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Baskran, Sumirra

Universiti Utara Malaysia

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**The Effects of Internal and External Factors on Corporate Governance and the
Performance of
American International Group (AIG).**

SUMIRRTA A/P S BASKRAN

Universiti Utara Malaysia

ABSTRACT

This study examines the performance of the American International Group (AIG) insurance company in terms of dependent and independent variables. This document will also demonstrate the key elements of the business. Other than that, this study has been conducted to apply the principle of corporate governance in any organisation and to ensure that we all understand that any business issues are always starting to get smaller and slowly getting worse. Therefore, safety measures should be taken and principles for corporate governance should be consistently applied. Such research is important to illustrate how the internal and external variables of an organization and the macroeconomic factors influence the degree of corporate governance of a business.

Keywords: corporate governance, dependent variable, independent variable, internal and external variable, ROA, risk, macroeconomics, AIG, performance, significant, coefficient, correlation, ANOVA, descriptive statistics.

1.0 INTRODUCTION

1.1 Overview

American International Group, Inc. (AIG) is a world leading in insurance and financial services. The headquarters is in New York City, and operates in more than 130 countries and jurisdictions. Its essential activities are General Insurance, Life Insurance and Retirement services. The company serves 98% of the Fortune 500 companies, 96% of Fortune 1000, and 90% of Fortune Global 500, and insures 40% of Forbes 400 Richest Americas. AIG was ranked as the 40th largest company in the 2014 Fortune 500 list. According to the Forbes (2014) Global 2000 list, AIG is the 42nd largest public company in the world. AIG's common stock is listed in the New York Stock Exchange, as well as the stock exchanges in Ireland and Tokyo. It has around 116,000 employees and 88 million of customers.

American International Group, Inc. (AIG) is a world leader in insurance and financial services. New York City headquarters works in nearly 130 nations and territories. Health policy, life insurance and pension programs are its main operations. The business represents 98% of Fortune 500 businesses, 96% of Fortune 1000, and 90% of Fortune Global 500, and 40% of Forbes 400 Richest Americans. AIG was ranked 40th in the Fortune 500 list in 2014. According to the Global 2000 ranking by Forbes (2014), AIG is the world's 42nd largest public corporation. The common stock of AIG is traded on the New York Stock Exchange as well as the Ireland and Tokyo stock exchanges. It has around 116,000 workers and 88 million consumers.

1.2 Background of the company

The origins of the business date back to 1919. Cornelius Vander Starr set up an insurance agency in Shanghai named American Underwriters Federal, Inc., which moved to New York City in 1939 and continued to grow the insurance empire for the next three decades. The American International Group, Inc was founded in 1967, and Starr officially named his successor I in 1968 as Hank ' Maurice Greenburg.' AIG introduced new power, travel and entertainment services during the 1970s and extended its business lines to include mortgage insurance in the 1980s and listed its stock on the New York Stock Exchange.

The 1990s saw gradual diversification into the financial services industry, and the early part of the 21st century's first decade brought about a widening of AIG's role on the U.S. life insurance business. Greenburg was shot in 2005 as a part of an accounting scandal that contributed to an AIG settlement of \$1.6 billion. After the office of Greenburg, AIG took on tens of billions of dollars in mortgage risk. The practice was based at the London office of AIG's Financial Products (FP), which started selling credit default swaps in the early 2000s. The credit default swap was a strategy used to hedge against loss collateralized debt obligations (CDOs). CDOs were a new investment tool used to combine various types of debt into one package offering, both secure and volatile, many of which had subprime mortgage coverage. The derivatives were therefore basically stock insurance contracts, and AIG, for a premium, insured the bonds' quality. For a couple of years, the CDO insurance plan performed good, raising revenue from the FP system from \$737 million over five years to \$3 billion.

By the middle of 2007, if the bonds they insured collapsed, AIG started to experience significant losses as the price. The counterparties of AIG also began to claim that the firm provide the protection for the declining safety prices. S&P downgraded AIG's credit rating to 'AA' on September 15, 2008, culminating in the company's liquidity crisis. The very next day, the United States. A \$85 billion lending line was provided by the Federal Reserve to support AIG satisfy its debt obligations. For return, AIG obtained a 79.9 percent ownership stake from the U.S. government. AIG and the U.S. government reached a new deal in November 2008 for a \$150 billion overall bailout package.

