American International Group Bailout Case Study

**Background**

American International Group (AIG) is a global insurance corporation. According to AIG’s website, they attend to 90 million customers in over 100 different countries. They specialize in providing property insurance plans to large-scale companies and individually. AIG offers a variety of different insurance plans including retirement, mortgage, and more. Their name is highly recognized and accredited all over the world (http://www.aig.com/about-us).

AIG majorly contributed to the detrimental financial crisis of 2008. The company's careless mishaps resulted in the disappearance of millions of dollars and a highly damaged reputation. After the government came to their rescue by providing the financial resources needed for this bailout, they displayed another act of irresponsibility and abuse towards this money. This injustice caused an uproar of anger throughout the U.S, making the headlines of hard-hitting news around the globe. This resulted in a major downfall in their reputation that was once viewed as socially responsible and good.

The chain of events displayed in the history section of AIG’s website features some of the accomplishments they made while operating under society’s best interest. In previous years before the crisis, AIG worked on big projects and contributed to important matters of the world. They helped out during and after WWII by providing their support in many different ways. They assessed their resources to help provide money and supplies to many suffering families. They heavily supported the U.S military and provided insurance for our troops. Expanding all over the world, AIG actively engaged in aiding victims of many historical natural disasters such as the floods, earthquakes, and hurricanes that have taken place over time. According to the timeline on AIG’s website, they were the top insurance providers for the Trade Center Projects and helped many victims who were suffering from the heart-breaking terrorist attacks. Many of their other accomplishments throughout time include working to make advancements in educational, cultural, and environmental development. Overall, they strived to build their reputation on the foundations of the morals and values of these great achievements.

(http://www.aig.com/about-us/history)
Key Players

Federal Reserve: Gave American International Group funds for bailout
AIG Executives
Martin Sullivan: CEO of American International Group until June 2008
Robert Willumstad: CEO of American International Group from June to September of 2008
Edward Liddy: During the executive retreat was CEO

Situation and Problem

In 2008, AIG made headlines for hosting an expensive vacation at St. Regis Resort that cost almost half a million dollars. Prior to the vacation, The Federal Reserve granted an $85 billion loan to AIG for the likeliness of the company going bankrupt due to credit default scams and lying to investors. According to The Washington Times, “AIG’s weekend getaway estimated at about $375,000” (Lengell, AIG followed bailout with 440k retreat, 2008).

The issue regarding the AIG bailout is that they took advantage of the Federal Reserve loaning them funds. AIG could have avoided the abundance of negative media attention that it received for this wrongdoing if they had acted modestly. Instead, they were irresponsible and took a retreat. There have been similar situations of companies abusing their privileges such as the Bernie Madoff Scandal in 2008. Madoff went to jail for lying to his investors and tricking them out of billions. However, AIG situation was worst to the public because they abused the system and took taxpayers money when they were already in debt. (Lenzner, Bernie Madoff’s $50 Billion Ponzi Scheme, 2008).

The trip hurt the company’s reputation and affected everyone involved. Following the headlines, people viewed AIG executives as criminals and sent their families death threats. "They were getting their manicures, their pedicures, massages, their facials while the American people were paying their bills," said Rep. Elijah E. Cumming.

AIG Case Timeline

AIG was on the verge of becoming bankrupt in the fall of 2008. Prior to AIG being bailed out, it was announced by Secretary Henry Paulson that the Federal Reserve would no longer be doing bailouts. Disregarding Paulson statement, The Federal Reserve continued to do bailouts. (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012).

According to Bloomberg.com, “October 8th, 2008, Edward Liddy, CEO of AIG, received an expansion with an additional $37.8 billion because AIG was struggling to meet the demands of their clients pulling out of its securities-lending program” (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012). The next day, “the White House’s disapproval of
the gathering at a California resort” after providing billions in taxpayer dollars to prevent their bankruptcy. This resulted in Liddy’s termination by the Federal Reserve and the selling of parts of the company to begin paying off the loan that same month, according to Bloomberg.com (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012). At the end of 2008, “The Federal Reserve purchased $52.5 billion in mortgage-backed securities”(Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012).

Bloomberg.com also states that “AIG reported a record fourth-quarter loss of more than $60 billion and received an additional injection of up to $29.8 billion from The Federal Reserve” (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012). Following this, the total bailout amount increased to to $182.3 billion during the first month of 2009. In March, "Wall Street received more than $90 billion tied to securities-lending and credit-default swaps from the bailout” (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012). On the 18th of March, “Former CEO Liddy asked AIG employees in the derivatives unit receiving bonuses of more than $100,000 to return at least $50,000” (Tracer, AIG Bailout Ends Four Years After Two-Year Plan: Timeline, 2012).

