



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

-----X

In the Matter of

ZURICH AMERICAN INSURANCE COMPANY,
ZURICH HOLDING COMPANY OF AMERICA, INC.
and its insurer subsidiaries and affiliates authorized to
transact insurance business in the State of New York,

STIPULATION
No. 2006-0088-S

Respondents.

-----X

WHEREAS, Respondent Zurich American Insurance Company is a domestic insurance company authorized to transact insurance business in the State of New York and Respondent Zurich Holding Company of America, Inc. is a Delaware corporation with its principal place of business in Schaumburg, Illinois, and is a holding company within the meaning of Article 15 of the New York Insurance Law ("Insurance Law") which owns, controls or is affiliated with the following insurers authorized to transact insurance business in the State of New York: American Guarantee and Liability Insurance Company, American Zurich Insurance Company, Assurance Company of America, Centre Insurance Company, Centre Life Insurance Company, Colonial American Casualty and Surety Company, Constellation Reinsurance Company, Empire Fire and Marine Insurance Company, Fidelity and Deposit Company of Maryland, Maryland Casualty Company, Northern Insurance Company of New York, Universal Underwriters Insurance Company, Valiant Insurance Company, and Zurich American Insurance Company;

WHEREAS, pursuant to the provisions of Executive Law § 63 (12), the Donnelly Act (Gen. Bus. Law § 340 *et seq.*), the Martin Act (Gen. Bus. Law § 352-c) and the common law of the State of New York, Eliot Spitzer, Attorney General of the State of New York caused an investigation to be made of Zurich Financial Services, a Swiss company ("ZFS") Zurich Holding Company of America, Inc. ("Zurich Holding") and their insurance subsidiaries including but not limited to Zurich American Insurance Company ("ZAIC"), relating to practices in the marketing, sale, renewal, placement or servicing of insurance and reinsurance and their accounting and public reporting practices, including those relating to nontraditional and finite insurance and reinsurance (the "Investigation"); and pursuant to Conn. Gen. Stat. § 35-24 et seq. (the Connecticut Antitrust Act) and Conn. Gen. Stat. § 42-110a et

seq. (the Connecticut Unfair Trade Practice Act), Richard Blumenthal, Attorney General of the State of Connecticut, caused an investigation to be made of ZFS, Zurich Holding and their insurance subsidiaries on the subject matter of the Investigation; and pursuant to the Illinois Antitrust Act, 740 ILCS 10/1 et seq. and the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 et seq. Lisa Madigan, Attorney General of the State of Illinois, caused an investigation to be made of ZFS, Zurich Holding and their insurance subsidiaries on the subject matter of the Investigation (collectively "Attorneys General Investigations");

WHEREAS, the Superintendent of Insurance of the State of New York ("Superintendent") and the New York State Insurance Department ("Department") conducted an investigation of ZFS, Zurich Holding and their insurance subsidiaries on the subject matter of the Investigation (the "Superintendent's Investigation");

WHEREAS, the Attorneys General and the Superintendent allege that Zurich US (defined herein as Zurich Holding, and ZFS's insurance subsidiaries, in which ZFS has a controlling interest, doing business in the United States and its territories, including but not limited to ZAIC and its respective subsidiaries) and ZFS unlawfully deceived policyholders, regulators and other authorities and shareholders by: (a) participating in schemes to steer business; (b) participating in rigging of bids for excess casualty insurance through Marsh & McLennan Companies, Inc. ("Marsh"); and (c) improperly using insurance transactions to bolster the quality, quantity and stability of their clients and ZFS's earnings;

WHEREAS, Zurich US and ZFS have been and are continuing to cooperate with the Attorneys General Investigations and the Superintendent's Investigation;

WHEREAS, the Attorneys General have resolved all issues uncovered to date (with the exception of those areas noted below) in the Attorneys General Investigations pursuant to an Assurance of Discontinuance and Voluntary Compliance dated March 24, 2006 (the "Assurance");

WHEREAS, in the wake of the Attorneys General Investigations and the Superintendent's Investigation, and pursuant to the Assurance and this Stipulation, Zurich US and ZFS have adopted and will continue to implement a number of business reforms governing the conduct of employees of ZFS and Zurich US;