AIG participated in unethical behavior by taking risks as a hedge fund with uncontrolled investment products while using money from insurance policies for people as leverage. Only two weeks after completing their first loan in September, one agency from AIG organized a luxurious party at a hotel in California for its salespeople. AIG revealed in March 2009 that they were awarding \$165 million in bonuses to the company's employees. Such actions have angered the general public and politicians on both sides of the spectrum.

1.3 Problem Statement

AIG is caught in a scandal for fraudulent accounting with the help of General Reinsurance Corporation. In October 2000, AIG announced a decrease in their loss revenues by \$59 million, which was followed by a drop of 6% of their stock in New York Stock Exchange. According to investigations, AIG reserves were too low. This resulted in criticism from Wall Street

Analysts since loss reserves are a crucial measure of an insurance company's financial health. AIG involved in this accounting fraud because of certain issues that related with the corporate governance. The issues that faced by the company caused damages to the company's reputation due to the failure of practicing the concepts of sound corporate governance.

To quell the criticism, the top executives of AIG sought help from General Reinsurance Corporation who structured two sham transactions to help improve AIG's loss reserves. General Reinsurance decided to pay \$500 million premium and shift \$500 worth of claims with little or no risk to AIG, \$250 each in 2000 and 2001. Since there is no actual risk transferred, the transaction is not an insurance deal according to Insurance Accounting 101 which means the \$500 million should not be categorized as income on its income statement. However, AIG accounted for the transaction as a normal reinsurance deal and recorded \$500 million in their premium revenue which made up to the loss reserves to pay claims. As a result, the Balance Sheet showed a false increase in loss reserves while the income statement showed a wrong increase in income for the fourth quarter in 2000 and first 2001. AIG was already involved in other illegal wrongdoings like assisting clients in manipulating their statements and bid rigging and that's why Securities and Exchange Commission and New York Eliot Spitzer started to get suspicious and investigated AIG's deal with General Reinsurance. From this we can see that the company's corporate governance failed to practice accountability as every board is liable for every transaction made in the company. This results in fault statements and the corporate governance should be responsible in monitoring the management to ensure their performance is effective because the company's shareholders, financiers and investors rely on the board's knowledge.

During the Financial Crisis of 2008, people were losing a lot of money and the employment rate increased drastically. Detecting such non-availability of funds, banks decided not to give loans to individuals or business firms. As a result, businesses were highly affected. However, AIG found an opportunity to maximise its profits by finding a loophole in Basel II regulation. The Basel II regulation governs how much amount the banks are supposed to keep with themselves. It is called as 'Credit Default Swap (CDS)'. A CDS is an over the counter derivative. As a derivative financial product, it derives its value from something else but for CDS bonds, people use to manage risk. In simple words, the seller of the Swap (AIG) will pay the buyer (Banks) in the event of loan default. Thus, banks gave out money which was supposed to be kept as reserve. AIG gave banks a method to maximise their profits. Also because of something called Market to Market Accounting, AIG could book the profit from CDS based

on expected profits. There were no profits making but were writing those profits which they expected to make, and they would write it down in their books and act as if it was real profit. According to the principles of corporate governance, the company failed to adapt and refine their governance practices within the framework of evolving laws and stock exchange rules. Besides, the corporate governance of the company being irresponsible and in compliance to the rules by accessing to the fault information of disclosure the financial statement.

As soon as the market crashed, it had to pay off all the CDS and they didn't have money to pay off swaps. Federal Government stepped in and loaned AIG \$200 Billion and why they did it because AIG IS TOO BIG TO FAIL! The external auditor of the Audit Company that works for AIG through the years of all its accounting misdoing is called Price Waterhouse Coopers (PWC). There is strong between AIG and PWC since Coopers and Lybrand had worked for AIG for 20 years before the merge with Price Waterhouse. Additionally, he former CFO of AIG, Howard I. Smith was working with Coopers for 19 years before he came to AIG. Considering that AIG is one of the biggest clients of PWC and has paid about \$140 million service between 2000 and 2003, the objectivity and reliability of the audit is under question now. One thing is clear that if PWC had gone through strict auditing procedures, the accounting crime AIG committed would have been discovered sooner without the involvement of regulators. Internal audit, "Because...you would pollute the process." Here's what Joseph Cassano, the head of AIG's credit default swap insurance business in London, allegedly told an internal AIG auditor when explaining why the auditor was being excluded from valuation meetings. The auditor quit shortly thereafter.

