NEW YORK — Launching a new assault on the financial services industry, New York Atty. Gen. Eliot Spitzer filed a lawsuit Thursday claiming that the world's largest insurance broker, Marsh & McLennan Cos., conspired to cheat business clients out of hundreds of millions of dollars.

The suit said that Marsh, which was hired to find the best deals for its mostly corporate customers, instead steered clients to major insurance companies that made backdoor payments to the broker.

As part of the scheme, Marsh had insurers fabricate bids to deceive clients into thinking they were getting the lowest-priced policies, Spitzer alleged.

The practices, he said, hurt businesses of all sizes, as well as local governments, school districts and some individuals.

"It is disappointing for what it once again reveals about the craven disregard for ethics and the law by some of our largest corporations," the attorney general said at a Manhattan news conference.

In connection with the probe, two executives of insurance behemoth American International Group Inc. pleaded guilty in New York state court Thursday to one felony count of scheming to defraud. Both are cooperating in the investigation.

Marsh and other companies named in the probe said they were reviewing the allegations. Marsh, which boasts about 60,000 employees and annual revenue of more than $11 billion, said it was "committed to serving its clients to the highest professional and ethical standards."

Critics paint Spitzer as a political grandstander, courting media attention to snare headlines as he prepares to run for governor of New York. But others say he is a much-needed champion of the little guy and note that his earlier investigations of Wall Street brokerages and the mutual fund industry have led to huge settlements and far-reaching reforms.

News of the latest investigation sent shock waves across Wall Street. Shares in Marsh & McLennan plunged 25% to $34.85, and AIG shares tumbled 10% to $60, both on the New York Stock Exchange. Other insurance companies also saw their stock prices sink.

Though charges were filed only against Marsh, Spitzer said other insurance companies remained under investigation.

Improper practices appear to be rife throughout the industry, he said, and the inquiry is expanding into lines of insurance that are sold to individuals.
"They have participated in a massive bid-rigging scheme that has cost the American consumer — in auto insurance, life insurance, health insurance, every insurance market — untold sums of money," Spitzer said. "And they have, meanwhile, been blaming everybody else for the rise in insurance premiums."

Spitzer said he was not ready to offer evidence to back up this claim of widespread fraud.

David Brown, who heads Spitzer's investor-protection unit, said in an interview later that investigators were examining whether independent insurance agents who sell policies to individuals receive undisclosed payments from insurers for directing business to them.

Though the probe is in its early stages, Brown said, "there are some indications" that such payments are made.

For their part, industry officials say it's no secret that brokers receive payments from insurance companies, but they maintain that these "contingent commissions" are legitimate compensation for the services they provide.

"These commissions are ubiquitous in the industry and are known to all parties — the brokers, the insurers and the buyers," said Robert Hartwig, chief economist with the Insurance Information Institute, an industry trade group.

"The element that is new is that there are some criminal acts alleged in how the bids were handled. That was surprising to all parties, and, I think, unrepresentative of how business is done in this industry."

The complaint filed against Marsh alleged that the firm "solicited — and obtained — fictitious high quotes from insurance companies in order to deceive its clients into believing that true competition had taken place."

According to the complaint, the manipulation corrupted "the price of insurance for every policyholder" and victimized shareholders "who have never been told that hundreds of millions of dollars of Marsh's profits derive from illegal activities."

Although Spitzer's suit focused on Marsh's alleged deception, he raised larger questions about contingent commissions. It seems as if "the industry's fundamental business model needs major corrective action and reform," Spitzer said, adding that the use of contingent commissions "distorts and corrupts the insurance marketplace."

In 2003 alone, the complaint said, such commissions are believed to have added about $800 million to Marsh's earnings, which totaled $1.5 billion.

Several major insurance companies — AIG, Hartford Financial Services Group, ACE Ltd. and Munich American Risk Partners — are named in the complaint as participating in the scheme.