**Crisis Overview**

According to the Financial Crisis Inquiry Report, “The Commission concludes AIG failed and was rescued by the government primarily because its enormous sales of credit default swaps were made without putting up initial collateral, setting aside capital reserves, or hedging its exposure – a profound failure in corporate governance, particularly its risk management practices” (p.352).

Credit defaults propose a promise from the insurance company to ensure the protection of another company or customer’s money in case a tragedy were to occur. The report claims that AIG’s bankruptcy was the result of money slowly being lost over time due to their failures to document and regulate it. This led to the government having to intervene. The vacation they took to celebrate the new life brought to their company was one on the taxpayers dime. This act of arrogance and stupidity landed AIG not only in the courthouse but in the limelight of shame. (https://books.google.com/books?id=QIKfTVrhNfMC&pg=PA352#v=onepage&q&f=false)
SWOT Analysis

AIG’s strengths include an overall relaunch in their mission and reputation. Their primary focus is the engagement of positive change and reaching out a helping hand. They dedicated their time, resources, and money to help the world in times of need. As shown in AIG’s timeline, they exemplify these pursuits by supporting national disasters such as earthquakes, floods, hurricanes, and terrorist attacks.

AIG’s weaknesses include contributing to the massive crisis that faced the U.S in 2008 because of their lack to follow proper procedures crucial for monitoring funds. In turn, the firm became nearly bankrupt and was forced to rely on an extensive amount of government funding. They exposed the misuse in the money that did not belong to them by making the decision made to take the retreat and unethically distribute this money. This created fury throughout the U.S and AIG’s trust was lost and their reputation plummeted.

AIG’s opportunities include the acknowledgment of their mistakes with action. According to AIG.com, some of the executives to receive this money returned it or put it to good use. As the history timeline displays, they collaborated their resources and efforts to develop beneficial software and programs to advocate security and safety. They found additional success by creating partnerships throughout the world. They utilized a fresh start and aspired to contribute to the environment. This promoted their reputation and business.

AIG’s threats included the negative stigma affiliated with their company name. They have an abundance of media outlets that covered this case that will remain throughout history. Business will come and go, but their name will forever last as well as their mission to maintain a positive mission. AIG failed in their organizational duties but succeeded in damaging the trust of many customers.

AIG’s relaunch appears as an acknowledgment of wrong-doings and the acceptance of improving their reputation standings. They have actively engaged in finding solutions to build their brand by their involvement in constructive projects all over the world. They pursued great opportunities as an outcome for their faults. They demonstrated acknowledgment through their current actions in the attempt to earn the trust of their past, current, and prospective customers. That progress to attempt that they had to earn the trust of their customers. They took responsibility to correct overall errors of the company both systematically and ethically. After completing our Research on the bailout and resort trip, it was concluded as a group that AIG should proceed in taking Action by making decisions in an ethical, honest, and responsible manner and avoid situations that lack those qualities. It is in the company’s the best interest to embrace effective Communication with customers, government officials, and as an organization. This requires transparency and the openness to respond rationally and responsibly.
in regards to questions, concerns, and criticisms. **Evaluating** the situation is understanding the errors that caused the crisis and understanding the obligations that follow. It will require AIG to remain consistent as an organization in their mission to spread goodness throughout the globe.

### Compared Case

An article in *The Texas Tribune* features another case of wrongdoing made by AIG last October. Juan Boston, a former employee of McLane Foodservices Inc. is suffering the consequences of errors made by AIG. New Hampshire insurance, an affiliate of AIG, failed to properly document Boston’s worker’s compensation after he badly injured his back. To make things worse, he was fired for his failure to perform at work due to his injury.

The article by Jim Malewitz states, "The case illustrates how state actions against rule-breaking insurers don't typically benefit workers harmed in the process, critics of the system say." The article also reveals AIG’s spokesman’s refusal to comment on the issue and instead, sent an email of acknowledgment. Still, nothing has been done to compensate the victim or bring justice to this issue overall.

(Malewitz, J. Humble Trucker Wins Hollow Victory in Workers' Comp Case. https://www.texastribune.org/2016/01/07/trucker-sees-no-remedy-injured-texas-workers/)

### Media Coverage

According to an article in *The Washington Times*, **AIG followed bailout with 440k retreat**, the company spent $200,000 in rooms, $150,000 in meals, and $25,000 for spa treatments. (Lengell, *The Washington Times*, 2008). *ABC News*, *USA Today*, *The Washington Times*, and *The New York Times* were some of the main news outlets to break the story. Multiple articles that focused on this story viewed the executives as guilty and portrayed them to media as guilty. For example, *The Washington Times* reported: "Top executives at failed insurance giant American International Group spent $440,000 at a company retreat just days after the federal government bailed out the company for $85 billion in taxpayer funds," (Lengell, AIG Followed bailout with 440k retreat, 2008). The media is creating preconceived notions about the executives to the viewers.

