

Chubb settles case over improper broker incentives

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By Keith L. Martin



Martha Coakley

The Chubb Corp has agreed to a settlement with Massachusetts Attorney General Martha Coakley over allegations that its compensation practices offered improper incentives to a Boston-based brokerage.

Through a \$239,011 settlement, Chubb, based in Warren, N.J., will pay \$182,815 to customers of William Gallagher Associates Insurance Brokers Inc. of Boston and \$56,196 to the State of Massachusetts, according to the attorney general's office.

WGA provides insurance brokerage, risk management and employee benefit services with six offices, including those in Columbia, Md., Princeton, N.J., and New York, N.Y. The firm has revenues between \$25 million and \$50 million, according to a company statement.

Mark Schussel, a spokesman for Chubb, told [IFAwwebnews.com](http://www.ifawebnews.com) that the company has not admitted any act of noncompliance with regulation and believes its business practices were "legal and proper." The agreement with Coakley's office notes recognition of the insurer's assistance and cooperation during the investigations, he said.

"In all of the various states' actions on these issues, including this one, Chubb has never had to pay a fine or apologize," he said.

In 2007, the Massachusetts attorney general's office filed suit against WGA, alleging that the brokerage defrauded its customers by charging undisclosed fees and deceiving customers regarding its compensation practices. Court documents indicate that Chubb loaned WGA more than \$3 million, but offered to forgive the loan and any accrued interest if WGA directed enough profitable business to Chubb.

Chubb also invited WGA to invest in a Chubb-sponsored reinsurance company through which WGA insured a portion of numerous insurance policies belonging to its clients. WGA's participation in the reinsurance company turned the brokerage into a reinsurer with financial interest in keeping its customers' highly profitable insurance policies with Chubb, according to the office. Additionally, Chubb provided WGA with a "trust fund" that WGA could utilize to lower Chubb's quoted premiums.

The attorney general's office said it believes that WGA utilized this trust fund to distort competitive bidding processes.

Through a consent judgment with the attorney general's office in 2007, WGA returned over \$3 million to its customers, paid \$925,000 to the state, adopted conduct reforms and submitted to a binding audit. Through that audit, WGA proffered an additional \$330,624 in restitution and \$80,000 to the state.

In addition to the \$239,011, Chubb agreed that it will not longer make loans to Massachusetts insurance

brokers unless the loans are disclosed to customers, agreed to limitations concerning participation in reinsurance companies and to stop providing "trust funds" to agents and brokers in the state.

"We are pleased that Chubb cooperated during our investigation of WGA and that it has agreed to pay restitution to customers affected by WGA's alleged abuse of these incentives," said Coakley in a statement.

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