WHEREAS, nothing herein shall be construed to apply to any business or operations involving group and individual: (1) fixed and variable life insurance, (2) fixed and variable, immediate and deferred annuities, (3) accidental death and dismemberment insurance, (4) short and long term disability insurance, (5) long term care insurance, (6) accident and health insurance, including vision and dental insurance, (7) credit insurance, (8) involuntary unemployment insurance, (9) guaranteed investment contracts, and (10) funding agreements (collectively "ZFS's Life Insurance Operations");

WHEREAS, the Superintendent and the Respondents are entering into this Stipulation to resolve all issues uncovered to date in the Superintendent's Investigation but not including any issues in the Superintendent's current examination of ZAIC, including the Superintendent's review of the commutation of certain reinsurance contracts with Hannover Re and Swiss Re;

WHEREAS, ZFS has committed to the obligations identified in the Assurance and Stipulation in a letter dated March 24, 2006 to the Attorney General of New York and the Superintendent, attached hereto as Exhibit 1;

WHEREAS, the Superintendent finds the relief and agreements contained in this Stipulation appropriate and in the public interest, and accepts this Stipulation as a settlement of the Superintendent's Investigation (with the exceptions noted above);

WHEREAS, this Stipulation is entered into solely for the purpose of resolving the Superintendent's Investigation (with the exceptions noted above) and is not intended to be used for any other purpose; NOW THEREFORE

IT IS HEREBY STIPULATED AND AGREED by and between the Respondents and the Department, subject to the approval of the Superintendent, as follows:

Bid Rigging – Excess Casualty Policyholders

1. On or before May 8, 2006, Zurich Holding shall pay, or cause any affiliate of Zurich Holding other than ZAIC or any of ZAIC's subsidiaries to pay (provided, Zurich Holding may cause ZAIC or such ZAIC subsidiary to make such payment if Zurich Holding contributes to ZAIC or such subsidiary funds in the amount of such payment) \$88 million into a fund (the "Excess Casualty Fund") held by Zurich US to be paid to Zurich US's policyholders who purchased or renewed Zurich US's Excess Casualty policies, 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 Assurance. No portion of the Excess Casualty Fund shall be considered a fine or a penalty.

2. The creation and funding of the Excess Casualty Fund shall not be used as a set-off or credit against any obligation or payment in any other agreement or settlement, including but not limited to the Settlement Agreement with Offices of the Attorneys General dated March 20, 2006, attached as Exhibit 2 (the "March 20th Agreement"), regardless of ZFS or Zurich US's entitlement under any other agreement or settlement to do so. Zurich US commits that neither Zurich US nor

any ZFS related entity will seek or accept any "Settlement Credit" or other reduction of the "Additional Settlement Amount" as those terms are defined in the March 20th Agreement.

3. The Excess Casualty Fund shall be invested in a designated money market fund subject to the prior approval of the Attorneys General and the Superintendent.

4. Zurich US shall (a) by July 10, 2006 calculate the amount of money each of the Eligible Policyholders paid for excess casualty insurance placed through Marsh with inception or renewal dates during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policies"); (b) within ten days of completing these calculations, file a report with the Attorneys General and the Superintendent, certified by an officer of Zurich Holding, setting forth: (i) each Eligible Policyholder's name and address; (ii) the Eligible Policyholder's Eligible Policy(ies) purchased or renewed and policy number(s); (iii) the amount the Eligible Policyholder paid in premiums for each such policy; and (iv) the amount each policyholder is eligible to receive which shall equal each policyholder's pro rata share of the Excess Casualty Fund as calculated by multiplying the amount in the Excess Casualty Fund by the ratio of the policyholder's gross written premium for Eligible Policies for the period from January 1, 2000 through September 30, 2004, divided by the total gross written premium for all Eligible Policies; and (c) by July 24, 2006, send a notice to each Eligible Policyholder, setting forth items (ii) through (iv), above, and stating that the amount paid may increase if there is less than full participation by Eligible Policyholders in the Excess Casualty Fund (the "Excess Notice"). The form of the Excess Notice shall be subject to the prior approval of the Attorneys General and Superintendent.

5. Eligible Policyholders who receive an Excess Notice and who voluntarily elect to receive a cash distribution (the "Participating Policyholders") shall tender a release in the form attached hereto as Exhibit 3 on or before December 27, 2006.

