

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, & ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 West 7th Avenue, Suite 1560
ANCHORAGE, ALASKA 99501-3567

ORDER #MCE 09-01)
)
In the Matter of the Regulatory)
Settlement Agreement between)
)
The Chubb Corporation, et al. and the)
)
Indiana Department of Insurance.)
_____)

Attached is the Regulatory Settlement Agreement, which the Director of Insurance for the State of Alaska, Linda S. Hall, adopted, approved, and agreed to on April 21, 2009.

REGULATORY SETTLEMENT AGREEMENT

This Regulatory Settlement Agreement ("Agreement") is entered into by and among The Chubb Corporation, for itself and on behalf of its U.S.-domiciled insurance subsidiaries Federal Insurance Company, Pacific Indemnity Company, Executive Risk Indemnity Inc., Great Northern Insurance Company, Vigilant Insurance Company, Chubb National Insurance Company, Chubb Indemnity Insurance Company, Chubb Custom Insurance Company, Executive Risk Specialty Insurance Co., Texas Pacific Indemnity Company, Northwestern Pacific Indemnity Company, Chubb Insurance Company of New Jersey and Chubb Lloyds Insurance Company of Texas (collectively "Chubb")¹, the Indiana Department of Insurance ("IDOI") and the principal insurance regulator (or his or her authorized representative) of each state that adopts, approves and agrees to this Agreement (the "Settling Insurance Regulators").

ARTICLE I

RECITALS

WHEREAS, the IDOI issued an examination warrant on or about July 10, 2006, in order to perform a targeted market conduct examination of Chubb, to determine whether Chubb engaged in unfair methods of competition or deceptive acts and practices, as defined in Indiana Code § 27-4-1-4, or violated any other of the insurance laws of the State of Indiana regarding marketing, claims or financial practices, with respect to the commercial excess casualty market (the "Examination").

WHEREAS, certain insurance regulators have initiated their own civil investigations into certain acts, practices, and courses of conduct with respect to the marketing, sale, renewal, placement, or servicing of excess casualty insurance for its policyholders, by Chubb (the "Investigations").

WHEREAS, the Examination and the Investigations have placed particular focus on Chubb's producer compensation practices and their effects on producer behavior, such as behavior related to the purchasing, renewal, placement, or servicing of insurance contracts.

WHEREAS, the IDOI and the Settling Insurance Regulators have alleged that Chubb entered into certain producer compensation arrangements, reinsurance tying arrangements, and the placement of undisclosed funded representatives at one or more major producers, in the following alleged manner:

1. Chubb entered into contingent commission agreements with certain insurance producers. These arrangements, sometimes called incentive, bonus, override or profit-sharing agreements, allegedly resulted in these insurance producers improperly steering consumers to purchase Chubb excess casualty insurance products. This alleged steering shielded Chubb from the otherwise competitive nature of the marketplace.

¹ Quadrant Indemnity Company ("Quadrant"), which was named in the Examination Warrant issued to Chubb by the Indiana Department of Insurance, is excluded from this settlement because it is no longer owned by Chubb. However, this Agreement applies to conduct undertaken by Quadrant during the time it was owned by Chubb.

2. The contingent commission agreements and other related agreements entered into by Chubb and certain insurance producers created financial incentives for those producers to steer business to Chubb. Producers were rewarded for steering clients to Chubb insurance products, whether or not Chubb offered the best coverage to meet the clients' needs. Chubb, in turn, secured more business from producers, measured by volume and profit.

3. Chubb designed its contingent commission agreements to reward producers for steering consumers to Chubb insurance products. These agreements, negotiated at a national and local level, allegedly steadily eroded distinctions between the interests of insurer and producer. Eventually, contingent commissions in the marketplace created an implicit insurer-producer partnership.

WHEREAS, Chubb does not admit any of the above allegations, and feels strongly that there is no factual or legal basis for any allegations of improper conduct by Chubb. Specifically:

1. Chubb does not believe its financial arrangements with producers unlawfully influenced producers to steer their clients' business to Chubb; nor does it believe that any clients who placed business with Chubb were in any way disadvantaged or injured in the placement process or in the product sold.

2. Further, Chubb does not believe that contingent commissions and other related financial incentives inhibited free and fair competition in any marketplace.

WHEREAS, the IDOI and the Settling Insurance Regulators have found that:

1. Chubb has cooperated, and continues to cooperate, with the Examination and Investigations, as well as with related investigations by certain state attorneys general, in connection with the issues arising out of the above alleged conduct.