There are family ties among three of the companies. Marsh is headed by Jeffrey Greenberg, 52. His father, 78-year-old Maurice "Hank" Greenberg, is the chairman and chief executive of AIG. Another Greenberg son, 49-year-old Evan Greenberg, heads ACE.

None of the Greenbergs was named in the suit.

Marsh & McLennan, ACE and Hartford Financial all said they were cooperating with Spitzer's probe. Hartford Financial "does not condone bid rigging or any other illegal activity," said company spokeswoman Cynthia Michener. "Our corporate policy is very clear."

AIG and Munich American did not return phone calls seeking comment.

The complaint cites internal e-mails and other documents in which executives appear to be discussing actions to maximize revenue for Marsh and its partners.
In one e-mail, a 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."

In another instance, an executive at Munich American asked his regional managers for their opinions about Marsh's practices.

"The idea of 'throwing the quote' by quoting artificially high numbers in some predetermined arrangement for us to lose is repugnant to me, not so much because I hate to lose, but because it is basically dishonest," one manager responded, according to the complaint.

Fortune Brands Inc., a Chicago-area consumer products company that was an alleged victim in the scheme, said it was looking into the allegations as a result of the complaint.

"Fortune Brands works hard to keep insurance costs, and all expenses as low as possible, so we are obviously concerned about what we have learned today," said spokesman Clarkson Hine.

California Insurance Commissioner John Garamendi said he also was concerned about the use of contingent commissions.

He said he planned to propose regulations within the next two weeks that would require full disclosure of the financial relationship between insurance companies and brokers.

"I have a very long record as a critic of the insurance industry and an even longer record of forcing the industry to treat consumers in a legal, ethical and proper manner," Garamendi said. "Many insurance companies and brokers are saying the right things. We will see to it that they do the right things."

Excerpts from the Spitzer complaint
The following comments, from e-mails and other documents, were included in the complaint filed Thursday by New York Atty. Gen. Eliot Spitzer.

"The idea of 'throwing the quote' by quoting artificially high numbers in some predetermined arrangement for us to lose is repugnant to me … because it is basically dishonest." — An insurance company manager, said to be resisting efforts to generate bogus bids

"I want to present a CNA program that is reasonably competitive but will not be a winner." — A Marsh & McLennan executive allegedly seeking a CNA insurance bid that would be too high to be accepted

"We need to place our business in 2004 with those [insurance companies] that … pay us the most." — A Marsh executive

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**AIG'S GREENBERG EXPECTS MORE TRANSPARENCY, NOT MATERIAL IMPACT FROM BROKERAGE CHARGES**

Insurance Journal, Friday, October 15, 2004

AIG Chairman Maurice Greenberg today said he does not think the charges brought by New York Attorney General Eliot Spitzer against giant insurance broker Marsh McLennan will hurt his company's business but that they could lead to more disclosure and even changes in the way brokers are paid.

He suggested that American International Group (AIG) might stop agreeing to pay brokers contingent commissions.
Greenberg spoke at a morning conference call the day after Spitzer filed a complaint against Marsh that implicated but did not charge AIG and several other large insurers in an alleged scheme of account steering and bid rigging.

He said his company had been "proactive" in the matter of so-called placement service agreements (PSAs) that set forth contingency payments by seeking guidance from the New York State Insurance Department (NYSID) on one drawn up by Marsh prior to the charges being leveled but had not received a response from state officials.

He said AIG also began an internal investigation immediately after receiving a subpoena from Attorney General Spitzer in September. This internal investigation turned up two executives at the AIG excess casualty unit, American Home Assurance Company, who admitted to participating in bid rigging. He said AIG brought the matter to the attention of the attorney general and is continuing its internal investigation while also cooperating with the attorney general.

AIG is cited in the complaint as one of the insurers that allegedly agreed to submit fake bids on accounts as part of a scheme to help Marsh win and retain accounts.

"We have a highest standards at AIG and we are sickened by this action," he told analysts. "We will do everything we need to do to weed it out entirely. We are not excusing it. I take responsibility for what goes on in this company."