6. On or before February 7, 2007, Zurich Holding shall pay, or cause any affiliate of Zurich Holding other than ZAIC or any of ZAIC's subsidiaries to pay (provided, Zurich Holding may cause ZAIC or such ZAIC subsidiary to make such payment if Zurich Holding contributes to ZAIC or such subsidiary funds in the amount of such payment) each Participating Policyholder the amount that that Participating Policyholder is eligible to receive from the Excess Casualty Fund as set forth in paragraph 4(b)(iv) above, and any interest or investment income earned thereon.

7. On or before March 7, 2007, Zurich US shall file an interim report with the Attorneys General and the Superintendent, certified by an officer of Zurich Holding, listing all amounts paid from the Excess Casualty Fund.

8. In the event that any Eligible Policyholder elects not to participate or otherwise does not respond to the Excess Notice (the "Non-Participating Policyholders"), the amount that such policyholder was eligible to receive from the Excess Casualty Fund as set forth in paragraph 4(b)(iv) may be used by Zurich US to satisfy any pending or other claims asserted by policyholders relating to the excess casualty bid rigging or excess casualty steering allegations set forth in this Assurance, provided that in no event shall a distribution be made from the Excess Casualty Fund to any other policyholder until all Participating Policyholders have been paid the full aggregate amount set forth in paragraph 4(b)(iv) above, and any interest or investment income earned thereon; also provided that in no event shall a distribution be made from the Excess Casualty Fund as a "Spillover Amount" pursuant to the March 20th Agreement, nor shall the total payments from the Excess Casualty Fund to any Non-Participating Policyholder exceed 80% of the amount that Non-Participating Policyholder was originally eligible to receive as set forth in paragraph 4(b)(iv).

9. If any money remains in the Excess Casualty Fund as of December 8, 2007 any such funds shall be distributed by January 8, 2008 on a pro rata basis to the Participating Policyholders.

10. In no event shall any of the money in the Excess Casualty Fund or the investment or interest income earned thereon be used to pay or considered in the calculation of attorneys fees.

11. In no event shall any of the money in the Excess Casualty Fund or the investment or interest income earned thereon be used to pay or considered in the calculation of commissions, administrative or other fees to ZFS or Zurich US.

12. On or before January 21, 2008, Zurich US shall file a report with the Attorneys General and the Superintendent, certified by an officer of Zurich Holding, listing all amounts paid from the Excess Casualty Fund, including any payments subsequent to the payments described in paragraph 7.

Monetary Fine, Penalty and Payment

13. On or before May 8, 2006 Zurich US commits that Zurich Holding shall pay, or cause any affiliate of Zurich Holding other than ZAIC or any of ZAIC's subsidiaries to pay (provided, Zurich Holding may cause ZAIC or such ZAIC subsidiary to make such payment if Zurich Holding contributes to ZAIC or such subsidiary funds in the amount of such payment) \$65 million as a fine or penalty of which a \$39 million fine will be paid by wire transfer to the State of New York, a \$13 million payment will be made in accordance with 815 ILCS 505/7(d) by wire transfer to the State of Illinois and a \$13 million penalty will be paid by wire transfer to the State of Connecticut. Each Attorney General and the Superintendent shall provide issuing instructions with respect to the payments. These fines and penalties are

imposed for all of the improper conduct described in the Assurance and this Stipulation.

Business Reforms

14. **Controls on Finite and Non-traditional Reinsurance.** Zurich US commits that ZFS and its insurance subsidiaries will enact policies and procedures satisfactory to the Attorneys General and the Superintendent to prevent transactions designed solely to manipulate accounting results, transactions involving insufficient risk transfer created for purposes of improperly qualifying such transactions for reinsurance accounting as reinsurance, and transactions that contain undisclosed side agreements.

Reinsurance Reporting Obligations

15. For a period of five years beginning July 8, 2006, Zurich US commits that ZFS will provide annually by May 1 of each year to the Superintendent a report, in a format approved by the Superintendent, that includes:

- a. A review of ceded and assumed reinsurance of the property/casualty insurance subsidiaries of ZFS required to file statutory financial statements on the NAIC blanks (the "Property/Casualty Insurers") verifying that all contracts comply with SSAP 62 and 75 and the new NAIC disclosure and attestation requirements including the attestation that with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statements, to the best of ZFS's knowledge and belief, after diligent inquiry and unless noted as an exception under the attestation requirement:
 - i. Consistent with SSAP 62, there are no separate written or oral agreements between the reporting entity (or its affiliates or companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed;
 - ii. For each such reinsurance contract entered into, renewed or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP 62 and 75, is available for review;

