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INVESTIGATION REVEALS WIDESPREAD CORRUPTION IN INSURANCE INDUSTRY

Leading Brokerage Firm Sued for Fraud and Antitrust Violations; Insurance
Company Executives Plead Guilty; Major Insurance Firms Implicated

Attorney General Eliot Spitzer today sued the nation's leading insurance brokerage firm, alleging that it steered unsuspecting clients to insurers with whom it had lucrative payoff agreements, and that the firm solicited rigged bids for insurance contracts.

Simultaneously, Spitzer announced that two insurance company executives have pleaded guilty to criminal charges in connection with the scheme.

The actions against the brokerage firm, Marsh & McLennan Companies, and the two executives stem from a widening investigation of fraud and anti-competitive practices in the insurance industry. Evidence revealed in today's lawsuit also implicates other major insurance carriers.

"The insurance industry needs to take a long, hard look at itself," Spitzer said. "If the practices identified in our suit are as widespread as they appear to be, then the industry's fundamental business model needs major corrective action and reform."

"There is simply no responsible argument for a system that rigs bids, stifles competition and cheats customers," he added.

Spitzer was joined at news conference announcing the actions by New York State Insurance Superintendent Gregory V. Serio, who said: "This has gone from an inquiry into failure to disclose compensation to an active investigation of bid rigging and improper steering. This certainly proves the adage that where there is smoke, there is fire."

The civil complaint filed today in State Supreme Court in Manhattan alleges that for years Marsh received special payments from insurance companies that were above and beyond normal sales commissions. These payments -- known as "contingent commissions" -- were characterized as compensation for "market services" but were, in fact, rewards for the business that Marsh and its independent brokers steered and allocated to the insurance companies. Industry representatives defend this long-standing practice as acceptable and even beneficial to clients, but the Attorney General's office has uncovered extensive evidence showing that it distorts and corrupts the insurance marketplace and cheats insurance customers.

In addition to steering business to its insurance company partners, Marsh, at times, solicited fake bids, which deceived its customers into thinking that true competition had taken place. Marsh did this even as it claimed in public statements that its "guiding principle" was to always consider its client's best interests.

Spitzer's complaint against the company cites internal communications in which executives openly discuss actions that were aimed at maximizing Marsh's revenue and insurance companies' revenues -- without regard to clients' interests.

For example, one senior Marsh executive sent a message to colleagues saying: "We need to place our business in 2004 with those [insurance companies] that have superior financials, broad coverage and pay us the most."

Another executive noted that the size of contingent commissions will determine "who [we] are steering business to and who we are steering business from."

Major insurance companies -- ACE, AIG, The Hartford and Munich American Risk Partners -- are named in the complaint as participants in steering and bid rigging. Other insurance companies are still under investigation.

The two executives pleaded guilty to participating in the illegal conduct and are expected to testify in future cases.

According to the complaint, Marsh collected approximately \$800 million in contingent commissions in 2003. Spitzer's civil complaint seeks an end to the steering and bid rigging, disgorgement of improper payments, restitution and punitive damages.

The immediate victims of the illegal practices were Marsh's customers -- mainly large corporations seeking property and casualty coverage, but also small and mid-size businesses, municipal governments, school districts and some individuals.

Spitzer thanked the State Insurance Department for its cooperation in the joint investigation, which is continuing.

The investigation underlying today's civil action case was led by Assistant Attorneys General Matthew Gaul, Mel Goldberg, Michael Berlin, Maria Filipakis and Peter Bernstein, under the direction of David D. Brown IV, Chief of the Investment Protection Bureau, Jay Himes, Chief of the Antitrust Bureau and Terryl Brown Clemons, Acting Deputy Attorney General in Charge of the Public Advocacy Division.

Audrey Samers, Deputy Superintendent and General Counsel of the New York State Insurance Department, has coordinated that agency's activities with the Attorney General's office.

The criminal cases are being prosecuted by Assistant Attorneys General Whitman Knapp, Michael Roe and Nina Sass under the direction of Deputy Chief of the Criminal Prosecutions Bureau Kevin Suttlehan and Chief of the Criminal Prosecutions Bureau Janet Cohn, and the Deputy Attorney General in Charge of the Criminal Division, Peter B. Pope.

Attachments:

- [Complaint \[Text Version\]](#)
 - [Exhibits to Complaint \[Text Version\]](#)
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