World economy is facing the worst financial crisis. The financial crisis that started from mortgage home loan left no industry from its effects. Manufacturing, Banks, Travels & Tourism and even the Insurance Industry was affected by the financial crisis. Insurance industry is considered to be the backbone of an economy. It’s strategic importance is un comparable. The financial crisis led the world’s largest Insurance Company “American International Group” (AIG) almost to the verge of bankruptcy. The government had to bail out the largest insurer.

This paper has attempted to study the financial crisis viz – a – viz, Insurance industry. It has highlighted the case study of AIG, affects on Insurance Industry and the future course of actions and precautions needed by the Industry.