- CEO Maurice "Hank" Greenberg
  - Was named CEO of the year by Chief Executive magazine
  - Served on the board of directors of the New York Stock Exchange
  - Served as chairman of the Federal Reserve Bank of New York
  - Advised presidents
  - Oversaw AIG's growth over the previous 3 decades.
- At its peak, AIG was the largest insurance company in the world, with a market value of around $240 billion.
- 1919 - Founded by Cornelius Vander Starr as an insurance agency in Shanghai, China.
  - He was a 27-year-old businessman from the United States.
  - Originally a two-room, two-clerk insurance agency called American Asiatic Underwriters.
  - Originally served as an underwriter for insurance companies that had established branches in Shanghai
    - An underwriter evaluates and analyzes the risks involved in insuring people and assets. Establish price for risk.
- 1921 – Established his own company called Asia Life Insurance Company to provide life insurance.
  - Rates were established based on Starr's personal observation that, Chinese enjoyed longer life expectancies than their Western counterparts (no life-expectancy statistics available for the Chinese population).
- 1926 – Opened a New York office to serve as an underwriter on U.S. owned risks outside of North America.
- 1939 – Moved headquarters to New York.
- 1950 – Operations in China were closed at the regime of Mao Zedong. Shortly after the Communist revolution and the new leadership.
- 1950's – Throughout the decade they expanded rapidly, operating in 75 countries by the end of it.
- 1967 – AIG is formed to become the holding company for all these various insurance companies.
- 1967 – Maurice Greenberg becomes president and CEO of AIG.
- 1968 – Starr died.
- 1969 – Becomes a public company. Soon acquired other companies using the highly valued stock.
  - Acquired National Union, New Hampshire, and American Home.
- 1987 – Surpassed $1 billion in net income.
- 1988 – Enron was awarded $162 million claim from insurers for Peruvian properties that had been expropriated, and AIG was forced to pay nearly 2/3 of the judgement.
- 1999 – SunAmerica Inc. is acquired for $18.3 billion.
  - They were a major player in annuities and mutual funds.
- 2000 – Acquired HSB Group Inc. for $1.2 billion.
- 2001 – Acquires American General Corporation for $23 billion.
  - Became the #2 life insurance firm in the U.S., following Prudential.
- 2001 – Reports losses of $820 million, stemming from the 9/11 terrorist attacks. Overall net income was still $5.36 billion.

- 2005 – Greenberg was forced to step down after an accounting scandal that led to a $1.6 billion fine for the company, civil charges against himself, and an investigation that ousted numerous executives.

Accounting Scandal

- 2003 – Insurance product sold by AIG, known as finite-loss coverage, which seemed designed to help the companies that bought it hide profit shortfalls.
    - Paid $10 million to settle a lawsuit filed by the SEC over the insurer's sale of finite insurance to Brightpoint Inc., a cellphone distributor in Indiana, helped them conceal $11.9 million in losses in 1998.
    - Helped issuers report false financial information to the public.
- 2004 – Admitted to participating in sham transactions between 2000-2004.
    - Two of them were deals with General Reinsurance Company and Capco, and were intended to make AIG's reserves look $500 million healthier than they actually were.
- In May 2005, AIG restated its earnings for the prior 4 years, leading it to lower profits by nearly $4 billion. Restatement goes back to 2000.
- 2006 – AIG settled for $1.6 billion.
    - Apologized for deceptive business practices extending as far back as two decades ago.
    - Settlement reached with Justice Department, SEC, and others.
    - Most of it went toward benefiting the victims. I'm talking about people who bought stock in the company based on false numbers, people who paid too much for their insurance policies, and the states themselves where they underpaid in taxes.
    -
- 2017 – Greenberg admitted to his role in the fraud as part of this $9 million settlement
    - Howard Smith, former CFO, had a $900,000 settlement.

Scandal Categories

- Finite insurance
    - Insurance deal intended to add $500 million in phony loss reserves to AIG's balance sheet.

Bailout

- 2013 – AIG repaid the last installment on its debt to taxpayers, and the U.S. government relinquished its stake in AIG.
- AIG would insure CDOs (mostly bundled mortgages).
    - Made the division's revenues rise from $737 million to more than $3 billion.
- There were a bunch of foreclosures on these homes, AIG had to pay out.
    - Division had about $25 billion in losses.
    - As the mortgages tied to the swaps defaulted, AIG was forced to raise millions in capital.
    - As stockholders got wind of the situation, they sold their shares, making it even more difficult for AIG to cover the swaps. They were left without the cash to pay them.
- Too big to fail

