American International Group, is a massive insurance company. At their peak in the early 2000's, they had a market valuation approaching $250 billion, which by that measure, made them the largest insurance company in the world and that is a wide industry. They provided life insurance, property insurance, causality insurance, annuities, we'll get to this one, but a big part of their business became providing insurance connected to different financial instruments. I know insurance isn't the most exciting thing to talk about but, to me anyway, this is a major exception. You wouldn't expect it, but AIG has been one of the most exciting, aggravating, potentially dangerous companies to ever exist. By just looking at their stock price, it's clear that they are not quite at the level they used to be, 2008 was a bad year for them, to say the least. In fact, a lot of things about them are different today which almost anyone would consider to be a good thing. They have been involved in accounting fraud, unethical business practices, and I'm just going to call them irresponsible business practices that could have potentially helped cause a global economic collapse. Holy cow, I'm going to detail all of that as I talk about, what has to be the least boring insurance company, AIG.

The roots of it go back over 100 years to Shanghai, China. Cornelius Vander Starr was a businessman from California that liked to travel around and work in different countries. When he was 27 years old, he was working in the Chinese insurance industry, when he decided to open his own business as an underwriter. Just a very small operation that would help the insurance companies in the area evaluate the risk of insuring someone and set their prices accordingly. A couple years later he started his own life insurance company that would work directly with the public. There was very little data available at the time as far as life expectancy in the country so it was a risky service that not many others were willing to offer. The lack of competition combined with his ability to set appropriate rates based on personal predictions, made them successful. In the following decades, they continued to grow and slowly transition over to the United States. Moving their headquarters there toward the start of World War II and ending all operations in China by 1950's following the Communist Revolution.

In 1967, Starr stepped down as the leader of the company, and actually died the following year. But the replacement that he chose was none other than Hank Greenberg, who over the next almost 40 years would be the driving force behind their unprecedented growth. Over that time, they acquired more companies than I can even mention. The biggest of which were SunAmerica for $18 billion in 1999, they dealt with annuities and mutual funds, and then the life insurance company American General Corporation for $23 billion in 2001. Insane amounts of money that were adding up, at their peak, they reported over $100 billion in sales. And it was right around that time, when everything started going bad. Now, there's two parts to it.

In 2005, AIG was charged with accounting fraud. In short, public companies are required to put together reports, reflecting the financial state of the company. The idea is that the public looks over those numbers, gets an idea of how they're doing, and uses the information to decide whether or not they want to buy stock and invest in it. Well, in the case of AIG, they did some illegal stuff to manipulate the accounting behind the reports, and the end result was showing the public numbers that were altered to look much more favorable than they actually were. For example, in the year 2000, investors were showing concern that AIG may not have had enough money reserved for paying potential claims. So their solution was to preform these bogus transactions with a reinsurance company, that artificially made their reserve appear to have an additional $500 million. The following year they made a different transaction that illegally converted $200 million of underwriting losses into investment losses. In the end, AIG admitted to around $4 billion of accounting irregularities that had to be restated. From 2000 to

2005 and potentially well before that, they lied to the public through these figures, with the end goal of tricking them into buying their stock and driving up their stock price. So that quarter trillion-dollar valuation, may have been a little inflated. But it's not like they were doing terribly either, not that I could see anyway. It's not like they were on the verge of collapse and needed to lie about it to keep things running. Eliot Spitzer, the New York Attorney General at the time said, "AIG was and is a solid company that didn't need to cheat. It finds itself in this position solely because some senior managers thought it was acceptable to deceive the investing public and regulators." Placing the blame on the leadership there, which makes perfect sense. And as we know their president and CEO through all of this was still Hank Greenberg. It's so upsetting to someone that had so much success in growing the business, be involved in activities like this. In 2005 he left the company shortly after the accusations became public and it wasn't until 2017, when a more than 90-year-old Hank Greenberg, finally admitted to his role in the fraud as part of $9 million settlement. However, the more significant payment related to this was from AIG in 2006. It was $1.6 billion and there was so much bad stuff happening that only around half of it was related to the accounting fraud. They had to pay $375 million to policyholders that were victims of their bid rigging. They were working with insurance brokers, putting in phony bids to artificially drive-up prices. $344 million of it went states because for years they had underreported worker's compensation premiums they had collected to avoid paying taxes on it. The rest were penalties paid to the state and the SEC so there was a lot here. Turns out the biggest insurance company wasn't the most trustworthy but I have to say, they made a pretty strong recovery from it. But only a couple years later, they ran into their second set of issues, which unbelievably, were far more severe than the first.