He said he did not think the controversy would seriously impact the property/casualty industry's operating environment, predicting that hurricanes and other losses will have more effect on pricing.

"I don't think it's going to have a material impact on pricing in the insurance industry...it won't make rates go up or down," Greenberg said.

He also said he does not think that contingent arrangements add to the overall costs of an insurance package for clients. On accounts where PSAs are in effect, the fees paid to brokers would be lower than straight commissions paid to brokers without a PSA so that "in the aggregate" the final price does not differ much, he explained.

The AIG executive suggested it is possible his firm will no longer work with PSAs but will just pay straight commissions.

He estimated that about 15 percent of AIG's commercial lines business comes from Marsh, the largest insurance brokerage.

As for the amount of bid-rigging taking place, he offered that AIG's own investigation was still going on but that overall what had been uncovered at American Home was not "huge within the context of AIG." Thus halting the improper practices should not hurt AIG's business much.

Going forward, Greenberg said he thinks the controversy will lead to more transparency over PSAs and clarification from state officials over what is proper. He added that he believes that in many cases, clients were informed of the arrangements.

Concern over Spitzer's charges was felt on Wall Street. AIG shares fell 10 percent by close yesterday, while Marsh & McLennan shares declined 24 percent; Chubb was down 5.9 percent and The Hartford, down 6.1 percent. Find this article at: http://www.insurancejournal.com/news/national/2004/10/15/46937.htm

FOR INSURANCE CHIEF, A THIRD INQUIRY AND A SHOWDOWN
By JOSEPH B. TREASTER and ERIC DASH
New York Times, Friday October 15, 2004
The chief executive of Marsh & McLennan, a scion of a family of insurance industry executives who built reputations as being tough but fair to clients, faces a showdown with investigators over accusations of bid-rigging, the third time in less than a year that his company has come under scrutiny.

The executive, Jeffrey Greenberg, who helped expand an already solid financial services company into one that takes in more than $11 billion a year, may be fighting for his own survival. Yesterday, the New York attorney general, Eliot Spitzer, sued Marsh & McLennan, accusing it of misleading customers and raising the costs of their insurance to increase Marsh's profit.

With the lawsuit, Mr. Greenberg is confronted with a third government investigation of a core operating unit. Two inquiries - one at Putnam Investments, its money management division, and the other at Mercer Inc., its consulting unit - started last year. The latest - at Marsh Inc., its insurance brokerage arm - was disclosed yesterday. Putnam later settled with regulators for $110 million.

In a news conference yesterday, Mr. Spitzer accused senior executives at Marsh of misleading investigators. As a result, he said, he took the unusual step of not trying to negotiate a settlement before filing a lawsuit. "The leadership of that company is not a leadership I will negotiate with," Mr. Spitzer said, showing a rare flash of anger.

Mr. Spitzer all but called for the board to remove Mr. Greenberg. "You should look long and hard" at the leadership, he said.

But analysts and others do not expect Mr. Greenberg to give up his chairmanship or cow to Mr. Spitzer's demands.

"Not everybody is afraid of Eliot Spitzer," said Bert Ely, a banking consultant based in Alexandria, Va. "Particularly when you take on a Greenberg. I cannot imagine that he is going to roll over and play dead."

Mr. Greenberg comes from what is perhaps the most influential family in the global insurance industry. At 53, he is the oldest son of Hank Greenberg, 79, the longtime chairman and chief executive of American International, and the brother of Evan Greenberg, 49, who runs Ace Ltd., a big Bermuda-based company with extensive dealings in the United States. Among them, they oversee three of the world's biggest insurance companies, with combined assets of almost $743 billion.

Mr. Greenberg, who was considered the heir apparent to his father at A.I.G. before resigning from the company in 1995, had been sailing along at Marsh - admired for his industry knowledge and his creativity - until last fall when its big mutual fund, Putnam, was accused of trading that benefited a few big investors. Putnam later settled with regulators.

