Financial and ethical risks at american international group essay sample

Sociology, Ethics

1. Discuss the role that AIG’s corporate culture played in its downfall.

The corporate ethical culture at AIG was far from a good one. The corporate culture focused on high risk taking schemes that were only there to focus mostly on short-term financial gain. The AIG Financial Products unit specialized in derivatives and other complex financial contracts that were tied to subprime mortgages or commodities. While its dealings were risky, the unit generated billions of dollars of profits for AIG. Nevertheless, during his long tenure as CEO of AIG, Maurice “ Hank” Greenberg had been open about his suspicions of the AIG Financial Products unit.

2. Discuss the ethical conduct of AIG executives and how a stronger ethics program might help the company to strengthen the ethics of its corporate culture.

Investigators believe that AIG may have goosed its financial performance with dubious transactions and improper accounting. A stronger ethics program might help the company to strengthen the ethics of its corporate culture. Ethics programs convey corporate values, often using codes and policies to guide decisions and behavior, and can include extensive training and evaluating, depending on the organization. They provide guidance in ethical dilemmas

3. What could AIG have done differently to prevent its failure and subsequent bailout?

Treasury Secretary Tim Geithner recommended the mandatory formation of clearinghouse as a means for preventing future financial crises. This view that clearing could have prevented the AIG problem, and the necessity of spending amounts of huge taxpayer dollars in a bailout, is based on an incomplete understanding of how clearing actually works. A more complete analysis demonstrates that it is unlikely that clearing would have made a blow up less likely, and it would almost certainly have made things worse by concentrating the risk on fewer systemically important banks.

Holding AIG’s positions constant, clearing would have not substantially affected the allocation of losses among its trading parties, and if these losses required a bailout without a clearinghouse, they would have required them with a clearinghouse If anything, the losses from an AIG default would have been concentrated at fewer banks (the members of the clearinghouse, a subset of AIG’s counterparties).

This case first examines the events leading up to the 2008 meltdown, including the philosophy of top management and the corporate culture that set the stage for AIG’s demise. Then it reviews the events that occurred in 2008, including ethical issues related to transparency and failed internal controls. Finally, the analysis looks at the role of the government and its decision to bail out AIG, taking 79. 9 percent ownership in a company that grossly mishandled its responsibility to its stakeholders.