AIG Business Ethics

Introduction

AIG are initials standing for American International Group. It is a universal organization serving customers in more than 100 countries in the world. American International Group, Inc. is an insurance firm for a system of companies initially involved in insurance and their related activities. The events involve life, property, casualty, retirement savings products, financial services, aircraft leasing, and asset management. The firm functions in over 130 jurisdictions and nations, and its integrated revenues tend to make it the biggest U.S.-based international insurance enterprise. The company is the principal underwriter of industrial and commercial insurance in America and also holds the second position in the life insurance sector. AIG, whose origins were in Asia, happens to have had an active history of acquisitions, consolidations, and mergers. AIG companies employ more than 64,000 individuals in over the one hundred nations worldwide. This paper analyzes the history, operations and ethical culture of the American International Group Company.

Corporate Facts and History

AIG has its origins in China in the year 1919 where it started to expand to other states. The 1950s were an era of rapid growth for the firm. There were branches being set up in the Middle East, Western Europe, Australia, and North Africa. By the demise of the 1950s, the firm was functioning in 75 nations. That time happened to also mark the rise of Starr's corporations in the domestic markets. AIRCO purchased the majority interest within the Globe and Rutgers Insurance Company in 1952. This business was a medium-sized American fire insurance firm that was previously represented by AIG.

In the early 1970s, the American International's corporate structure started to look like its previous design as it became an essential industrial and commercial property insurance firm. A new organization of the firm was being built through additional reorganization and acquisitions. The cover group started to capitalize on its creative products and emergence into the new markets. The procurements that occurred during the era included regulating interests of the Pittsburgh's National Union Fire Insurance Company that was part of AIG since 1927.

During the late 1990s, the firm was able to make various significant investments and achievements as being part of the progressing expansion drive of Greenberg. In 1996, AIG planned its financials very well and they were in a position to expend over 100 million dollars to purchase the SPC Credit Ltd., which was a medium-sized company from China specializing in commercial and consumer finance. One year after, it spent over 150 million dollars for a stake in a company called Blackstone Group. It also decided to invest over 1.2 billion dollars in future funds for Blackstone buyout. Furthermore, in 1998, the firm ended up gaining the majority control of the 20th Century enterprises. Also, it regulated the company board as the influence increased at the industries.

AIG had upheld prevalent positions in the two main business sectors of life and general insurance over the years. It had more recently established a vital commercial in financial services. The firm sought to include a fourth leg to the operations in the area of asset management and retirement savings. The initial major move towards the end originated at the start of 1999 when the Sun America Company was purchased for about 18 billion dollars.

Sun America was a corporation that was involved in a more traditional sector of fixed annuities in addition to managing the mutual funds. Moreover, the company had about 2 billion in revenue, 350 million in their net income, and 50 billion in assets. As a result, the synergies that might be gained through the purchase were clear. AIG would attain access to the Sun America's network of over 9,000 U.S brokers that could be able to sell the life insurance of AIG including other products. Likewise, Sun America's retirement savings products might be sold through the huge life insurance sales force of AIG in Asia, South America, and Europe.

Over the previous years, various potential successors ended up leaving the American International Group to merge with other firms as they were not keen on waiting for Greenberg's retirement. A louder and new round of rumor emerged in mid-1995 the moment Jeffrey Greenberg, who appeared to have been extensively reported as being the heir, quickly resigned from the company. Several observers ended up raising the likelihood that Evan, Jeffrey's brother, was the apparent new heir, which was concluded from his present promotion to the executive vice-president position to back their theory. However, Evan maintained his position until his resignation in September 2000.

Stakeholder Relationships

In late 2014, the firm reorganized itself to presently include two reportable sections. The units were Consumer and Commercial Insurance in addition to the corporate segment. The two divisions each are responsible for over 40 percent of the revenues of AIG. The Property Casualty business of the firm provides products that include compensation of workers, auto, home, and travel, specialty, and accident insurance policies. The Property Casualty part of the company serves individual and commercial clients in America and throughout the globe and has proceeded to be the solid source of development for AIG, even in the financial strife years. The Life and Retirement division of the company involves AIG's retirement services and domestic life insurance businesses that comprise of American General Life and VALIC. The section also provides flexible and single premium and variable pensions including additional income products.

