



**New York State  
Insurance Department**

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## **ACE SETTLES BID-RIGGING PROBE**

Agreement is Part of Ongoing Effort to Restore Competition in Insurance Industry

Attorney General Eliot Spitzer and State Insurance Superintendent Howard Mills today announced an agreement with ACE Limited, a Bermuda-based holding company that trades on the New York Stock Exchange, and its United States subsidiaries to resolve allegations of bid-rigging and improper "finite reinsurance" transactions.

Connecticut Attorney General Richard Blumenthal and Illinois Attorney General Lisa Madigan also joined in today's settlement.

Under the agreement, ACE will pay \$80 million in restitution and penalties and adopt a series of sweeping reforms of its business practices. In addition, ACE has issued an apology acknowledging its improper conduct.

"We continue to clean up the insurance industry," said Attorney General Spitzer. "ACE has acknowledged its problems and cooperated fully in our investigation. ACE is also adopting reforms designed to address the problems created by the use of contingent commissions and finite reinsurance."

State Insurance Superintendent Howard Mills said: "The Insurance Department is pleased that ACE has agreed to compensate policyholders who were harmed by the company's actions and reform the way in which they conduct their business."

The settlement agreement, called an Assurance of Discontinuance and Voluntary Compliance, alleges that ACE was a full participant in a scheme to fix insurance prices in the excess casualty area.

For example, the Assurance cites an e-mail from a senior ACE executive detailing a scheme in which ACE would knowingly provide a losing bid to provide insurance coverage to create the illusion of a competitive bidding process:

“Marsh is consistently asking us to provide what they refer to as ‘B’ quotes for a risk. They openly acknowledge we will not bind these ‘B’ quotes . . . but that they ‘will work us into the program’ at another attachment point . . . . It has been inferred that the ‘pricing targets’ provided are designed to ensure underwriters ‘do not do anything stupid’ as respects pricing.”

The assurance also details ACE’s use of improper “finite reinsurance” to bolster both its own financial results and those of its clients. For example, in 2000 ACE entered into a sham “reinsurance” agreement with American Capital Access (“ACA”), a privately held United States insurer. Under the terms of the deal, ACE and ACA entered into a series of written reinsurance contracts that appeared to contain sufficient risk to qualify as reinsurance. In reality, however, the two parties entered into secret side agreements that capped and guaranteed the profits ACE could make from the deal, thereby eliminating any risk for either party.

In a statement today, ACE apologized for its actions, saying: “As part of today’s settlement with the Attorneys General and the Superintendent, ACE acknowledges that certain of its employees violated both acceptable business practices and ACE’s own standards of conduct by engaging in behavior that included improper bidding practices and certain ‘finite reinsurance’ transactions. ACE apologizes for this conduct. It has reformed its business practices and is satisfied that this behavior will not be repeated. In order to promote transparency and reduce the potential for conflicts of interest, ACE has supported legislation in the U.S. to eliminate contingent compensation and through this agreement pledges to continue to do so.”

Under today's agreements, \$40 million will be paid to ACE’s policyholders harmed by bid-rigging activities. In addition, ACE will pay penalties of \$24 million to New York and \$8 million each to Connecticut and Illinois.

In the fall of 2004, the New York Attorney General's Office and Insurance Department announced a joint probe of misconduct in the insurance industry. To date, this investigation has resulted in settlements with six companies, guilty pleas from 20 insurance company executives and officers, and the recovery of approximately \$3 billion in restitution and penalties.

The investigation underlying today's Assurance of Discontinuance and Voluntary Compliance was conducted by Assistant Attorneys General Michael Berlin, Maria Filipakis, Matthew Gaul, and Mel Goldberg, under the direction of David D. Brown IV, Chief of the Attorney General’s Investment Protection Bureau.

Susan Donnellan, Deputy General Counsel of the New York State Department of Insurance and Jon Rothblatt, Principal Attorney, led the Insurance Department’s investigation.