AIG failed in the concept of business ethics by misrepresented the financial data and disguised company losses and debts. Moreover, fined for inaccurately reporting insurance claims and received directed brokerage in return for providing preferential treatment to certain mutual fund companies. Strong corporate governance maintains investors' confidence, whose support can help to finance more growth. Companies that practices the principles of good corporate governance into working environment life will ensure corporate success and economic growth. Those are the basis on which companies can grow.

1.4 Aim of This research

This research seeks to analyse an insurance company's performance in terms of contingent and independent variables. This report will also demonstrate the company's key elements. Other

than that, this research was undertaken to apply the principle of Corporate Governance in any organization and to ensure that we all truly recognize that any business issues always start to be tiny and slowly get worse. Security measures should therefore be taken and corporate governance standards should be consistently implemented. This research is important to show how a company's internal and external crises and the macroeconomic conditions influence a company's degree of corporate governance.

1.5 Research Objectives

This research aims to determine the level and determinants of corporate governance in a corporation. The aims of this analysis are:

- i. To determine the performance of the company considering internal factors.
- ii. To determine the performance of the company considering external factors.
- iii. To determine the performance of the company considering internal and external factors.

1.6 Research Questions

- i. What is the performance of the company considering internal factors?
- ii. What is the performance of the company considering external factors?
- iii. What is the performance of the company considering internal and external factors?

2.0 LITERATURE REVIEW

The foundational concepts of corporate governance started with the philosophy of the company, developed into stewardship theory and stakeholder theory and progressed into asset reliance theory, transaction cost theory, political theory and morality relevant theories such as business ethics theory, virtue ethics theory, ethics theory of feminist theory, discussion theory, and ethics theory of postmodernism. Such hypotheses, though, address the cause and effect of factors, such as setting up board members, audit panel, independent managers, and the position of top management and their social relations, rather than their regulatory frameworks. It is therefore argued that the best way to describe an active and successful governance method is to combine different concepts rather than to theorize corporate governance based on a single concept. (Abdullah, H., & Valentine, B. (2009))

According to Gibbs, P. A. (1993), when assessing financial and investment optimization, this analysis seeks to quantify the relative importance of free cash flow, corporate governance, and acquisition risk. As the framework of creating a turnaround method, the free cash flow principle and organization concept recommendations are used. A basic variance model analysis is used to decompose transactions and outcomes of change into the three consequences. The findings support the hypothesis that economic and investment transformation is partly driven by the expense of the company. The decomposition of variances shows that consolidation is clarified similarly by free cash flow and management activity and free cash flow acquisition risk.

As Brammer, S. J., & Pavelin, S. (2006), using information from a survey of large companies, we predict a company credibility template. They consider credibility, resulting by managers' and market analysts' judgments, to be calculated by the public success, financial performance, market risk, the level of long-term corporate interest, and the quality of their business activities. In fact, it is observed that the reputational impact of social success differs through industries and across specific types of social quality within sectors. In addition, our results show the need for a 'mix' between the forms of corporate social activity performed and the stakeholder culture of the business. A strong record of environmental success, for instance, can improve or harm credibility based on whether the company's actions "align" with environmental concerns in shareholders' hands.

3.0 METHODOLOGY

3.1 Introduction

Research methodology is a systematic approach to acquiring and testing new and credible data. Gaining fresh and accurate information is a sequence of organized and ordered actions. The aim of this analysis is to understand the information presented as the criterion for inclusion in the report on the elements of corporate governance. The system used to collect and analyze the information is edition 25 of the IBM Social Sciences Statistical Suite (SPSS). This approach is used for data collection and data analysis. Those details are now being used to evaluate the American International Group (AIG) components.

3.2 Population and Sampling Technique

The sample of this research is directed by the selected sector to any client. A corporation has been randomly selected from many companies around the world to perform this analysis in a more practical manner, which is the American International Group (AIG). The company's annual statements were taken for five years from 2014 to 2018. We are used to evaluate the relationship between dependent variables (ROA) and independent variables (internal, external, internal and external factors).

