

BusinessWeek Blog

March 25, 2009

The Mindset of an AIG executive

Posted by: Diane Brady-- Senior Editor and Content chief at BusinessWeek

A few things struck me in the [“resignation letter”](#) of Jake DeSantis, an executive vice president of the American International Group’s financial products unit. (People don’t normally forward their letters of resignation to The New York Times)

First, of course, is his justified sense of outrage at having been abandoned by his boss, AIG chief Ed Liddy, before Congress and at having his bonus essentially taken away. “Like you, I was asked to work for an annual salary of \$1, and I agreed out of a sense of duty to the company and to the public officials who have come to its aid. Having now been let down by both, I can no longer justify spending 10, 12, 14 hours a day away from my family for the benefit of those who have let me down.”

But a few other sentences stand out in my mind as emblematic of the mindset that has created some of this mess.

“I was in no way involved in — or responsible for — the credit default swap transactions that have hamstrung A.I.G.” The list of who to vilify grows ever smaller. Even colleagues in the financial products unit are determined to distance themselves from the credit default swaps. These were highly profitable products produced by highly compensated (and, I would guess, much celebrated) people when times were good. Now, it would appear that a handful of largely anonymous—and now departed—executives are responsible for AIG’s downfall, not an institution that fostered and rewarded a culture of risk.

“The profitability of the businesses with which I was associated clearly supported my compensation.” This is the argument that has so many people feeling so angry. Just because you write enough transactions to rack up, say, \$100 million in profits for your firm doesn’t mean you’re automatically entitled to millions in compensation. By that logic, producing millions in losses should send you reaching into your own pocket to repay your salary. For too long, there have been excessive rewards for short-term profits and little if any incentive to protect against the downside.

“I think your initial decision to honor the contracts was both ethical and financially astute, but it seems to have been politically unwise.” How could anyone have lived through the last six months at AIG and thought there wouldn’t be a strong reaction to bonuses? This is a company that would have been bankrupt if not for taxpayer support. Would everyone have immediately fled if not for the guarantee of millions in compensation? (And to where? Despite the claim of abandoned job offers, I don’t know of a firm that’s expanding in the financial

products arena at the moment.) Everyone at AIG should have been conscious of the impact that public disclosure of these bonuses would have.

“None of us should be cheated of our payments any more than a plumber should be cheated after he has fixed the pipes but a careless electrician causes a fire that burns down the house.” True, but if a house has burned down and the owners are left financially destitute, the plumber may have a hard time getting his full pay. And if you’re both part of the same company that carelessly causes the house to burn down, you may get much less.

“I know that because of hard work I have benefited more than most during the economic boom.” If there was a correlation between hard work and pay, then many people in this country would be far richer than those on Wall Street.

“Some might argue that members of my profession have been overpaid, and I wouldn’t disagree.” But not you, right?

“That is why I have decided to donate 100 percent of the effective after-tax proceeds of my retention payment directly to organizations that are helping people who are suffering from the global downturn. This is not a tax-deduction gimmick; I simply believe that I at least deserve to dictate how my earnings are spent, and do not want to see them disappear back into the obscurity of A.I.G.’s or the federal government’s budget.” While the instincts are noble, the reality is that taxpayers now own most of AIG. Giving money back to the company is essentially tantamount to helping people suffering from the downturn.

“I’ll continue over the short term to help make sure no balls are dropped, but after what’s happened this past week I can’t remain much longer — there is too much bad blood.” Indeed.

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David Peirez, of Reisman, Peirez, Reisman in Garden City, NY
March 25, 2009 01:22 PM

DeSantis may have breached his confidentiality agreement.

DeSantis may have violated A.I.G. personnel policy by publishing this letter.

Was DeSantis under contractual agreement that barred him from disparaging the company? This letter could be interpreted as being in violation of that agreement.