In a statement last night, Marsh's directors said, "We have full confidence in the company's leadership." The directors said they had ordered an independent review that would be "thorough, prompt and efficient."

"Pending the results of the review," the directors said, "we will not draw any conclusions."

In a separate statement, Marsh said that it took Mr. Spitzer's accusation seriously and had been cooperating in the investigation since it began last spring. Mr. Spitzer's pointed remarks came as he aggressively pursues the insurance industry, after taking on mutual fund companies and investment banks in a series of lawsuits and investigations.

While in the past he has wrested billions in penalties and called for the restructuring of the top management ranks as part of settlement terms, analysts said that his statements yesterday outlined the most specific appeal for action ever to a corporate board.
"It is hard to imagine Mr. Greenberg being specifically involved in a bid-rigging scheme for a specific insurance policy," said Paul Newsome, a senior analyst at A. G. Edwards in St. Louis who follows the insurance industry. "The specific problems that are cited in the complaint tend to be focused at the underwriter and broker levels."

And Mr. Ely, the banking consultant, questioned whether Mr. Spitzer was overplaying his hand. "There is a poker game going on here, and he is trying to bluff the board into caving in."

"It's a gutsy move on Spitzer's part but if it backfires, it could fall over on himself," Mr. Ely added.

Also in the New York Times, Friday, October 15, 2004

INSURANCE STOCKS TUMBLE ON FRAUD CASE WOE

NEW YORK (Reuters) - Shares of insurers and insurance brokers fell sharply on Friday for a second straight day after New York Attorney General Eliot Spitzer leveled fraud charges against major industry players.

The downdraft was again led by Marsh & McLennan Cos. (MMC.N), the world's top insurance broker, accused by Spitzer of rigging prices and steering unsuspecting clients to certain insurers in exchange for lucrative payoffs.

Marsh, which lost nearly $6 billion in market value on Thursday as its stock sank to a five-year low, fell further in early Friday dealings, down $9.65, or 28 percent, to $25.20.

Other insurance brokers also slumped. Willis Group Holdings (WSH.N) lost $3.16, or 9.2 percent, to $31.32, while Aon Corp. (AOC.N) fell $1.49, or 6.4 percent, to $21.69.

The Spitzer lawsuit, alleging market manipulation since the late 1990s, also implicated Hartford Financial Services Group (HIG.N), Chubb Corp. (CB.N), Bermuda-based ACE Ltd. (ACE.N), a unit of the Germany company Munich Re (MUVGn.DE), and American International Group (AIG.N), the world's largest insurer by market value.

"At this early stage, forecasts of the ramifications for the industry are necessarily speculative ... the magnitude and breadth of these events could be significant if bid-rigging is found to be widespread throughout the insurance industry," Sandler O'Neal analysts wrote in a research note Friday.

News of the probe gutted insurance company and broker share prices on Thursday. In the S&P 500, six of the 10 biggest percentage losers were insurers, with the fall wiping out a collective $28.5 billion of market value for the six.

Two executives from AIG have already pleaded guilty to criminal fraud charges for their involvement in the alleged manipulation, according to Spitzer's office.

AIG Chief Executive Maurice Greenberg was scheduled to hold a news conference Friday morning. AIG shares were down $3.65, or 6.1 percent, at $56.35.

Hartford shares fell $4.80, or 8.2 percent, to $53.60, adding onto a 6.1 percent decline on Thursday. Chubb shares fell $1.95, or 3 percent, to $63.70.

"It is kind of a black hole right now. We don't know what's involved. Our big concern is AIG right now," said Michael Nix, portfolio manager at Greenwood Capital Associates LLC, whose portfolio includes shares of AIG and Chubb.
While he is not ready to sell AIG because it has "very strong" assets and earnings potential, Nix said signs of widespread fraud at AIG would cause concern and prompt him to sell his holdings.