3.3 Sample and data collection

The research that used is secondary data. AIG's annual reports collected information on corporate governance, return on equity, current ratio, quick ratio, average collection period, debt to income, operating ratio, operating margin, and standard deviation. While the world bank has the information on GDP, inflation rate, exchange rate and interest rate (<http://www.worldbank.org/>). This study was conducted for five years from 2014 to 2018.

3.4 Statistical Technique

The research focuses on any organization around the world with the breach of corporate governance criteria in the business, based on the chosen market. The products were obtained

from an insurance industry that is the U.S.-based AIG Insurance Company. The data used to perform this analysis will be derived from the company's five-year annual reports starting from 2014 to 2018. Income statement and balance sheet in the annual report providing financial information are used to measure the company's financial results by measuring financial metrics such as return on asset, current ratio, quick ratio, debt-to-income, operational ratio and operating margin. Historical prices of each sector from 2014 to 2018 were taken from Yahoo Finance to measure the beta for the macroeconomic variables. In addition, statistics on Gross Domestic Product (GDP), inflation rate, interest rate, and exchange rate were gathered from 2014 to 2018 to assess the economic situation.

The key method used to complete this analysis is Ordinary Least-Square (OLS) regression or more commonly referred to as linear regression. A scientist is looking for a line of best fit that describes the potential relationship between an independent variable and a dependent variable using the Least-Squares model (Investopedia, 2018). OLS selects the linear function parameters of a series of explanatory variables by minimizing the sum of the squares of the discrepancies between the observable dependent variable in the data set and those expected by the linear function. Relationships are modelled using linear predictor functions whose data estimates unknown model parameters. OLS is therefore simpler and more practical to use compared to other alternative methods to measure regression.