The media is often considered the watchdogs of society, so viewers rely on them to receive information, but we can’t always . Because these media outlets have been established for years they are considered prominent and credible. AIG profits billions of dollars, so we understand why the public may not take their word when they plead their innocence. Forbes magazine looked at the story from a different perspective through their article *The AIG Effect*. Author Mark Lewis said, "As public relations disasters go, AIG's was truly epic" (Lewis, *The AIG Effect*, 2010). The author chose to use the word epic at the end of the sentence. Using that word allows the reader to create their own judgment because the word offers a sense of
objectivity. The article then explains the situation. Lewis writes "Just days after the Federal Reserve rescued the troubled insurance giant with an $85 billion bailout package in September 2008, one of the firm's subsidiaries spent $443,000 to fête independent insurance agents at the five-star St. Regis Resort Monarch Beach in Dana Point, Calif. When word of this corporate bacchanal got out, AIG was denounced from every pulpit, podium and blog in the land." The article was completely unbiased and didn't put the blame on the executives. (Lewis, The AIG Effect, 2010).

MSNBC also reported on the incident. Brian Williams reported for MSNBC, their tactic was to use one of the top journalists to bring in views. When covering the story, it was very obvious that they were creating the idea of guilt for the executives because there were visuals of news boxes with the words “hot seat” underneath. To defend themselves, AIG began claiming that no executives went on the vacation, and only their top insurance performers did. They also stated that it was acceptable for companies in the business to host trips.

ABC reported that AIG fights back by saying that no executives attended the get-away. "He stresses that it rewards independent insurance agents who were top performers for the company" (Rhee, AIG Fights Back on 440,000 Resort Trip: Says No Corporate Executives Attended, 2008).

The New York Times reported that AIG also had another conference retreat planned but after receiving backlash, the trip was canceled. Joe Norton, AIG's director of public relations told The New York Times that the event was planned a year before. "AIG canceled the conference at the Ritz-Carlton in California's Half Moon Bay after a re-evaluation of the costs under the new circumstances," said Norton. (AIG cancels conference at resort amid inquiry over expenses, 2008). Dean Bare, managing director of Stanton Chase International, said "incentives for sales departments have proven over time that they work, and that's true in every business that depends on the selling effort. If these trips didn't work, they would have stopped doing them a long time ago."Elijah Cummings, a Maryland Democrat, said: "I cannot fathom how in the same day- the very same day- that AIG asked the government for another $37.8 billion loan, the company would even consider moving forward with plans to host another large conference at another luxury resort." According to The New York Times, AIG thought about buying advertisements to explain its position, only to be told by its public-relations consultant, George Sard, that it would be "a really bad idea" (AIG cancels conference at resort amid inquiry over expenses, 2008).
Conclusion

After the Crisis, AIG took the steps needed in order to restore a positive reputation. According to their company timeline, they repaid the U.S. government for the borrowed funds in 2012 as an attempt to relaunch a good reputation. AIG barely apologized and just continued to work on large projects to benefit the greater good. A new president and CEO was also a product of their relaunch.

The timeline on their website includes some of AIGs positive efforts after the crisis. They continued to work with outside countries through the hardships of natural disasters by donating money to projects or providing their supplies and other resources. They implemented various types of technological protection programs and plans to ensure the safety of organizations information. Overall, they made decisions based on social responsibility and took the initiative to improve other company’s downfalls. (http://www.aig.com/about-us)
Benoit Image Theory

Strategy 2- Evade Responsibility

Defensibility- Defensibility was used because AIG tried to defend their actions and brought advertisement to explain their side. However, AIG failed to properly gain their reputation back in the beginning.

Good Intentions- AIG tried to explain to the public that they had good intentions regarding the trip. Their response to going on the retreat was the following, "Incentives for sales departments have proven over time that they work, and that's true in every business that depends on the selling effort," said Dean Bare, managing director of Stanton Chase International, an executive search firm. "If these trips didn't work, they would have stopped doing them a long time ago."

Strategy 3- Reduce Offensiveness

Bolster- Bolster is the act of stressing good traits. Instead of apologizing, AIG made it a priority to discuss their accomplishments on their website. On the website you can find all the beneficial initiatives that was taken when supporting crisis. AIG attempted to shift the focus of the situation instead of being transparent with the public.

Minimize Harm- Minimizing harm is to act as if a action wasn’t that serious. In AIG case, they attempted to defend themselves and acted as if their actions was an normal practice. AIG spokesperson Nicholas Ashooh, "It's very much accepted practice in the insurance business, especially to reward high-performing individual agents."- AIG spokesperson Nicholas Ashooh. "It's still painful and it's been very distressing to our employees."

Compensate - Following the backlash of the case, fifteen executives gave back some of the bonuses they received and donated to charity.
Works Cited


