

# [Aig bailout and stakeholder analysis](https://assignbuster.com/aig-bailout-stakeholder-analysis/)

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AIG Bailout & Stakeholder Analysis In September 2008, the American International Group, AIG, the largest insurance company in the United States, suffered from the bad debts incurred insuring mortgage-backed securities. As a result, within a matter of three months, AIG reported a startling quarterly loss of $61. 7 billion, largest in the U. S corporate history. Instead of watching this global insurance giant fall on its keens, the U. S. government has decided to lend a helping hand by bailing out AIG. However, this generosity isn’t without a cost.

Seven months and four bailout programs later, the American taxpayers are stuck with a bill for the amount of $182 billion, in return for 79. 9% equity stake of the failing company. Soon after the bailout fund was received, the board of directors at AIG announced that the company will continue to reward its senior management and traders with the contractual $165 million bonus, the same group of people that caused the AIG collapse and global credit crisis in the first place. Personal, I am completely disgusted with this particular decision.

How can any of the executives and traders be able to spend a penny from this bonus pool knowing what their action have caused. Just like Cousin Robin, millions had lost their life time savings due to someone else’s greed and irresponsibility. However, at the same time I have no choice but to agree with the government’s decision on bailing out AIG and indirectly looking out for its employees and shareholders. The following is my argument based on the impact from several stakeholders if the government had not done so. Investors:

The first immediate impact of the AIG bankruptcy will be its investors. Although AIG is widely regarded as world’s No. 1 insurance corporation, many had not realized that AIG is also the world’s largest credit insurer for many major corporations as well as the largest issuers on credit related derivative products such as Credit Default Swap or CDS. During the second and third quarter of 2008, the credit rating on many mortgage security firms were downgraded when mortgage default rating reached its all time peak and firms were failing to meet their debt obligations.

Consequently, as a credit insurer, AIG were obligated to pay investors the contractual swap payment. However, since firms were defaulting at an astonish rate, it was almost impossible for AIG to come up with any of the payments. Without any payment, most of the investors weren’t able to meet their own legal obligation and this transcended down to a vicious cycle and eventually turned into a global crisis. Now, when AIG received the government bailout package, its immediate action was to pay its clients and alleviated the pressure of any firm that was involved before things got worse.

Goldman Sachs for one was the biggest beneficiary from this bailout as the firm was facing many uncertainties of its own. Average Consumers/General Public: The average consumers may not realize this, but AIG cannot fail. Not only does it play a major role in the U. S. economy, it plays a crucial role in our daily lives. It impacts anyone who owns a home, car, insurance, or even a student loan. The AIG statistics are overwhelming. The company has 74 million customers around the globe. 0 million of those clients are American based. AIG operates in more than 130 countries. Prior to the current market conditions, the company backed more than $298 billion in assets globally. Just its quarterly loss along had sent the world market into an abyss, the Dow lost 300 points and Asian market toppled to a new low. The answer is fairly simple, the average consumers like myself have so much invested in AIG that we cannot see it fail.

The implication on it defaulting will be far worse than losing 75% of our retirement fund. Employees & Shareholders: I will need to bring employees and shareholders into the same category here since most of the AIG employees are its shareholders. These two groups are probably on the worse end of the deal than anyone else. The bailout package is a very good indication that the government is nationalizing AIG as it holds 80% of its shares, a move that wiped out most of the shareholder’s value.

On the other hand, many had yet to realize that before the bailout, AIG was on the blink of “ extinction”, which will result unemployment and an empty retirement portfolio. With the bailout, employees like Robin can safely say “ I am still employed. ” And to those who are optimistic can even say, if the bailout does workout in the years to come and AIG is successfully restructured under the economy reforming, their portfolio will be back to its fair market value, maybe even more. It is reasonable to assume that anyone who is on the same boat as Cousin Robin will be disgruntled.

On the other hand, when we dissect the situation in further depth, one will realize that the AIG bailout will restore economic stability, prevent future collapse of large institutional investors, support the financial community, not to mention restore consumer confidence. Thus, as one of the millions U. S. taxpayers, I will have to disagree with Robin and certainly applaud the government’s decision on handing out the AIG bailout. -------------------------------------------- [ 1 ]. http://www. onlineforextrading. com/blog/aig-bailout-again/ [ 2 ]. http://www. onlineforextrading. com/blog/aig-bailout-again/