``If we had a couple of rogue individuals, that's one scenario. If it is broader in scope, that will cause us additional concern," he said.

**SPITZER CHARGES BID RIGGING IN INSURANCE TOP BROKER, MAJOR FIRMS NAMED IN LEGAL ACTIONS; 'TRUST ME: THIS IS DAY ONE'**

By THEO FRANCIS
Staff Reporter of THE WALL STREET JOURNAL
October 15, 2004; Page A1

Marsh & McLennan Cos., the world's biggest insurance broker, cheated corporate clients by rigging bids and collecting huge fees from major insurance companies for throwing business their way, according to allegations made by New York Attorney General Eliot Spitzer.

Mr. Spitzer's charges came in a civil suit as well as in plea-bargain deals on criminal charges against two insurance executives.

The civil complaint filed by Mr. Spitzer against Marsh in state supreme court in Manhattan names insurance companies American International Group Inc., Ace Ltd., Hartford Financial Services Group Inc. and Munich-American Risk Partners as participants with Marsh in paying improper fees and bid rigging.

Two AIG executives each pleaded guilty to a first-degree felony count of a "scheme to defraud." The probe could extend to top executives at AIG -- the largest U.S. commercial insurer, with more than $81 billion in annual revenue -- and elsewhere.

Mr. Spitzer's allegations depict the insurance industry as plagued with corruption and signal a much wider probe than was previously known, shedding new light on the issue of bid rigging and touching on almost all forms of insurance.

"The insurance industry needs to take a long, hard look at itself," Mr. 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."

He made clear that other insurers and insurance brokers could face criminal and civil charges: "Trust me, this is day one," he said.

Marsh and the four insurers all said they are cooperating with Mr. Spitzer's office. The news of the legal actions caused major insurance-industry stocks to drop sharply.

Marsh shares closed at $34.85, down $11.28, or 24%, in composite trading on the New York Stock Exchange, while AIG closed at $60, down $6.99, off 10%. Both companies are based in New York. Many other insurance stocks were down 5% to 6%.

The announcements bring to a head Mr. Spitzer's months-long investigation into the practices of insurance brokers. The inquiry was disclosed by major insurance brokers this spring, and it raised questions about the fairness of an industry that reaches deep into every part of the business world and the pocketbooks of consumers. Mr. Spitzer said
unsuspecting insurance buyers, who believed that brokers were looking out first for their clients' interests, included large and midsize corporations, municipal governments, school districts and some individuals.

Mr. Spitzer has become a huge and controversial force in shaking up the way the U.S. financial-services sector does business, and often embarrassing regulators like the Securities and Exchange Commission in the process. His probe into the insurance industry follows high-profile inquiries into conflicts of interest tainting the research of Wall Street analysts and into special trading privileges enjoyed by selected big mutual-fund investors. One of the mutual funds hit hardest by that probe was Putnam Investments, a unit of Marsh.

The probes all have in common that they soiled the reputations of some of the country's best-known and largest corporations. While the facts differed in each one, the scandals share a common element: alleged wrongdoing that had been commonplace for years, often with regulators looking the other way.

Insurers are regulated by individual states, and the state-by-state oversight may have helped pave the way for the problems Mr. Spitzer cites, some critics say. Different standards can apply in different states, and even states that, like New York, have sought to force increased disclosure of fees and commissions can have trouble enforcing such requirements. For years insurers have resisted federal regulation, though some are warming to the concept.

New York Attorney General Eliot Spitzer details the charges made against Marsh and discusses the broader investigation of the insurance industry, saying its very model of marketing insurance seems to be flawed.

In general, insurance brokers serve as middlemen, matching buyers and sellers, and Marsh long has been the leader in the business. For their part, the insurers linked to its alleged wrongdoing are some of the leaders in selling property-casualty coverage to businesses around the world. Industrywide, premiums paid last year just in the U.S. totaled $176 billion.