AIG Life launched the Group Personal Pension product that conformed to the stakeholder regime. The GPP was expected to meet the Government's rules on charges and structure, at a maximum of one percent. Every GPP arrangement would have the access to a variety of guaranteed funds from AIG, comprising of those that give access to the stock market-linked development and safeguard the policyholder from the stock market falls. The company provides links to M&G, Gartmore, Flemings, Newton and Perpetual.

Organization Trust Issues

Before Martin Sullivan became AIG’s Chief Executive Officer, he started his career in the company as a clerk in the London offices in 1970. There were several issues that were rocking the company due to bad decisions. The company ended up taking on billions of dollars in the risks linked to mortgages. The firm insured billions of dollars of the products against default. However, it did not acquire reinsurance to be able to hedge the risks. Also, it utilized the collateral that was on deposit to acquire mortgage-backed securities. As a result, when losses ended up hitting the finance market during the crisis, AIG was forced to pay out the insurance claims, which resulted in the company failing.

The enterprise has weak profit margins. Therefore, the risk-management experts that usually run the core property-casualty unit of the company such as Mr. Hancock should deliver on the firm’s long-standing potential to enhance results of their business as they had promised. The previous few quarters’ central property-casualty outcomes appear to have been disappointing to the public. The business has to maintain the major executives. It was noted that any time a firm makes a change at the top; the executives who are not selected for the position tend to be disappointed and end up leaving the corporation. The above has been the case for the organization with abrupt resignations being the order of the day.

The company did not work with the federal regulators. It was chosen by the Financial Stability Oversight Council as being a non-bank systemically significant pecuniary institution. Its designation was expected to subject the firm to firmer oversight compared to now though the capital standards to be able to deter the financial problems of the future, which are to be concluded by the Federal Reserve. Various insurers were forced to raise concerns regarding the Federal Reserve using bank-centric rules considered inappropriate for the industry of life-insurance.

Ethical Leadership and Ethical Culture

After the 2008 financial crisis, the monetary sector ended up suffering the backlash of the public. The occurrence was after an infamous and historic series of events, which threatened the economy. There are several ethical management issues that could be seen in AIG following the predicament. The enterprise seemed to have practiced unethical choices that resulted in the company's failure during the 2008 economic system.

AIG's ethical issues started to affect the firm from 2004. They were instigated by several reporting choices that were made by the executive management under the leadership of Maurice Greenberg. Greenberg was crowned as the CEO in 1968, which was a year before the firm went public. He made some positive ethical decisions that strategically developed the company for over the next three decades to become one of the biggest insurance firms in the globe. After the steady earnings development during the 90's, AIG ended up touting remarkable increases in their net income during the early 2000's that attracted numerous investors.

However, a report that looked into AIG's past company reports established a shocking inconsistency level. By taking advantage of various diverse valuation metrics, the enterprise was reporting its profits in ways that always focused on the firm's losses and returns in the most positive way possible without providing accurate information. AIG was selling credit default swaps having no consideration for the possible risk associated with the policies. The company firmly believed they would not be obligated to fill any of the claims. Additionally, the corporation considered their high investment grade credit rating. Therefore, it was writing insurance without requiring collateral. While the policies were required to generate funds in instances of default, the essential risk that was taken on by the huge number of policies and the impact that would have on the stakeholders ended up being brushed off by the firm and those were negative aspects that were made.

Improvements in Organizational Trust and Ethical Culture

Assessing the actions and operations taken by the firm during the period of crisis through the utilitarianism lens discloses a crucial shortcoming regarding the ethical foundation of the decisions of the company. Utilitarianism tends to be a popular theory of the consequentialist philosophies, focusing on decisions that increase benefits to the society by reducing the harms. The 'best' ethical decision undertaken by the firm would be the one that produces the best net benefits for the society and not one that harms. The inconsiderate risk taking of AIG clearly caused harm to the society. It would have considered the repercussions that resulted from the risk taking. Bearing in mind the fate of their stockholders before making risky decisions would have been an ethical decision that would have improved the firm's operations.

Conclusion

Companies tend to be more than public entities. They incline to be the living systems requiring structure and nourishment to allow their success. Like the biological structures, companies morph and transform in relation to their environment. The organization happens to deliver what it is provided. While it may be unfair to assert that AIG made the ‘worst’ ethical decision, the specific actions undertaken during the period of crisis expose the unethical practices and choices that directly reverse any possible benefits that they might have attained. In the finance world, ethics are vital because of the nature of the industry. A company has to be trusted to be able to perpetuate the system.