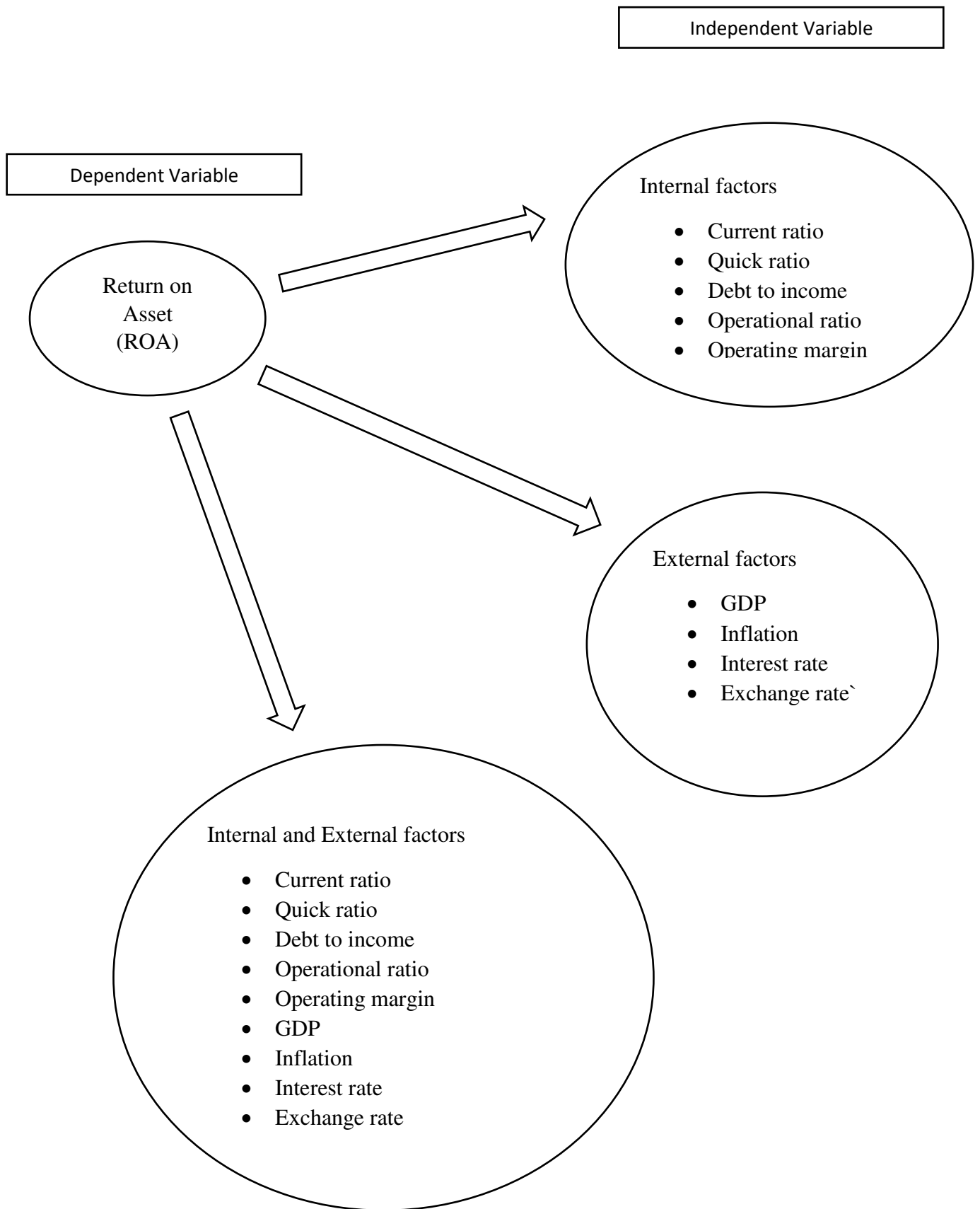
3.5 Model specification

This research used SPSS to examine the impact on the efficacy of corporate governance of return on assets (ROA), quick ratio, current ratio, debt to income, operational ratio, operating margin, GDP, inflation, interest rate and exchange rate.

3.6 Data Analysis

In this research, dependent variable (return on asset (ROA)) and independent variables (internal factors, external factors, internal and external factors) were used. The research framework is shown:

3.7 Framework



In order to find out the relationship between dependent variable and independent variables, regression analysis (OLS) was performed. Regression analysis generally helps explain how dependent variable meaning shifts as independent variables are varied. In this study, multiple regression analysis approach was used to assess the effect of independent variables on the dependent variable. The multiple regression models of OLS can be described as follows in the form of an equation:

i. Model (1)

$$\text{Performance ROA} = a_i + a_1\text{CR} + a_2\text{QR} + a_3\text{DIR} + a_4\text{OPR} + a_5\text{OPM} + e$$

ii. Model (2)

$$\text{Performance ROA} = a_i + a_1\text{GDP} + a_2\text{INR} + a_3\text{ER} + a_4\text{IFR} + e$$

iii. Model (3)

$$\text{Performance ROA} = a_i + a_1\text{CR} + a_2\text{QR} + a_3\text{DIR} + a_4\text{OPR} + a_5\text{OPM} + a_1\text{GDP} + a_2\text{INR} + a_3\text{ER} + a_4\text{IFR} + e$$

3.8 Measurement of variables

This will discuss the measurements of the dependent variable and independent variables.

| Dependent variable | |
|-----------------------------|---|
| Return on assets (ROA) | Return on assets is calculated by dividing net income by average total assets. |
| Independent variable | |
| a. Current ratio | Current ratio is calculated by dividing current assets by current liabilities. |
| b. Quick ratio | Quick ratio is calculated by dividing liquid current assets by total current liabilities. |
| a. Debt to income | Debt to income is calculated by dividing debt by income. |

| | |
|----------------------|--|
| b. Operational ratio | Operational ratio is calculated by dividing operating expenses by net sales. |
| c. Operating margin | Operating margin is calculated by dividing operating profit by net sales. |
| d. GDP | GDP measured by yearly GDP growth. |
| e. Inflation | Inflation is calculated using the Consumer Price Index (CPI). |
| f. Interest rate | Interest rate is calculated by dividing the interest expense by the principal balance. |
| g. Exchange rate | Exchange rate is calculated by dividing starting amount (original currency) by ending amount (new currency). |

3.9 IBM Statistical Package for Social Sciences (SPSS Statistics)

IBM SPSS version 25 has been used in this analysis to measure the data and derive the results from the annual reports. SPSS, also known as the Statistical Package for Social Sciences, is regarded, according to Landau and Everitt (2004), as a powerful software that helps researchers perform statistical data analysis. In addition, this technology has been widely used in the social sciences and is now prominent in data mining, market research and advertising as well. IBM SPSS Statistics has been used for this analysis to measure descriptive statistics, linear regression, correlation and coefficient between independent variables and dependent variable based on quantitative data from annual reports and official websites.