In essence, Mr. Spitzer maintains that Marsh steered business toward certain insurers at designated prices, and then would solicit "B" bids, or artificially high fake bids, from other insurers to give the appearance of real bidding. Marsh did this even as it claimed in public statements that its "guiding principle" was to consider its client's best interests, he alleged.

At the heart of the inquiry are fees that many insurance brokers receive from insurance companies over and above their ordinary commissions. Many are paid for steering volume business an insurer's way. Insurance companies call the fees "contingent commissions" or "market service agreements." A growing chorus of critics, including some policyholders who have sued over the practice in state courts in recent years, have used another term: "kickback."

While controversy has swirled over contingent commissions before, prompting some lawsuits, Mr. Spitzer's bid-rigging allegations are new. If true, they could lead to a new wave of corporate and class-action litigation.

The fee arrangements date back several decades. Many industry executives say it was no big secret among insiders that such pacts were in place to boost revenue at both the insurance brokers and the insurance companies that agreed to them. Controversy over them first flared up in the late 1990s, when New York insurance regulators raised concern, saying the payments ought to be disclosed. That controversy died down when the big brokers agreed to provide information on the arrangements -- if asked by clients.

The brokers say their practices are above-board and appropriate, and that they now disclose the payments adequately. But critics say the practices remain poorly disclosed and are a conflict of interest for brokers acting on policyholders' behalf.

Mr. Spitzer said Marsh "very possibly" could face criminal charges for the conduct described in the civil complaint. In investigating the firm, he said his office was "misled at the very highest levels of that company." He also said, "The leadership of that company is not a leadership I will talk to; it is not a leadership I will negotiate with."
Marsh said in a statement that it has been cooperating with Mr. Spitzer's office. "We are committed to getting all the facts, determining any incidence of improper behavior, and dealing appropriately with any wrongdoing. Marsh is committed to serving its clients to the highest professional and ethical standards."

Hartford, Munich-American, Ace and AIG said they are cooperating with Mr. Spitzer's office. "The Hartford does not condone bid-rigging or any other illegal activity," a spokeswoman for the Hartford, Conn., insurer added. Munich-American is based in Princeton, N.J.

AIG said it had sought guidance from New York insurance regulators about its contingent-commission pacts in 2002, "before this investigation began," and again last fall, but it didn't reveal what advice it received, if any. It said the two guilty pleas of its employees "saddened" it, because "we hold ourselves to the highest ethical standards. Any breach of those standards is unacceptable."

AIG executives Jean-Baptist Tateossian, manager of AIG's national accounts unit, and Karen Radke, an AIG senior vice president, each pleaded guilty to a first-degree felony count of a "scheme to defraud." They were accused of allowing Marsh to control the insurance market and "to protect incumbent insurance carriers when their business was up for renewal."

"On numerous occasions," Ms. Radke and Mr. Tateossian both supplied fake quotes to provide the illusion of competitive bidding for Marsh clients, "knowing that another insurance carrier would nonetheless win the bid." Attorneys for each couldn't be reached for comment late yesterday.

Mr. Spitzer's allegations indirectly touch three members of what might be called the first family of insurance. The chairman and chief executive of AIG is Maurice R. "Hank" Greenberg, while his eldest son, Jeffrey W. Greenberg, a former AIG executive, is chairman and CEO at Marsh. Another son, Evan Greenberg, is president of Bermuda-based Ace. A person familiar with the probe said there is no indication that the family relationships played a role in any of the transactions being investigated. No members of the family have been named in the investigation.

Marsh received $800 million in revenue from the contingent commissions last year, the equivalent of more than half its $1.5 billion in income, Mr. Spitzer said. He called the comparison valid because, he said, Marsh performs few services in return for those payments, making them highly profitable.

Mr. Spitzer's complaint cites internal communications in which Marsh and insurers openly discussed actions to maximize their revenues. In one, a Marsh executive noted that the size of contingent commissions will determine "who we are steering business to and who we are steering business from."

