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A History of American International Group

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Introduction

In the annals of American business, few companies have experienced a trajectory as dramatic and scrutinized as American International Group (AIG). From its audacious beginnings in 1919 Shanghai, founded by the visionary Cornelius Vander Starr, to its emergence as a global insurance behemoth and its near-collapse during the 2008 financial crisis, AIG's story is a compelling saga of ambition, innovation, unprecedented growth, and profound struggle. This book, "A History of American International Group: The Story of an S&P 500 Company," delves into the intricate tapestry of a corporation that not only mirrored the economic and political shifts of the 20th and early 21st centuries but often played a significant role in shaping them.

AIG's journey is far more than a mere corporate chronicle; it is a lens through which to examine the evolution of international business, the complexities of financial innovation, and the ever-present tension between risk and reward. For decades, AIG was a symbol of American financial prowess, a company that pushed the boundaries of traditional insurance, ventured into uncharted global territories, and diversified into a sprawling financial services conglomerate. Its reach extended to nearly every corner of the world, providing essential protections and facilitating economic activity on a truly grand scale.

Yet, the very audacity that fueled its expansion also sowed the seeds of its greatest challenge. The narrative of AIG cannot be told without confronting the tumultuous events of 2008, when the company, once an unassailable pillar of the S&P 500, found itself at the epicenter of a global financial meltdown. The subsequent government bailout, a desperate measure to prevent a systemic collapse, transformed AIG into a household name for all the wrong reasons. This period exposed the vulnerabilities of complex financial instruments, the intricate web of interconnectedness within the global economy, and the profound societal impact of corporate missteps.

This book aims to provide a comprehensive and nuanced account of AIG's entire history, exploring the personalities, decisions, and external forces that shaped its destiny. We will journey from C.V. Starr's pioneering spirit in a foreign land to Maurice R. Greenberg's decades-long reign, which saw unprecedented growth and diversification, ultimately setting the stage for the company's dramatic fall and subsequent resurgence. We will examine the innovative products and market strategies that propelled AIG to prominence, as well as the missteps in risk management and corporate governance that led to its near-demise.

Ultimately, "A History of American International Group" is a story of resilience and transformation. It traces the arduous path of recovery, the difficult decisions made in

the wake of crisis, and the ongoing efforts to rebuild trust and redefine its identity in a post-bailout world. By understanding AIG's past, we gain invaluable insights into the forces that drive global capitalism, the inherent dangers of unchecked ambition, and the enduring capacity for reinvention that lies at the heart of the American enterprise.

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CHAPTER ONE: The Genesis of an Empire: C.V. Starr and the Early Years

The year is 1919. The Great War has just concluded, reshaping the global political and economic landscape. In this era of profound change and burgeoning international commerce, a young American named Cornelius Vander Starr, often referred to as C.V. Starr, embarked on an extraordinary venture that would lay the foundation for one of the world's largest insurance and financial services organizations. Born in Fort Bragg, California, in 1892, Starr was an individual driven by an entrepreneurial spirit and a keen eye for opportunity.

Starr's early life offered glimpses of his innovative drive. He briefly attended the University of California, Berkeley, from 1910 to 1911, but his academic pursuits were short-lived. Instead of continuing his studies, he returned to his hometown and, at the tender age of 19, opened an ice cream parlor, which he later sold for a respectable sum of \$1,000. This early foray into business showcased his innate understanding of commerce and his willingness to carve his own path. Before his grand adventure in Asia, he also tried his hand at journalism and worked for a realty company, where he first developed an interest in the insurance business.

His wanderlust and desire to understand the world led him to Yokohama, Japan, where he worked as a clerk for the Pacific Mail Steamship Company. However, Japan was merely a stepping stone. Less than a year later, at the age of 26, Starr arrived in Shanghai, China, a bustling international hub brimming with commercial potential. Shanghai at the time was a vibrant, cosmopolitan city, attracting entrepreneurs and adventurers from across the globe. It was here, in a two-room office, that Starr identified a significant gap in the market.

Western insurance companies largely overlooked the local Chinese population, perceiving them as too risky or simply not worth the effort. Starr, however, saw not risk, but immense opportunity. On December 19, 1919, he established American Asiatic Underwriters (AAU), a general insurance agency, in Shanghai. This marked the genesis of what would eventually become American International Group, or AIG.

