former vice president of reinsurance of American International Group Inc. (AIG), was sentenced today to four years in prison for his role in a fraudulent scheme to manipulate AIG's financial statements, the Department of Justice announced.

Christian M. Milton, 61, of Wynnewood, Pa., who served as vice president of reinsurance at AIG from approximately 1982 to March 2005, was convicted by a federal jury on Feb. 25, 2008, on charges of conspiracy, securities fraud, false statements to the U.S. Securities and Exchange Commission (SEC) and mail fraud. In addition to the prison term, Milton was sentenced by U.S. District Judge Christopher F. Droney to two years of supervised release following his release from prison and a $200,000 fine. Milton was ordered to surrender himself to federal authorities in 60 days.

Evidence presented at trial proved that Milton and his co-defendants, Ronald E. Ferguson, Elizabeth A. Monrad, Robert D. Graham and Christopher P. Garand, all former General Reinsurance Corporation (Gen Re) executive officers, engaged in a scheme to falsely inflate AIG's reported loss reserves, a key indicator of financial health to insurance industry analysts and investors. According to trial evidence, the fraud was carried out through the use of two sham reinsurance transactions between subsidiaries of AIG and Gen Re in response to analysts' criticism of a $59 million decrease in AIG's loss reserves for the third quarter of 2000.

The two sham transactions, evidence showed, increased AIG's loss reserves by $250 million in the fourth quarter of 2000 and $250 million in the first quarter of 2001, masking a declining trend in loss reserves in the face of premium growth. Evidence showed that AIG restated the transactions at issue in filings with the SEC in May 2005. Evidence presented at trial established that when the investigation was disclosed to investors by AIG and through various media outlets between Feb. 14 and March 14, 2005, shares of AIG stock dropped from $73.12 to $61.92.

All five defendants were convicted on all counts presented against them in the 16-count superseding indictment. Subsequently, on Oct. 31, 2008, Judge Droney found that AIG's shareholders lost between $544 million and $597 million as a consequence of the defendants' fraudulent scheme.

According to evidence at trial, each of the defendants knew that the true purpose of the transactions was to permit AIG to falsely report increasing loss reserves in its statements to analysts, investors and in its SEC filings. The defendants structured a sham reinsurance transaction, according to trial evidence, and created a phony paper trail to make it appear as though Gen Re had solicited reinsurance from AIG when the evidence demonstrated that the parties knew AIG wanted the transaction to manipulate its financial statements. Additionally, evidence presented at trial proved that the defendants entered into a secret side deal whereby AIG would never have to pay any losses under the contracts; AIG would return to Gen Re the $10 million in premiums Gen Re paid to AIG and AIG paid Gen Re a $5 million fee for entering into the transaction.

The case was prosecuted by Principal Deputy Chief Paul E. Pelletier and Assistant Chief Adam Safwat of the Criminal Division's Fraud Section as well as Assistant U.S. Attorneys Eric J. Glover of the District of Connecticut and Ray Patricco of the Eastern District of Virginia. Additional assistance was provided by Paralegal Specialists Sarah Marberg of the Fraud Section, and Amy Konarski of the District of Connecticut. The ongoing investigation is being conducted by the U.S. Postal Inspection Service.

Source: U.S. Department of Justice