2. Chubb engaged Stier Anderson, LLC to perform an investigation of Chubb's market practices in the commercial excess casualty market, specifically with respect to Chubb's relations with Marsh & McLennan Companies, Inc. ("Marsh"). Marsh was the target of the civil action filed by the New York state attorney general's office on October 14, 2004, regarding *inter alia* bid rigging. It was this filing that triggered Chubb's engagement of Stier Anderson to perform an investigation of its market practices in the commercial excess casualty market.

3. Stier Anderson concluded, based upon a civil standard of proof applied to the available witness, documentary, and circumstantial evidence, that Chubb employees did not participate in a pattern or practice of inflating quotes to Marsh for excess casualty business or other systemic collusive bidding practices. Stier Anderson noted that while the quotes, indications and declinations Chubb submitted to Marsh appear to reflect honest underwriting decisions, and not "intentionally losing bids" as part of a conspiracy, Marsh may have used some of Chubb's statements for its own anti-competitive purposes, without Chubb's knowledge. Similarly, Stier Anderson found no basis for a conclusion that in

cases where Chubb submitted winning bids, it knew Marsh was "protecting" Chubb through bid-rigging schemes. While on some occasions it is possible that Chubb may have received a benefit from these schemes by having potential competition lessened in situations where Chubb was proposed by Marsh to write business, the evidence did not establish that any specific Chubb employee had actual or constructive knowledge that on any particular occasions Marsh was engaged in bid rigging in connection with business involving Chubb.

4. Chubb has otherwise reviewed its practices relative to the conduct and issues that are the subject of the Examination and Investigations, and has adopted compliance efforts relative to such conduct and issues.
5. Chubb entered into an agreement entitled Assurance of Discontinuance ("AOD"), with the attorneys general of the States of New York, Connecticut, and Illinois, on or about December 20, 2006. A copy of that AOD is attached hereto as Exhibit A. The AOD sets out allegations similar to those made by the IDOI and the Settling Insurance Regulators. Chubb did not admit or deny any of the allegations made in the AOD, but rather entered into the AOD for the purpose of resolving the attorneys general investigations.
6. The AOD provides that Chubb shall pay \$15,000,000 into a fund (the "Excess Casualty Fund") held by Chubb to be paid to Chubb's policyholders who bound Chubb's excess casualty policies (new or renewal), excluding excess workers' compensation policies, through Marsh during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policyholders"). All of the money paid into the Excess Casualty Fund and any investment or interest income earned thereon shall be paid to Eligible Policyholders pursuant to the AOD. The Excess Casualty Fund is not a fine or a penalty. Chubb has submitted a copy of the Excess Casualty Fund Eligible Policyholder Report, organized by state, to the IDOI pursuant to its examination warrant. A copy of that report can be made available to the Settling Insurance Regulators on a confidential basis. Chubb has additionally paid a total of \$2,000,000 as reimbursement of the costs of the investigations of the attorneys general of the States of New York, Connecticut, and Illinois.
7. The AOD provides for numerous business reforms to be undertaken by Chubb, as enumerated under the caption "BUSINESS REFORMS" in numbered paragraphs 13 through 28 (the "Business Reforms"). These include:
 - (a) A prohibition on contingent compensation for Chubb's offices situated in and issuing policies in the United States. Contingent compensation is compensation contingent upon a producer: (1) placing a particular number of policies or dollar value of policies with Chubb; (2) achieving a particular level of growth in the number of policies placed or dollar value of premium with Chubb; (3) meeting a particular rate of retention or renewal of policies in force with Chubb; (4) placing or keeping a sufficient insurance business with Chubb to achieve a particular loss ratio or any other measure of

profitability; (5) providing preferential treatment to Chubb in the placement process, including but not limited to giving Chubb last looks, first looks, rights of first refusal, or limiting the number of quotes sought from insurers for insurance placements; or (6) obtaining anything else of material value for Chubb. This definition does not include compensation paid to employees of Chubb or to producers that are captive or are exclusive to Chubb with respect to a specific line or product that is clearly and conspicuously identified in marketing materials as Chubb's line or product. A fixed commission paid to a producer, set prior to the sale of a particular insurance product, and that may be based on, among other things, the prior year's performance of the producer, shall not be considered contingent compensation.

(b) Disclosure to insureds of compensation practices and policies via website and a toll-free telephone number, with written notice of these resources accompanying each insured's policy. A copy of the disclosure related information produced by Chubb pursuant to the AOD is attached hereto as Exhibit B.

(c) A limitation on permissible forms of compensation, which shall include only a specific dollar amount or percentage commission on the premiums set at the time of each purchase, renewal, placement or servicing of a particular insurance policy.

(d) A prohibition on any offers to pay, directly or indirectly, any producer any compensation in connection with the producer's solicitation of bids for the producer's clients.