Alright, this is where things can really get tricky so I'm going to do my best to keep it simple, by avoiding most of the confusing terms. It relates back to the housing crisis starting back around 2006/2007. See, the banks were originating all of these mortgages, meaning people were taking out loans to buy houses at an incredible rate and they would be paying back those loans, both interest and principal for the next, commonly 30 years. Since the banks had so much money coming in from these mortgages, they held value, so they were able to bundle them together into a security, and sell that security, commonly to an investment bank like Goldman Sachs or Lehman Brothers. I actually made a video about Lehman Brothers that talks about this situation from their prospective. So, here's where AIG comes into this. They were an insurance company that got heavily involved in selling insurance on these securities. Selling policies, mainly to the investment banks, that said if people defaulted on their mortgages, AIG would pay them for it. It was essentially paying AIG to accept the risk. It proved to be a great business model for them unless well you know, people stopped paying their mortgages. You know where this is going, the entire market collapsed. Turns out many of those people were buying subprime mortgages with bad credit, they couldn't afford it and many, many of them defaulted on their payments. It was the exact event AIG promised to protect against but when they had to honor so many claims at once, they didn't have the money to do it. Given their high credit rating, they were never forced to have a collateral associated with these policies, so all of a sudden, I think it was time to panic. It was kind of like what would happen to a car insurance company if most of the cars on Earth got into an accident at the same time. Or maybe a life insurance company if half the people vanished from the planet. But unlike those examples, this was a realistic possibility going in, it may have seemed unlikely but it obviously actually happened.

Now consider all the levels here, if AIG had just given up and stopped existing, here's what would have happened. For one, as I've been talking about, all of these investment banks that had big investments in mortgage-backed securities, that were supposed to be insured in case of an even like this, would also be in serious trouble. On another level, it was banks like this that had provided loans to AIG in the past so they wouldn't be getting their money back there either. And then anyone who invested in AIG would be losing their money. That were a big part of many mutual funds, pension funds, retirement accounts. Honestly, it would have been a disaster. There's a popular phrase, "Too Big to Fail", that refers to companies that are too important to the economy to just go away. This has to be one of the most applicable examples of it. If you go to the Wikipedia page for "Too Big to Fail", AIG is their featured example. So given that the economy was already entering a bad place, with the housing market crash and Lehman Brothers filing for bankruptcy, the U.S. government chose to bail them out. So the day after Lehman Brothers filed for bankruptcy, the government took over 79.9% of AIG's equity for an initial $85 billion investment, which was essentially doubled when you consider additional money that was later loaned to them. It was a very aggravating situation. It's a complex issue to debate whether or not it was necessary to save them, but you hate to see it.

AIG made some risky, probably irresponsible business choices and instead of facing the consequences, they were able to use your taxes to save themselves. You just want to see people pay the consequences for what they did you know? And then to think that you're the one that's forced to save them. On top of that, the following year there were $165 million in retention bonuses given to AIG executives to stay with the company and help them out of that sticky situation. A highly criticized move giving highly paid executives millions of dollars in taxpayer money. Plus, considering the fact that a lot of that money they received was going to these banks that held the policies that were also not operating in the most responsible way, and many of which were receiving their own bailout money directly from the government. However, on the positive end, the government did walk away from the situation with a net gain of about $22 billion. They sold their stake in AIG a few years later for more than they paid for it and AIG sold a bunch of stuff to pay back the loans. Most notably, American Life Insurance Company was sold to Metlife for over $15 billion.

Today AIG continues to exist in a big way, they're much different than they used to be, thankfully, but I have to imagine their reputation will never fully recover. Just think about that, coming off of a major accounting scandal and all the other illegal stuff they were doing, they then started operating their business in a way that the government eventually deemed to be too much of a risk to the entire financial world. Then obviously you would look toward the government and their laws that allowed a company to be in that position, that's a whole other debate, but for now, I'm just going to say that there is plenty of blame to go around.

Let me know in the comments, what do you think of AIG? After the accounting fraud and bailouts, I can't imagine you're too much of a fan of theirs. But I think I delivered when I promised that this has been an eventful company. Have you ever encountered them personally, were you following these events as they happened, and how much blame would you place on AIG for the recession? They were obviously involved in a big way, as were many others, so what would you say is most responsible? I realize that it's a complicated issue that many people are passionate about so, try to keep it calm. Also, there is much more that could be said about AIG, I wanted this to be a simple overview so let me know if you have anything to add about them. And any other thoughts about AIG or anything else I talked about in this video, leave them in the comments. I'd like to hear what you have to say. Thank you for watching.

This is one of the most applicable examples of it.

I'm sure you've heard the phrase too big to fail

\$62 billion loss in the 4^{th} quarter of 2008.

Pay the claims.

Bundle them together and sell them

Estimated they had insured \$441 billion in securities.

State insurance departments the amount of worker's compensation premiums.

Rest was penalties paid to the state and to the SEC.

Colatorized Debt Obligations

In what in what I would

His part in it as part of this $9 million.

At over 90 years old.

Bid rigging

Underreporting workers' compensation premiums ithad collected.

$4.3 billion of accounting errors.

Bogus.

The person Starr

Large role in the company

Retired in 2005

Hank Greenberg.

In the following decades, they transitioned into Untied States.