- iii. The reporting entity complies with all the requirements set forth in SSAP 62 and 75, and any supporting documentation is available for review;
 - iv. The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP 62 and 75.
- b. A list of all its affiliated insurers, categorized by domicile, whether controlled through ownership or otherwise under the Insurance Law. The list shall include the percentage of ownership or other means by which ZFS controls the affiliated insurer.
 - c. A list of its ownership of five percent or more of the voting shares of any non-affiliated insurer entities.
 - d. A list of non-affiliated insurers to whom ZFS Property/Casualty Insurers have ceded business during the preceding calendar year either directly, or through retrocession agreements if known, excluding those captive reinsurance entities that do not accept third party business, where the business ceded represents fifty percent or more of the entire direct and assumed premium written by insurer, based upon such insurer's most recent publicly available financial statements.

Such report shall be certified by the Chief Reinsurance Officer and the Chief Executive Officer of ZFS, Zurich Holding and ZAIC and a copy of such report shall be submitted to the relevant Audit Committee of ZFS, Zurich Holding and ZAIC.

16. The Chief Reinsurance Officers of ZFS, Zurich Holding and ZAIC will maintain approved lists of reinsurers. Zurich US will not cede insurance to any reinsurer not set forth on those lists. Such lists will be available to the Superintendent upon examination. All approved reinsurance relationships will be reviewed by the Chief Reinsurance Officer of ZFS, Zurich Holding and ZAIC and such review will include a written determination of whether the reinsurance entity is affiliated or controlled (by ownership, by contract or otherwise) by ZFS or Zurich US.

17. **Additional Undertakings.**

- a. Zurich US agrees that it will establish and maintain a training and education program, completion of which will be required for all officers, executives, and employees of ZFS and Zurich US who have supervisory responsibility over accounting, financial reporting and public disclosure functions relating to the United States (collectively, the "Mandatory Participants").

- b. The training and education program shall be designed to cover, at a minimum, the following: (i) the obligations imposed by federal and state securities law, including ZFS and Zurich US's financial reporting and disclosure obligations; (ii) the financial reporting and disclosure obligations imposed on ZFS and its subsidiaries by New York State, Illinois and Connecticut insurance laws; (iii) compliance with federal and state anti-trust laws; (iv) proper internal accounting controls and procedures; (v) discovering and recognizing accounting practices that do not conform to GAAP or SSAP or that are otherwise improper; and (vi) the obligations assumed by, and responses expected of the Mandatory Participants upon learning of improper, illegal or potentially illegal acts relating to ZFS and Zurich US's accounting and financial reporting. The General Counsel of ZFS shall communicate to Mandatory Participants, in writing or by video, its endorsement of the training and education program.

Cooperation with the Superintendent

18. Zurich US commits that ZFS and its insurance subsidiaries will maintain and provide to the Superintendent, upon the Superintendent's request, complete underwriting files, including correspondence and e-mails, and risk transfer analysis to the extent required by SSAP 62 relating to all reinsurance ceded or assumed by ZFS and Zurich US. Zurich US commits that ZFS and its insurance subsidiaries will authorize their independent auditors and direct their internal auditors to make available to the Superintendent upon request all workpapers of their auditors, including but not limited to all Schedules of Unadjusted Differences.

19. Zurich US commits that ZFS and its insurance subsidiaries will file all holding company transactions in a timely manner in compliance with Article 15 of the New York Insurance Law and Department Regulation 52 and such other procedures that ZFS or ZFS's insurance subsidiaries and the Superintendent may agree to from time to time.

20. Zurich US commits that ZFS and its insurance subsidiaries will cooperate fully on all examinations and on all other regulatory requests and will respond to all Department inquiries in a prompt, timely and complete manner subject to applicable laws and will provide appropriate staff during examinations in order to provide timely responses. Failure to respond to the Department in a timely manner, as required by this paragraph, will constitute violations of this Stipulation and the Insurance Law. Any issues that relate to the timeliness of the responses shall be reported to the Chief Financial Officer of Zurich Holding.

21. Zurich US commits that the Chair of the Audit Committee of ZFS and any of ZFS's insurance subsidiaries, if requested, will meet with the Superintendent

and/or a designated official of the Superintendent on an annual basis or more frequently as deemed necessary by the Superintendent.

