



AIG Presentation

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The CEO of AIG



C.V. Starr, c. 1964

Cornelius Vander Starr

- Established an insurance agency in Shanghai, China.
- The first Westerner in Shanghai to sell insurance to the Chinese in 1949.
- Management of the company's lagging U.S and holdings to Maurice R. Greenberg.

M.R.Greenberg



- American businessman and former chairman and CEO of AIG
- The world's 18th largest public company.
- Selling insurance through independent brokers rather than agents to eliminate agent salaries.
- Currently CEO of C.V.Starr and Company.

AIG's CHANGE

1919 American Asiatic Underwriters(AAU)

- Sell American insurances in Shanghai.

Asia Life Insurance Company

- Target is Chinese to sell life insurance
- Hong Kong, Indonesia, Philippine, Jakarta.

1926 American International Underwriters(AIU)

- Header agent in America, they were guarantee for American's accidents.(started from Home foreign business)
- New strong agent in Latin America around 1930~45



HISTORY OF AIG

AIG's CHANGE

1968

-Starr died and Greenberg became a CEO

1970

-Greenberg was succeeded as CEO by Martin J,Sullivan.

-Martin J. Sullivan began his career at AIG in London Office.

1984

-AIG listed their stocks on New York stocks exchanges and AIG be came the largest insurance company.



HISTORY OF AIG

AIG's CHANGE

2005

-Became embroiled in a series of fraude investigations conducted by the Securities and Exchange Commission, U.S Justice Department, and New York State Attorney General's office.

-The New York Attorney General's investigation led to a \$1.6 billion fine for AIG.

2008

-June, 15 after disclosure of financial looses and subsequent to a falling stock price, Sullivan resigned by Robert B. Willumstad.

What happen with AIG?

- 1987: AIG Financial Products (AIGFP) risk management solution credit default swaps
- Early 2007: AIG had assets of \$1 trillion, \$110 billion in revenues, 74 million customers and 116,000 employees in 130 countries and jurisdictions
- Mid-September 2008: liquidity crisis
- Emergency government assistance



AI*G*'s collapse

- The decline in real estate prices and the market value of mortgage backed securities.
- As a result of the decline in AI*G*'s capital reserves, Standard & Poor's and Moody's Investors Service downgraded AI*G* from triple A to the single A level.
- These rating downgrades to the single-A level triggered collateralization requirements under AI*G*'s CDS contracts
- The amount of the collateral that AI*G* had to produce under its estimated \$450 billion of CDS contracts approximated \$100 billion.



Systemic Risk

- What is the Systemic Risk?
- AIG's business model has many inherent risks that are correlated with one another. As the global economy has experienced multi sector failures, AIG has been weakened by these multi sector failures.
- Bear Stearns and Lehman Brothers, Fannie Mae and Freddy Mac
- Systemic risk afflicts all life insurance and investment firms around the world.



Impact of AIG Collapse

- A World Wide Recession
- Unemployment Rising
- Home Owners Falling
- Falling House Prices
- Falling Stock Market
- Falling Interest Rates
- Uncertainty in the Financial Markets



Global Financial Crisis

- Global financial crisis emerged in September 2008
- Failure of several large United States-based financial firms and spread with the insolvency of additional companies, governments in Europe, recession, and declining stock market prices around the globe.



Global financial crisis & AIG

- Warning about the financial stability and risk management practices of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the subprime mortgage crisis
- American International Group (AIG), was once the world's biggest insurer.
- AIG is not just an American company.



Federal Reserve Bailout

- On September 16, 2008, There was an announcement of The Federal Reserve Bank's Board of Governors.
- Credit facility for up to US\$85 billion in exchange for a 79.9% equity interest
- The loan was collateralized by the assets of AIG.
- On September 22, 2008, AIG was removed from the Dow Jones Industrial Average.



Additional Bailouts of 2008

- On October 9, 2008, the company borrowed an additional \$37.8 billion via a second secured asset credit facility created by the Federal Reserve Bank of New York.
- Announcement of the U.S. Treasury on November 10, 2008
- Another announcement of the Federal Reserve Bank of New York (FRBNY)



Questions about Bailout

- Was “taxpayer” money going to banks through AIG ?
- Can preventing short-term disruptions by bailouts postpone the problem?
- How is their particular bailout policy going to solve the overall problem?



Crisis of AIG

A better bailout

The federal government is to buy \$40 billion of the ailing insurance giant's stock as part of rescue deal now totaling \$150 billion.



Share price

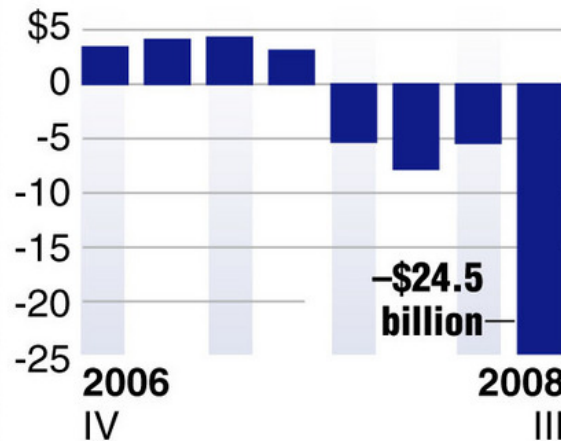
Closing price daily since Oct. 2, 2006



Source: AIG, Yahoo! Finance
Graphic: Pat Carr

Profit and loss

Quarterly results since third quarter 2006



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Record Losses in 2008

- On March 2, 2009, AIG reported a 4th quarter loss of \$61.7 billion for the final three months of 2008
- Largest quarterly loss in corporate history
- Stock markets around the world fell sharply following the announcement
- DOW Jones Index fell below 7000 points, lowest since 1997
- AIG posted a \$99.29 billion loss for the whole year of 2008
- Five consecutive quarters of losses since the 2008 1st quarter



Executive Bonus Payments Outrage

- In March 2009, AIG announced that \$165 million of bonuses would be paid to the top executives in the company.
- Caused strong opposition by the President and the rest of America
- President Obama stated: “Its hard to understand how derivative traders at AIG warranted any bonuses, much less \$165 million in extra pay~~”



Reactions from Politicians

- Senator Richard Shelby of Alabama stated: “These people brought this on themselves. Now you’re rewarding failure.~~”
- Senator John Tester of Montana said: “This is ridiculous. AIG executives need to understand that the only reason they even have a job is because of the taxpayers.”
- Federal Reserve Chairman Ben Bernanke was quoted saying: “It makes me angry. I slammed the phone more than a few times on discussing AIG.”



Bonuses : Statistics

- 418 employees received bonuses
- 298 got more than \$100,000
- the highest bonus was \$6.4 million
- 6 employees received bonuses of more than \$4 million
- 15 employees received bonuses of more than \$2 million
- 51 employees received bonuses of \$1 million to \$2 million



Returning the Bonuses

- On March 18, 2009, AIG chief executive Edward M. Liddy, asked some recipients of the bonuses to give at least half the money back
- A couple days later, Jon Liebergall, the co-head of the North American marketing for AIG's financial products unit, agreed to return the bonus money
- Other executives were also reported to be giving back their retention bonuses
-in the end, almost all of the executives gave back their bonuses



Conclusion

- US Treasury feels that AIG is too important to fall
- The Federal Reserve said that AIG posted a “system risk” to the global economy
- Collapse of AIG would be extremely disastrous to US and Global Economy
- US Government will keep investing into AIG to prevent it from going bankrupt



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