4.0 ANALYSIS AND FINDINGS

Introduction

The purpose of this study is to identify and evaluate the AIG company's performance, liquidity risk, credit risk, operating risk and market risk. The dependent variable of this analysis is the company's efficiency, while the company's independent variables are liquidity risk, credit risk, business risk, and the company's market risk. The independent variable's internal factors are liquidity risk, credit risk, and operating risk. The independent variable's external factors are competitive risk.

Dependent variable of this study, the performance of the company is identified by Return on Asset of the company. Meanwhile, rest of the ratios which comes under internal factors of independent variable are computed respectively as follows. Liquidity risk is identified by calculating current ratio and quick ratio. Credit risk is calculated by calculating average collection period and debt to income. Operational risk is calculated by operational ratio and operating margin. External factors of independent variable which is concentrated on market risk was computed by taking count of gross domestic product, interest rate, exchange rate and inflation rate.

Dependent on this study parameter, the company's performance is defined by the company's Return on Asset (ROA). While, the remaining proportions of internal factors under independent variable are determined as follows, respectively. Current ratio and quick ratio are determined to define liquidity risk. Credit risk is determined by estimating the estimated average collection period and the debt to income. Operational risk is measured by combination of operational ratio and operating margin. Through considering the GDP, interest rate, exchange rate and inflation rate, external factors of the independent variable based on market risk are determined.

4.1 Correlations

| | | Correlations | | | | | |
|---------------------|---------------------------|--------------|---------------------------|-------|--------|-----------|---------------|
| | | ROA (%) | Average-Collection Period | CGI | GDP | Inflation | Exchange Rate |
| Pearson Correlation | ROA (%) | 1.000 | | | 0.309 | -0.334 | 0.270 |
| | AVERAGE-COLLECTION PERIOD | | 1.000 | | | | |
| | CGI | | | 1.000 | | | |
| | GDP | 0.309 | | | 1.000 | -0.071 | -0.066 |
| | Inflation | -0.334 | | | -0.071 | 1.000 | 0.183 |
| | Exchange Rate | 0.270 | | | -0.066 | 0.183 | 1.000 |

According to the table above, stated that if P-value is less than or equal to 0.05, the correlation is statistically significant where we can summarize that the significance level of correlation is different from 0. Whereas, if P-value is greater than 0.05, the correlation is not statistically significant where we can summarize that the significance level of correlation is not different from 0. A coefficient of 0 indicates that there is no linear relationship between the variable.

Based on the correlation table, there are no significant values as the variables' p-values are GDP (0.306), inflation (0.291) and exchange rate is (0.330) where all the p-values are more than 0.05. Besides, correlation between ROA and GDP, and ROA and exchange rate are positive, but ROA and inflation is negative. It shows that when the ROA increases, the GDP and the exchange rate also increase while the inflation rate decreases and vice versa.

According to Falope, O. I., & Ajilore, O. T. (2009), annual GDP growth gradually raises the average collection period. This research on working capital management and corporate profitability shows exactly how the influential situation is with both variables are positively significant and correlated.

4.2 Coefficients

| Coefficients ^a | | | | | | | | | | |
|---------------------------|-----------------------------|------------|--------------------------------|--------|--------|---------------------------------|-------------|-------------------------|-------|-------|
| Model | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. | 95.0% Confidence Interval for B | | Collinearity Statistics | | |
| | B | Std. Error | | | | Lower Bound | Upper Bound | Tolerance | VIF | |
| 1 | (Constant) | -6.577 | 14.467 | | -0.455 | 0.728 | -190.4 | 177.244 | | |
| | GDP | 0.544 | 1.472 | 0.306 | 0.369 | 0.775 | -18.16 | 19.247 | 0.992 | 1.008 |
| | Inflation | -0.402 | 0.894 | -0.379 | -0.450 | 0.731 | -11.76 | 10.957 | 0.963 | 1.038 |
| | Exchange Rate | 7.961 | 18.621 | 0.360 | 0.428 | 0.743 | -228.64 | 244.561 | 0.964 | 1.038 |

a. Dependent Variable: ROA (%)

