
IN THE MATTER OF)
The Chubb Corporation)
_____)
_____)

ASSURANCE OF DISCONTINUANCE
PURSUANT TO M.G.L. CHAPTER 93A, § 5

I. INTRODUCTION

1. The Commonwealth of Massachusetts (“Commonwealth”), through the Office of Attorney General Martha Coakley (“AGO”), and The Chubb Corporation (“Chubb”) enter into this Assurance of Discontinuance (“Assurance”), pursuant to G.L. c. 93A, §5.

2. In 2007, the Commonwealth completed an investigation of allegations that regional insurance broker William Gallagher Associates Insurance Brokers, Inc. (“WGA”) committed unfair and deceptive acts and practices. In December 2007, the Commonwealth filed suit against WGA for violations of the Consumer Protection Act [M.G.L. Chapter 93A § 4] and WGA agreed to the entry of a Consent Judgment to resolve the Commonwealth’s claims. See Commonwealth v. William Gallagher Associates Insurance Brokers, Inc., Suffolk Civ. No. 07-5547A (2007). In the aftermath of the Commonwealth’s action against WGA, the AGO has continued to review the facts and circumstances surrounding various aspects of WGA’s conduct.

3. As part of this review, the Commonwealth considered the actions of a number of insurance companies which did business with WGA at times relevant to this investigation. One of these insurance companies was Chubb. Based on its review, the AGO found that Chubb had designated WGA as one of its “Tier One Agencies.” Chubb described Tier One Agencies as

brokerage firms and agencies that “sell Chubb regardless of price” and for which “contingent commissions impacts behavior.” In addition, the AGO found that Chubb provided certain programs and incentives to WGA.

4. In 1997, Chubb loaned \$3,500,000 to WGA pursuant to a written agreement between Chubb and WGA. In order to guarantee repayment of this loan, Chubb required that WGA’s owner and CEO, Philip J. Edmundson, and his wife sign a personal guarantee for this loan. The agreement provided that Chubb would forgive principal and interest on the loan if WGA placed sufficient levels of profitable business with Chubb. Between 1999 and 2003 Chubb forgave principal and interest on WGA’s loan totaling \$1,413,677 pursuant to the terms of the agreement. WGA fully paid off the loan’s remaining balance on or about February 27, 2003.

5. In 1999, Chubb invited WGA to join Mountain View Indemnity, Ltd. (“MVI”), a producer captive reinsurance company. Chubb invited brokers and agents to invest in MVI as a means of “aligning” their interests with Chubb’s. In order to join MVI, Chubb required WGA to invest \$50,000 into MVI and commit to directing one million dollars in new business with Chubb over a three year period. Between 1999 and 2004, at WGA’s request, over one hundred insurance policies that WGA placed with Chubb were ceded to MVI.

6. Between 2001 and 2004, Chubb maintained a “trust fund” that WGA could draw against in order to offer Chubb’s insurance policies to customers at lower prices in situations in which Chubb’s premium quotes were higher than the quotes issued by other insurers.

7. The AGO believes that these business practices improperly incited and enabled WGA to direct business to Chubb. In lieu of litigation and in recognition of Chubb’s assistance and cooperation during the AGO’s investigations, the AGO agrees to accept this Assurance on

the terms and conditions contained herein, pursuant to M.G.L. c. 93A § 5. The AGO and Chubb both voluntarily enter into this Assurance.

8. This Assurance does not constitute an admission by Chubb of any fact, allegation, or noncompliance with any federal, state or local law, rule, or regulation. Chubb believes that its business practices were legal and proper. Chubb enters into this Assurance for the purpose of resolving this investigation only and this Assurance is not intended to be used for any other purpose.

9. This Assurance is made without trial or adjudication of any issue of fact or law.

II. PAYMENTS

10. Within five days of the entry of this Assurance, Chubb shall pay \$239,011 to the Commonwealth, as follows: (i) \$99,946 shall be provided to the AGO for distribution to WGA customers whose insurance policies were ceded to and/or reinsured by MVI between 2002 and 2005; (ii) \$82,869 shall be provided to the AGO for distribution to WGA customers whose insurance policy premiums were affected by use of the WGA Trust Fund between 2002 and 2004 (*collectively* “eligible policyholders”); and (iii) \$56,196 shall be provided as a grant to the AGO for purposes of administering the terms of this Assurance and for insurance mediation efforts. The AGO shall attempt to distribute the \$99,946 and \$82,869 via a form of pro rata distribution; however the specific method and allocation for distribution within each subgroup of eligible policyholders shall be in the sole discretion of the AGO. If the AGO determines, in its sole discretion, that: (i) it has been unable to contact an eligible policyholder after making a good faith attempt; (ii) the eligible policyholder no longer exists; and/or (iii) the eligible policyholder fails to accept the funds within 180 days of issuance of the proffer, the AGO shall distribute funds allocable to said policyholder *cy pres*. Chubb agrees to make its best efforts to provide the

AGO with any relevant information the AGO seeks for purposes of administering this Assurance in a timely manner.

III. BUSINESS REFORMS

11. As used hereinafter, “Massachusetts Producer” shall refer to any individual that is licensed by the Massachusetts Division of Insurance as a Producer or any individual or entity that is in the business of selling or negotiating insurance in Massachusetts.

12. **Prohibition on Producer Captive Insurers:** Chubb shall not form, have an interest in, or participate in, either directly or indirectly, any insurance or reinsurance company in which any Massachusetts Producer has any ownership or equity interest, excepting (i) insurance or reinsurance companies in which Massachusetts Producers may own publicly traded stock, or (ii) limited partnerships or joint ventures in which neither Chubb nor a Massachusetts Producer has a controlling interest. This prohibition shall not extend to 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 Massachusetts producers not acting as managing general agents of Chubb.

13. **Controls on Producer Loans:** Chubb shall not loan money or any other valuable consideration to a Massachusetts 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 the 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.

14. **Prohibition on Producer Trust Funds:** Chubb shall not set up any fund or pool of money that a Massachusetts Producer can use to alter Chubb’s quoted premiums.

IV. MISCELLANEOUS PROVISIONS

15. The AGO shall not proceed with or institute any civil action or other proceeding, based upon G.L. c. 93A, or any other federal, state or local law, rule or regulation, against Chubb, or any of its current or former principals, officers, directors, agents, or employees, its successors, or assigns, including but not limited to any action or proceeding seeking restitution, injunctive relief, fines, penalties, attorneys' fees or costs, for any act or practice relating to Chubb's dealings with WGA described in this Assurance occurring prior to the execution date of this Assurance.

16. This Assurance constitutes the entire agreement between the AGO and Chubb and supersedes any prior communication, understanding or agreements, whether written or oral, concerning the subject matter of this Assurance.

17. This Assurance shall be binding upon Chubb, its subsidiaries, and subdivisions, as well as its successors, assigns, and/or purchasers of all or substantially all of its assets.

18. By signing below, Chubb agrees to comply with all of the terms of this Assurance for a period of five years. Any violation of this Assurance will be subject to the provisions of G.L. c. 93A, §5.

The Chubb Corporation

By: Maureen Brundage

Title: Executive Vice President & General Counsel

Date: 2/11/09

Office of the Attorney General

By: _____

Title: _____

Date: _____