- A huge number of mutual funds, pension funds, and hedge funds invested in AIG or were insured by it, or both.
  - Investment banks that held CDOs insured by AIG were at risk of losing billions.
  - Financial institutions were also major holders of AIG's debt.
  - Money Market funds were invested in AIG bonds.
  - Decided by the U.S. government that they were too vital to the global economy to be allowed to collapse, a deal was struck to save the company.
  - If AIG went bankrupt, it would trigger the bankruptcy of many of the financial institutions that had bought the swaps.
  - AIG reported a loss of $62 billion in the 4th quarter of 2008. When they reported it in March of 2009, it caused a massive drop in the stock market.
- Government issued a loan to AIG in exchange for 79.9% of the company's equity.
  - Happened the day after Lehman Brother's bankruptcy.
  - Original amount was listed at $85 billion and was to be repaid with interest. It was the largest bailout of a private company in the history in the United States.
  - Stock prices had fallen 95% by the September 16th announcement.
  - Greenberg went public with his own criticism of how things had been handled at the company.
  - Eventually the total was estimated to be $150 billion, maybe $182 billion. Twice the original amount.
    - Bought another $40 billion in AIG stock through the Troubled Asset Relief Program in November.
    - Loaned the company an additional $38 million.
    - Much of this money went to pay bank customers who were irresponsible in their actions and receiving their own bailout money.
  - Was it appropriate for the government to use taxpayer money to purchase a struggling insurance company?
    - Specifically, the use of public funds to pay out bonuses to AIG's officials.
    - Government made a reported $22.7 billion in interest on the deal.
  - The following year (2009), AIG paid $165 million in bonuses to its executives. Retention bonuses. Asked to stay and help deal with the situation.
    - That one was even criticized by president Barack Obama.
- 2015 lawsuit – AIG agreed to pay $960 million to investors who bought AIG shares in the years leading up to the bailout. Company was accused of misleading shareholders about how risky the credit default swaps were. Class action lawsuit.

Paying it back

- To raise money to pay it back, they sold a bunch of stuff
  - One of the notable ones was in 2010 when they sold American Life Insurance Co. to Metlife, Inc., for $15.5 billion in cash and stock.
- U.S. treasury sold their stock in the company to the public, actually making a profit on it.

Mortgage Crisis

- Not the banks problem once the CDO was sold.
- Passed along the risk, AIG took on that risk, allowed them to sell more. Motivated.
- AIG offered insurance on the CDOs through a product called a credit default swap.
  - This was insurance for the bank and investor if the people who had taken the loans failed to pay.
  - AIG had high credit ratings so they were permitted to do these swaps without putting up any collateral.
- By 2008 it was estimated that AIG Financial Products had insured $441 billion in securities through credit default swaps.
- Housing market crashed; the value of the mortgage-backed securities began to drop as well. The insurance policies were supposed to protect the banks against just this kind of occurrence. AIG did not have the money put aside to pay the claims.
- AIG never expected that they would need to pay out on the insurance products it was selling on the CDOs.
- September 16, 2008, severe blow. AIG’s credit rating was downgraded, they now had to post billions in additional capital against all of its swaps. You know, it’s a little late to finally ask them to actually have the money ready they promised in case of such an event.
- The biggest commercial insurer in the United States was on the edge of complete and total collapse.

Scandal Allegations

- Bid-rigging – submitted fake bids to create the illusion of a competitive bidding process.
  - Paid a $12.5 million settlement to various states.
  - Denied the allegations
  - Worked with insurance brokers to do it.
- Paid insurance brokers to steer business its way
- Used fraudulent insurance transactions to bolster the quality and quantity of its earnings
- Underreported to state insurance departments the amounts of workers’ compensation premiums it had collected, on which it owed taxes.
- Paid $1.6 billion in connection to all of it.
  - $800 million goes to investors deceived by false financial statements.
  - $375 million to AIG policyholders harmed by bid rigging activities.
  - $344 million to states harmed by AIG’s practices involving workers compensation funds.
  - $100 penalties to New York and the SEC.
- In June of 2005 AIG admitted to committing roughly $4.3 billion worth of accounting errors, with most of those involving an overstatement of earnings.

General

- Heavily associated with the phrase “Too big to fail” (Wikipedia).
- “AIG was and is a solid company that didn’t need to cheat”, NY Attorney General Eliot Spitzer. “It finds itself in this position solely because some senior managers thought it was acceptable to deceive the investing public and regulators.”

Fraud

- Could have been going on for decades but the core of the investigation centered around the years 2000 to 2005.
- Reinsurance Transactions
  - 2000 – 2 of them with Gen Re - Purpose was to add a total of $500 million in phony loss reserves to AIG’s balance sheet. Investors showed concern that they didn’t have enough money in reserve so that was their shady solution.
  - Also in 2000 – engaged in a transaction with this company Capco to conceal about $200 million in underwriting losses, by improperly converting them to investment losses to make them less embarrassing to AIG.
  - AIG admitted that the accounting had been improper and that the purpose behind those transactions had been to improve financial results that AIG had believed to be important to the market.
- Charged AIG with securities fraud for fashioning and selling a sham “insurance” product to Brightpoint (cell phone distributor?) for the purpose of enabling Brightpoint to report false and misleading financial information to the public. AIG settled it with the payment of a $10 million civil penalty.
  - 2003 – Insurance product sold by AIG, known as finite-loss coverage, which seemed designed to help the companies that bought it hide profit shortfalls.
  - Paid $10 million to settle a lawsuit filed by the SEC over the insurer’s sale of finite insurance to Brightpoint Inc., a cellphone distributor in Indiana, helped them conceal $11.9 million in losses in 1998.
  - Helped issuers report false financial information to the public.
- SEC charged AIG with securities fraud for developing, marketing, and entering into transactions that enabled another public company, PNC to remove fraudulently certain volatile loans from its balance sheet.