The column "Unstandardized Coefficient Beta" indicates the change in dependent variable for an independent variable single unit. The unstandardized GDP coefficient, according to the row 1 method, is 0.544 where the effect on the ROA increases. ROA's company efficiency, which is determined by the formula as follows:

$$\text{ROA} = -6.577 + (0.544 \times \text{Operating Margin}) + (-0.402 \times \text{Operational Ratio}) + (7.961 \times \text{Quick Ratio})$$

$$\text{ROA (2014)} = 4.18\%$$

$$\text{ROA (2015)} = - 2.05\%$$

$$\text{ROA (2016)} = - 5.13\%$$

$$\text{ROA (2017)} = - 3.13\%$$

$$\text{ROA (2018)} = - 4.11\%$$

The "Sig." column shows the significance levels of the independent variables. From the table, we can see that the independent variable does not positively significant towards the dependent variable of GDP (0.775), inflation (0.731) and exchange rate (0.743). Based on the coefficient column, GDP and exchange rate are positively correlated towards the ROA. As the correlation is positive, the variables have positive relationship where when the GDP or exchange rate

increase, ROA will also increase. Besides, the inflation rate is negatively correlated to the ROA and when the inflation rate increases, the ROA decrease and vice versa.

According to Khadafi, M., Heikal, M., & Ummah, A. (2014), operating margin is determined by the return on capital. This research on impact analysis of return on capital and operating margin against corporate profit shows precisely how positively important and associated is the powerful situation with both variables.

4.3 Model Summary

| Model Summary ^b | | | | | |
|----------------------------|-------------------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .564 ^a | 0.318 | -1.727 | 1.58300 | 2.584 |

a. Predictors: (Constant), Exchange Rate, GDP, Inflation

b. Dependent Variable: ROA (%)

The model description table above shows the regression line's ability to compensate for the maximum dependent variance of the parameter. Since the R coefficient varies from 0 (greater than 0.05), the line of regression is not completely horizontal. This variance component is expressed by adding the square differences between the calculated dependent variable of the total mean divided by the independent variable.

The sum of the total variance that the regression equation accounts for by dividing this specified variance by the total variance of the dependent variable. This proportion is symbolized by R² (R Square) and ranges from 0 to 1. According to the model summary table above, row of model 1 has the R² value of 0.318, which explains that 31.8% of total variance of return on asset has been explained.

A numerical regression analysis of Durbin Watson statistics is essentially an autocorrelation study. In Palaniappan G's (2017) view, Durbin Watson is performed using SPSS to check the essence of the information from the analysis of the dependent and independent variable. It always has a price ranging from 0 to 4. Value 2.0 indicates no correlation exists. Positive autocorrelation is shown by values below 2 while negative autocorrelation is shown by values above 2.

Based on the table above, Durbin Watson value of 2.584 indicates the negative autocorrelation as it is in the range of 2.0 to 4.0 which means that it has a negative influence. Thus, this data does have time series influence and are not stationary.

4.4 ANOVA

| ANOVA ^a | | | | | | |
|--------------------|------------|----------------|----|-------------|-------|-------------------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 1.170 | 3 | 0.390 | 0.156 | .915 ^b |
| | Residual | 2.506 | 1 | 2.506 | | |
| | Total | 3.676 | 4 | | | |

a. Dependent Variable: ROA (%)

b. Predictors: (Constant), Exchange Rate, GDP, Inflation

Shows the output of ANOVA analysis. It shows whether there is a statistically significant differences between the regression and residual means. In the model of row 1, the p-value is 0.915 which is above the significant value of 0.05. Therefore, there is no statistically significant difference between the mean dependent variable of ROA and the independent variables of exchange rate, GDP and inflation.

4.5 Descriptive statistics

| Descriptive Statistics | | | |
|------------------------|--------|----------------|---|
| | Mean | Std. Deviation | N |
| ROA (%) | 0.0920 | 0.9587 | 5 |
| CGI | 0.80 | 0.000 | 5 |
| GDP | 2.3960 | 0.5398 | 5 |
| Inflation | 1.5140 | 0.9022 | 5 |
| Exchange Rate | 0.7507 | 0.0433 | 5 |

The above descriptive statistics of Model (3) defines the equation of

$$\text{Performance ROA} = a_i + a_1\text{CR} + a_2\text{QR} + a_3\text{DIR} + a_4\text{OPR} + a_5\text{OPM} + a_1\text{GDP} + a_2\text{INR} + a_3\text{ER} + a_4\text{IFR} + e$$

This descriptive statistic is a summary statistic that quantitatively explains the research question on what drives the company's performance, considering AIG Insurance Company's internal and external factors.