Other Provisions

22. Zurich US commits that ZFS and ZFS 's insurance subsidiaries shall implement procedures and controls designed to provide full and complete disclosure to state insurance regulators.

23. Zurich US commits that neither Zurich US nor ZFS shall seek or accept, directly or indirectly, indemnification pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to this Stipulation and Assurance.

24. None of the provisions of this Stipulation shall apply to ZFS's Life Insurance Operations, Farmers Insurance Exchange, Truck Insurance Exchange, Fire Insurance Exchange and their respective subsidiaries.

25. The Superintendent agrees that any prior approval required under the terms of this Stipulation shall not be unreasonably withheld.

26. This Stipulation is not intended to disqualify Zurich US, its subsidiaries, or any of their current employees from engaging in any business in New York, Illinois, Connecticut or in any other jurisdiction. Nothing in this Stipulation shall relieve Zurich US or its subsidiaries of obligations imposed by any applicable state insurance law or regulations or other applicable law.

27. This Stipulation shall not confer any rights upon any persons or entities besides the Superintendent, the Department and ZFS, Zurich Holding and their insurance subsidiaries.

28. Zurich US shall maintain custody of, or make arrangements to have maintained, all documents and records related to this matter for a period of not less than six years.

29. Respondents neither admit nor deny the allegations contained in the Assurance or this Stipulation.

30. This Stipulation shall in no way limit the statutory authority of the Superintendent to take regulatory action to enforce this Stipulation, or to examine, investigate and/or take regulatory action against the Respondents or any current or former licensee of the Department for any violations of the Insurance Law or Department Regulation other than the specific matters resolved by this Stipulation and the Assurance.

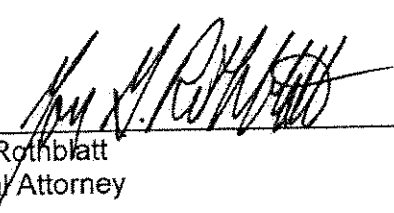
31. The monetary obligations described in paragraphs 1-13 above in this Stipulation are identical to the monetary payment obligations contained in the Assurance and, as a result, Zurich US need only make one payment with respect to each such obligation.

In the Matter of Zurich American Insurance Company, et al.

Dated: New York, NY
March 24, 2006

NEW YORK STATE INSURANCE DEPARTMENT

By:



Jon G. Rothblatt
Principal Attorney


In the Matter of Zurich American Insurance Company, et al.

ZURICH HOLDING COMPANY OF AMERICA, INC.

By:

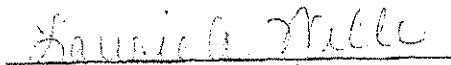
Name:

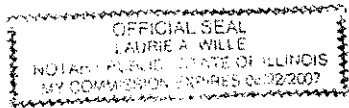
Title:


David A. Bowers
General Counsel

STATE OF Illinois,
COUNTY OF Cook } ss.:


On this 24 day of March, 2006, before me personally came David A. Bowers, to me known, who, being by me duly sworn, did depose and say that he/she is the General Counsel of Zurich Holding Company of America, Inc., the corporation described in and which executed the above instrument; and that he/she signed his/her name thereto by order of the board of directors of said corporation.


Laurie A. Wille
Notary Public



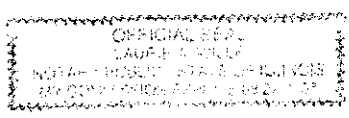
In the Matter of Zurich American Insurance Company, et al.

Zurich American Insurance Company

By: 
Name: David A. Bowers
Title: Executive Vice President
and General Counsel

STATE OF Illinois)
) ss.:
COUNTY OF Cook)

On this 24 day of March, 2006, before me personally came David A. Bowers, to me known, who, being by me duly sworn, did depose and say that he/she is the Executive Vice President of Zurich American Insurance Company, the corporation described in and which executed the above instrument; and that he/she signed his/her name thereto by order of the board of directors of said corporation.



Laurie A. Miller
Notary Public

THE FOREGOING STIPULATION IS HEREBY APPROVED.

Dated: New York, NY
March , 2006

HOWARD MILLS
Superintendent of Insurance

By: _____
Audrey Samers
Deputy Superintendent & General Counsel