Starr's approach was revolutionary for its time and location. He recognized that to succeed, he needed to adapt Western insurance techniques and capital to the specific needs and customs of East Asian customers. This wasn't merely about selling policies; it was about building trust and understanding a culture that many foreign businesses either ignored or misinterpreted. He was, in essence, a pioneer of globalization, long before the term became commonplace.

His business philosophy was founded on several key principles. He believed deeply in the potential of the individual and, unusually for a foreign company in that era, made it a practice to hire local Chinese employees for positions of responsibility. This was a radical departure from the norm, fostering loyalty and providing invaluable local insights. Starr also focused on teaching technical and management skills related to insurance to these local nationals, ultimately employing them in managerial and executive roles within his companies. This commitment to local talent would become a cornerstone of AIG's business philosophy for decades to come.

The initial offerings of American Asiatic Underwriters were general insurance products. Business grew rapidly, fueled by Starr's relentless salesmanship and his ability to connect with people. He was known for "beating the bricks" and personally selling insurance policies, a testament to his hands-on approach. Just two years after founding AAU, Starr expanded his enterprise by forming a life insurance operation, recognizing the growing need for such services among the local populace. He observed that, generally, Chinese people enjoyed longer life expectancies than their Western counterparts, a crucial factor in setting favorable policy rates.

By the late 1920s, Starr's ambitious vision had borne fruit, with AAU establishing branches throughout China and expanding into Southeast Asia, including the Philippines, the Dutch East Indies (now Indonesia), and Malaya (now part of Malaysia). The empire was beginning to take shape, fueled by a deep understanding of local markets and a relentless pursuit of growth. Starr wasn't content to merely operate in Shanghai; he saw the entire region as his potential market, a forward-thinking perspective that would define the company's trajectory.

In 1926, Starr took a significant step in establishing a presence back home, opening his first office in the United States, American International Underwriters Corporation (AIU), in New York City. This was not a move to shift focus away from Asia but rather to serve as an insurance writer for U.S.-owned risks outside of North America and to act as a general agent for American insurers. It signaled Starr's intent to build a truly international enterprise, bridging the East and the West.

As the political climate in Asia began to shift in the late 1930s with the impending World War II and the Japanese invasion of China, Starr started to strategically diversify his geographical focus. He recognized the growing opportunities in Latin America and, by the late 1930s, AIU had entered Havana, Cuba. The steady growth of these Latin American agencies proved to be a prescient move, as they would later help offset the decline in business from Asia due to the war.

The increasing instability in Asia eventually necessitated a major strategic decision. In 1939, Starr relocated his operational headquarters from Shanghai to New York City. While the Shanghai office temporarily closed, the move marked a significant turning

point, positioning the nascent international insurance giant for global leadership from a new base. This relocation was not a retreat, but a strategic repositioning to navigate the turbulent global landscape of the mid-20th century.

During World War II, Starr's network and international acumen proved invaluable in unexpected ways. He worked for the Office of Strategic Services (OSS), the precursor to the CIA. In 1943, he established the OSS insurance intelligence unit and served as a chief operative, contributing to intelligence efforts during the war. This period highlighted Starr's diverse capabilities, extending beyond the realm of business into matters of national security. His early ventures in a complex and often volatile international environment had prepared him for navigating high-stakes situations.

The war years also saw AIU capitalizing on the shifting global economic and political landscape. As European companies pulled out of various markets, particularly in Latin America, Starr's firm stepped in, further solidifying its international presence. This ability to adapt and seize opportunities in times of crisis would become a recurring theme in the company's long history. Starr's visionary leadership in these formative years set a crucial precedent for agility and resilience, qualities that would be tested time and again.

By the end of World War II, C.V. Starr had built a successful international insurance business with offices across Southeast Asia, a burgeoning presence in Latin America, and a strategic foothold in the United States. The foundation for a global empire was firmly in place, forged by a combination of entrepreneurial daring, cultural understanding, and an unwavering commitment to seizing untapped market opportunities. The small, two-room office in Shanghai had indeed blossomed into something far greater, a testament to the extraordinary vision of Cornelius Vander Starr.

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