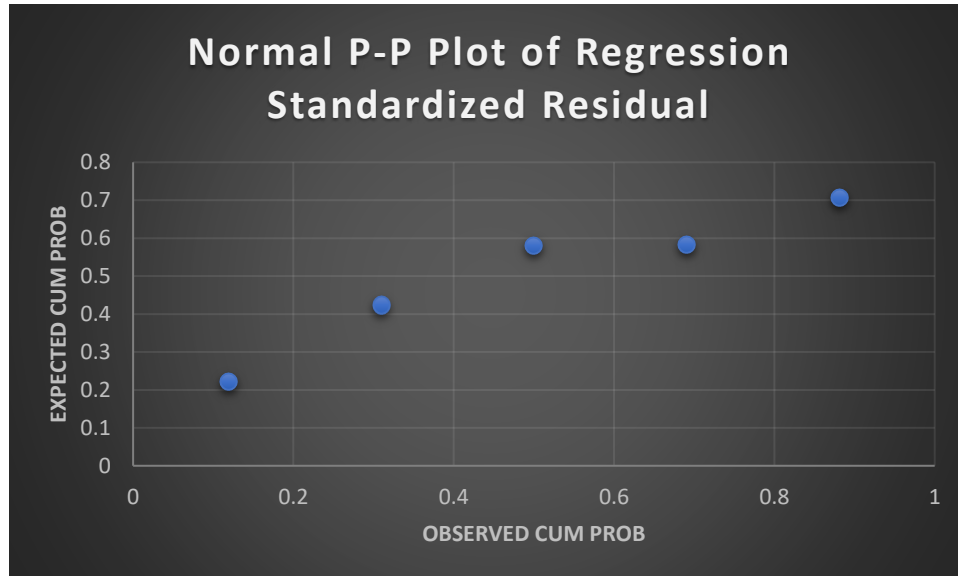
Descriptive statistics are brief descriptive coefficients summarizing a given set of data that can either be a representation of the entire population or a subset of a population. Descriptive statistics are divided into central tendency and variance (spread) measurements. Measures of central tendency include mean, median and mode, while variability measures include standard deviation, variance, minimum and maximum variables, and kurtosis and skewness.

The above table presents the average return on asset (ROA) in 5 years for AIG Insurance Company. The descriptive statistics show that the average return on asset (ROA) of this company for 5 years is 9.2%. This serves as a benchmark and indicates that AIG Insurance Company on average earn 9.2% of profit in 5 years. The low value of standard deviation of 0.9587 for average return on asset indicates that 95.8% of variation for ROA for this company in 5 years, which means that the company's difference in earning of profit is massive.

The standard deviation is a statistic that calculates a data set's dispersion relative to its mean and is defined as the variance's square root. By evaluating the difference between each data point relative to the mean, it is determined as the square root of variance. There is a higher variance within the data set if the data points are further from the mean; thus, the more the data is scattered, the higher the standard deviation.

4.6 Trend analysis

1. Normal P-P Plot Regression Standardized Residual



The normal P-P Plot Regression Standardized Residual graph shows the measure of the difference between expected and observed values. From this graph we can conclude that the relationship between the expected and observed values are positive which means when the expected value is high, the observed value is also high.

5.0 CONCLUSION AND RECOMMENDATION

The report states that there is no proof of the research objective that the independent variables affect the dependent variable. This study's dependent variable implied by Return on Assets (ROA) is clearly not determined by any independent variables of internal and external factors such as credit risk, liquidity risk, operating risk, and market risk. Besides, all the macroeconomic variables included in this analysis, namely GDP, inflation, interest rate and exchange rate, also does not significantly influence the ROA.

It is therefore highly recommended that AIG incorporate in its leadership the values of corporate governance. Meeting the anti-fraud rule is also advisable. This strategy was meant to maintain the zero-tolerance approach's contribution to fraud. While aiding prevention, this policy is intended to enhance structured management procedures by allowing sound corporate governance to be exercised diversifying credit risk, liquidity risk, organizational risk and market risk.

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