(e) A prohibition on bid rigging.

(f) A prohibition on leveraging by promising or committing to use any producer's brokerage, agency, producing or consulting services, including reinsurance brokerage, agency or producing services, contingent upon providing treatment preferential to Chubb in the placement process.

(g) New controls on "book rolls," meaning Chubb shall not enter into any agreement or arrangement to transfer 25 or more insurance policies from an insurer unless the agreement or arrangement provides for giving written notice to affected insureds.

(h) New controls on service centers, whereby persons communicating on behalf of Chubb with any consumer and/or insured participating in any Chubb sponsored or affiliated service center must immediately and clearly identify themselves to the consumer and/or insured as representing Chubb.

(i) A prohibition on producer captive insurers. Chubb is prohibited from forming, having an interest in or participating in, either directly or indirectly, any insurance or reinsurance company in which any producer has any ownership or equity interest. This does not apply to (x) insurance or reinsurance companies in which producers may own publicly traded stock or limited partnerships or joint ventures in which neither Chubb nor a producer has a controlling interest or (y) Chubb's operation of

a "rent-a-captive" entity that facilitates alternative risk transfer arrangements for Chubb's customers, as opposed to providing incentives to producers for not acting as managing general agents.

(j) New controls on producer loans, whereby Chubb shall not loan money or any other valuable consideration to a producer, except where such loan is disclosed in writing to any insured purchasing Chubb insurance from such producer during the term of the loan. For purposes of this provision, the funds held by a producer between the time that premiums on a policy are collected from the insured and the reasonable time they are remitted to Chubb shall not be considered a "loan" by Chubb of the amounts due.

(k) New controls on producer funding agreements. Chubb is prohibited from making any payment to a producer which is intended by Chubb to fund the compensation of any employee of a producer, or any cost associated with the hiring of any employee of a producer. Chubb may provide such funds or other consideration only where a producer's employee receiving such funds or other consideration clearly and conspicuously identifies himself or herself as a representative of Chubb. This prohibition does not extend to Chubb's funding or provision of continuing education or other professional training to employees of a producer.

(l) Chubb is required to implement written standards of conduct and training regarding compensation paid to producers consistent with the above reforms.

8. Chubb has provided documentation of its subsequent implementation of the AOD, and the associated Business Reforms referenced above, to the IODI pursuant to the examination warrant ("Compliance Documents"). Copies of the Compliance Documents that are not attached as exhibits to this Agreement, can be made available to the Settling Insurance Regulators on a confidential basis. Other than the Business Reforms reflected in the materials attached hereto as Exhibit B, Chubb additionally made the following commitments as a follow up to the provisions of the AOD:

(a) Chubb created an online producer compensation training program, which educates Chubb employees about the nature and limitations of allowable producer compensation, and why such limitations exist. A copy of the content of that online training program is attached hereto as Exhibit C.

(b) Chubb created a form of Guaranteed Supplemental Compensation Program Agency Agreement, to define a type of compensation available to producers in accordance with the AOD. A copy of that form of agreement is attached hereto as Exhibit D.

(c) Chubb has created a Producer Compensation Policy, that encapsulates the producer compensation reforms dictated by the AOD. A copy of that written policy is attached hereto as Exhibit E.

(d) Chubb has incorporated the parameters of the above-referenced Business Reforms and commitments into its ethics training for employees.

WHEREAS, Chubb, the Settling Insurance Regulators, and the IDOI acknowledge that:

1. This Agreement adequately addresses the principal collective concerns of the IDOI and the Settling Insurance Regulators, and thus is in the public interest;
2. This Agreement is entered into solely for the purpose of resolving any and all issues, allegations and/or claims that arise as to Chubb based upon the acts, practices or courses of conduct that are the subject of the Examination and the Investigations, and is not intended to be used for any other purpose;
3. Chubb enters into this Agreement without admitting any issue, allegation, and/or claim that has arisen or might arise as to Chubb based upon the acts, practices or courses of conduct that are the subject of the Examination and the Investigations.
4. Chubb, the IDOI, and each of the Settling Insurance Regulators, wish to resolve any and all issues, allegations and/or claims based upon the acts, practices or courses of conduct that are the subject of the Examination and the Investigations.

