American international group, inc. or aig

One of the world’s biggest insurance companies has experienced a major setback that urged the U. S. government to take the necessary procedures in acquiring and managing the firm – AIG. The $85 million deal has spared the American International Group, Inc. or AIG to an imminent bankruptcy, which could create bigger problems for the holistic financial system.

Obviously, AIG’s SOS is one of the many repercussions of the recent meltdown in Wall Street. Unlike the Lehman Brothers Holdings, Inc., the federal government cannot afford AIG to hit the bankruptcy pavement. AIG already was clamouring for financial aid from the government in order to prevent the firm from going bankrupt.

Not until the recent Wall Street Meltdown, The federal government finally came into terms with AIG regarding the substantial loan that will spare the insurance firm from apparent bankruptcy.

With this in tow, the government has acted accordingly upon its legal authority, which allows the government to lend non-bank firms under “ unusual and exigent” circumstances that is stated in the Federal Reserve Act.

AIG’s assets secure the said loan, which gives the government the security it needs even if markets continue to hit the ground (Karnitschnig et al, 2008).

The height of AIG’s financial crisis reached critical levels when the credit rating was eventually downgraded. The insurance firm was compelled to place a $14. 5 in collateral.

However, AIG cannot seem to acquire funds in a wink of an eye in order to sustain collateral demands even though it has enough assets to sell.

Eventually, AIG's board approved the deal that spared the firm from hitting the bankruptcy pavement. The firm's decision will secure all AIG policyholders and the firm itself to initiate and conduct assets sales in an apt manner.

The federal government was more than aware that AIG's possible bankruptcy will create repercussions, and it will result to a domino effect of catastrophic proportions. Considering that most mutual funds and major banks are crucial holders of the firm's debts, AIG would be the linchpin of setbacks for these firms as well (Karnitschnig et al, 2008).

As AIG's futile attempts to garner funds from private-sector banks in order to raise as much as $75 billions in order to prevent bankruptcy, abrupt financial aid given by the government secures AIG's finances even if its insurance operations are stable and healthy. The federal government speculates that AIG's financial woes will beget more problems for the firm, if ever it won't lend the much-needed finances the firm needs to spare itself from bankruptcy.

AIG's shares have plummeted 21% ($3. 75) due to the fact that most investors have replenished stocks due to the insurance firm's financial woes (Karnitschnig et al, 2008).

Most insurance companies perceive that AIG is one of a kind, considering that former CEO Hank Greenberg founded AIG into the insurance giant that it is today. Industry pundits expect AIG to liquidate its assets in the Asian market in order to compensate for the loan it has from the federal government.

However, AIG's expansion to other emerging markets continues, as its insurance operations can result to substantial acquisition of firms in Asia as well (Karnitschnig et al, 2008).

References

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