ILLINOIS ATTORNEY GENERAL LISA MADIGAN

PRESS RELEASE

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For Immediate Release
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MADIGAN: $12 MILLION OF ZURICH SETTLEMENT MONEY TO HELP FUND STATE HEALTH INSURANCE PROGRAM

Chicago – Illinois Attorney General Lisa Madigan today announced that $12 million collected in a settlement with insurance giant Zurich has been directed to the Illinois Comprehensive Health Insurance Plan (CHIP). Madigan said the money will benefit uninsured or low-income Illinoisans who are able to obtain affordable insurance through CHIP.

The March 2006 settlement with Schaumburg-based Zurich American Insurance Company was reached by Madigan, New York Attorney General Eliot Spitzer and Connecticut Attorney General Richard Blumenthal over charges the insurance giant engaged in bid-rigging, steering of insurance business and accounting misconduct.

The agreement required Zurich to pay back $88 million to policyholders, including Illinois policyholders, who were the victims of Zurich's scheme to rig bids on excess casualty insurance policies. Under the agreement, Zurich also agreed to pay $65 million in penalties and payments to the three states, including the $12 million transferred to Illinois CHIP.

Zurich agreed to make the penalty payments as directed by the Attorneys General, and Madigan directed the money to the CHIP program to benefit Illinois residents. The funds will be used to pay insurance claims administered through the CHIP program, which in 2004 provided health insurance for 16,409 Illinoisans.

"While the Zurich case dealt with corporate insurance claims, the settlement funds are being directed to help pay the insurance claims for some of Illinois' low-income residents," Madigan said. "CHIP fills a critical need by providing insurance to those who have no other access to it. We saw this as an opportunity to have a legal settlement lend a helping hand to some of our neediest residents."

Additionally, the settlement agreement required Zurich to reform critical business practices. Under the agreement, Zurich agreed to sharply curtail its use of "contingent commissions," paying no contingent commissions on excess casualty insurance placements through 2008.

Contingent commissions are payments that insurers pay to brokers and agents in addition to the base commissions. Madigan's investigation found that, because contingent commissions are based on volume and profitability, they encourage brokers and agents to improperly steer their clients to particular insurers, even if that is not in the clients' best interest.

In addition, Zurich agreed to stop paying such commissions in any line of insurance in which companies with 65 percent of gross written premiums do not do so. The company also has agreed to support legislation banning contingent commissions and requiring greater disclosure of compensation to brokers and agents.

Under the agreement, Zurich also has agreed that later this year it will use a special Web site to provide new disclosures about ranges of compensation paid to brokers and agents under various insurance products.

The Division of Insurance within the Illinois Department of Financial and Professional Regulation (IDFPR), along with the New York Insurance Department and the Connecticut Insurance Department, will monitor Zurich's compliance with these new business reforms.

Madigan said the Zurich settlement was a product of a wider, ongoing probe of misconduct in the insurance industry. One of the previous results of the investigation was Madigan's $190 million settlement with Chicago-based insurance brokerage firm Aon in March 2005. That settlement, which also included the New York and Connecticut Attorneys General, similarly dealt with contingent commissions and improper steering.

Public Interest Division Chief Benjamin Weinberg and Public Interest Division Deputy Chief Brent Stratton handled the case for Madigan's office.

-30-

Return to June 2006 Press Releases