

Gambling with the future: aig's insurance trading research paper examples

[Business](#), [Company](#)



Companies experience stress depending on decisions they made or did not make, thus, resulting to either an organization-wide issue or a controlled problem within a department. The manner by which the company manages these stressors will determine the success or failure of the organization. For this case, the focus of discussion is on American International Group, Inc., or AIG, " the largest insurance company in the United States before it suddenly collapsed in September 2008" (American International Group Inc., 2012). According to studies, insurance risks are self-generated, based on internal decisions of which trades to make or not, and what future factors may cause these trades to fail or not. In the case of AIG, the stress came from having too many varied businesses including " aircraft leasing to life insurance for Indians to retirement plans for elementary school teachers" (American International Group Inc., 2012). Although this side of the business remained profitable for the company, losses incurred by a division in London reached over a quarter of a billion in losses during the third quarter of 2008. Because of the financial intricacies involved in the deals, federal executives decided to bailout AIG out of bankruptcy (American International Group Inc., 2012). Another source of stress for the insurance giant comes from difficulty in predicting an uncertain financial future and how much financial risk can be accumulated without incurring large losses. What added further anxiety is the timing of the event, which was during the global financial meltdown felt across the world. Without a definite date or plan as to when things will get back to normal, AIG was facing a huge risk of losing everything. However, according to a report in The New York Times, despite a grim future with losses spilling over into 2009 and bailout ballooning to about \$182 billion,

"[AIG was able to reclaim] its old title - top seller of fixed annuities" by spring of 2010 (American International Group Inc., 2012). Right now, to keep matters in proper perspective, AIG sold its assets to decrease the amount of loans it has, but continues to find parties interested in buying its other assets and properties.

Finally, AIG's risks are cumulative. Each trade builds up a little more (or a little less) risk for the company from the previous trade, and pushing the risk collapse further down. As is the case with other companies, knowing the organization's financial position will push management to invest some more in the hope that it could recoup whatever previous losses it has incurred in other trade deals. The problem with this though is that with an uncertain financial future, there is no strict guarantee of financial recovery (Sylva 2012). To make matters worse, AIG's method of mitigating risks was a questionable bonus payment amounting to \$165 million in 2009. AIG was badly hit by negative press as Harvard Business Review asserts, "countless legal experts have already suggested numerous reasons why it is likely that there is no ironclad legal obligation to pay the bonuses to the people who caused the problem." (Heineman, Jr. 2009).

Works Cited

" American International Group Inc." The New York Times. 2 Nov 2012. Online. .

Heineman, Ben Jr. " AIG's Bonuses: A Dangerous Failure of Leadership." Harvard Business Review. 2009. Web. 29 Nov 2012. < http://blogs.hbr.org/cs/2009/03/perilous_obfuscation_aigs_bonu.html>.

Sylva, Jason. " Risk Management in a Time of Global Uncertainty." Harvard Business Review. 2012. Web. 29 Nov 2012.