NOW THEREFORE, Chubb, the IDOI, and each of the Settling Insurance Regulators hereby enter into this Agreement and agree as follows:

ARTICLE II

SETTLEMENT TERMS

- A. The Business Reforms are incorporated into this Agreement by reference, as though fully set out herein. The Business Reforms, and the commitments set out in the Compliance Documents attached hereto as exhibits (collectively the "Regulatory Requirements"), shall be enforceable against Chubb by the IDOI and the Settling Insurance Regulators in their respective States.
- B. Within thirty (30) business days following execution of this Agreement by Chubb and the IDOI, Chubb shall:
 1. Designate in writing to the IDOI, in care of its Examiner in Chief, John Murphy at Ice Miller (the "EIC"), an officer who shall be responsible for Chubb's compliance with the Regulatory Requirements (the "Compliance Officer").
 2. Confirm in writing to the IDOI, in care of the EIC, that the Compliance Officer's written duties and responsibilities include overseeing and assuring compliance with the Regulatory Requirements on behalf of Chubb. The Compliance Officer shall be charged to provide reasonable assurances that Chubb will not engage in any acts or practices prohibited by the Regulatory Requirements.

- C. Chubb shall continue to fully and promptly cooperate with the IDOI and the Settling Insurance Regulators.
- D. The IDOI shall conduct an examination of Chubb's compliance with the Regulatory Requirements pursuant to Indiana Code 27-1-3.1, no sooner than two years from the execution of this Agreement by Chubb and the IDOI. That examination shall be conducted by the EIC, with the assistance of Noble Consulting. The IDOI shall provide a report summarizing the results of that examination to the Settling Insurance Regulators through the National Association of Insurance Commissioners. The IDOI shall provide Chubb a copy of such report.
- E. Upon execution of this Agreement by Chubb and the IDOI, and a subsequent IDOI Order approving this Agreement, the Examination shall be concluded.
- F. Upon execution of this Agreement by Chubb and each Settling Insurance Regulator, and a subsequent Order approving this Agreement issued by that regulator's state agency, the Investigation of Chubb by that state agency shall be concluded.

ARTICLE III

OTHER PROVISIONS

- A. This Agreement is not intended to and shall not confer any rights upon any persons or entities besides Chubb, the IDOI, and the Settling Insurance Regulators.
- B. This Agreement shall be governed by and interpreted according to the laws of the State of Indiana without regard to conflict of law principles. However, all enforcement actions taken pursuant to this Agreement in any particular state of a Settling Insurance Regulator shall be governed by the laws of that state without regard to conflict of law principles.
- C. Nothing in this Agreement shall be interpreted to alter in any way the contractual terms of any insurance policy sold, assumed or acquired by Chubb.
- D. Chubb waives any rights it may have to an administrative hearing and appeal under the applicable laws of the state of each Settling Insurance Regulator and of the State of Indiana with respect to this Agreement and the matters contemplated hereby.
- E. Each Settling Insurance Regulator, on behalf of his or her respective state, hereby gives full assurance that he or she has the authority to enter into this Agreement and bind that state now and in the future.
- F. The Chubb representative executing this Agreement hereby gives full assurance that he or she has the authority to enter into this Agreement and bind Chubb now and in the future.
- G. The terms and conditions of this Agreement are binding on Chubb, its insurance subsidiaries and their directors, officers, managers, employees, successors and assigns.

H. This Agreement may be signed in counterparts, each of which shall constitute a duplicate original. Each duplicate original shall become effective on the date that it is signed by Chubb and a Settling Insurance Regulator or the IDOI.

EXECUTED THIS 11 DAY OF August, 2008

The Chubb Corporation, for itself and on behalf of its U.S.-domiciled insurance subsidiaries

Maureen Brundage

Indiana Department of Insurance

(Settling Insurance Regulator)

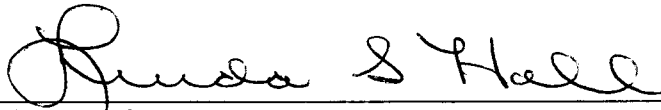
IN THE MATTER OF
THE CHUBB CORPORATION

SIGNATORY INSURANCE REGULATOR ADOPTION

On behalf of State of Alaska, Department of Commerce, Community, and Economic Development, Division of Insurance, I, Linda S. Hall, hereby adopt, agree, and approve the Regulatory Settlement Agreement entered into by and between the Indiana Department of Insurance and The Chubb Corporation, for itself and on behalf of its U.S.-domiciled insurance subsidiaries.

For the purpose of notice under the Regulatory Settlement Agreement, such notice shall be provided to:

Director of Insurance
State of Alaska
Department of Commerce, Community, and Economic Development
550 West Seventh Avenue, Suite 1560
Anchorage, AK 99501-3567



Director of Insurance
State of Alaska, Department of Commerce, Community, and Economic Development

Date executed by Settling Insurance Regulator: April 21, 2009

The Chubb Corporation, for itself and on behalf of its U.S.-domiciled insurance subsidiaries

Date executed by Chubb: _____