In a file memo included as a court document, an AIG underwriter said that a broker "wanted us to quote around $900,000" as the cost of coverage for one client, while another insurer bid $750,000.

The lawsuit also describes how Ace raised its bid in 2002 on a policy for a manufacturer to $1.1 million from $990,000 allegedly at Marsh's request "to be less competitive, so AIG does not lose the business," the complaint says, quoting an Ace e-mail.

A Marsh official later allegedly warned Ace to continue providing inflated bids, or "B quotes," adding, "I do not want to hear that you are not doing B quotes or we will not bind anything," according to the lawsuit. Insurers refer to placing business as "binding" it.

Similarly, the lawsuit contends, one Marsh executive "warned that AIG would lose its entire book of business with Marsh" if the insurer didn't provide inflated quotes to clients at Marsh's behest.
Mr. Spitzer said that evidence uncovered in the probe suggests that illegal and improper practices extend to "virtually every major insurance broker" and through every line of insurance, including personal auto coverage, health insurance, life insurance and employee benefits. He declined to elaborate.

Marsh has named the head of its Marsh Kroll risk and insurance-services unit to head an internal probe, along with attorneys with law firm Davis Polk. Yesterday evening, Marsh's independent directors issued a statement that in part affirmed its "full confidence in the company's leadership" and promised to "take all appropriate action" once the company's internal review is complete.

The two next-biggest U.S. brokers, Chicago-based Aon Corp. and New York-based Willis Group Holdings Ltd., also receive contingent commissions and have received subpoenas from Mr. Spitzer's office. Those companies weren't implicated in bid-rigging yesterday, but Mr. Spitzer left the door open for litigation against other brokers later.

**MARSH SUIT HIGHLIGHTS DUAL-COMMISSION SYSTEM**

By THEO FRANCIS
Staff Reporter of THE WALL STREET JOURNAL
October 15, 2004; Page A6

New York Attorney General Eliot Spitzer's allegations of fraud and bid rigging throughout the insurance industry underscored the tricky role played by insurance brokers.

Mr. Spitzer yesterday filed a civil action against Marsh & McLennan Cos., contending it had "corrupted" the insurance market through bid rigging and other fraudulent tactics.

Unlike markets for securities, commodities and other financial products, commercial insurance is bought and sold in private. Much of the business passes through the hands of insurance brokers, middlemen who match up buyer and seller in return for a cut of the transaction.

Here is how it is supposed to work:

A company seeking to buy insurance -- liability coverage to protect the officers and directors against the costs of lawsuits, say, or property coverage to insure a building -- tells its insurance broker the kind and amount of coverage it is seeking. The broker then solicits bids from insurance companies.

The broker usually is paid by commission, calculated as a percentage of the insurance buyer's premium payments. Often, the policyholder sends a check to the broker for the full amount of premiums and commission, and the broker deducts its commission, passing the premiums on to the insurer.

Many brokers also collect another payment, however -- the contingent commissions Mr. Spitzer is criticizing. Insurers make these payments directly to brokers, calculating the amount on factors such as the total volume of business a broker does with that insurer, the profitability of that business or the amount of repeat business the insurer gets through the broker.

Insurance-industry executives say that big brokers have been able to demand, and get, such payments because they have grown so big in recent years through consolidation. Besides New York-based Marsh, the major U.S. insurance brokers are Aon Corp. and Willis Group Holdings Inc.

Critics say the contingent commissions give brokers incentive to place business where it is most profitable, rather than where it best serves the interest of the client. It is unclear whether all courts will see it this way; some brokers argue there isn't clear fiduciary duty to customers in all instances.
Many insurance executives note that brokers began disclosing the existence of these commissions in the late 1990s, and say that clients have enough information to ask about the practice. They also note that brokers most commonly are involved in commercial transactions, when the buyers typically are sophisticated companies.

Some personal insurance also is arranged through brokers, particularly for wealthy individuals. Moreover, health insurance and employee benefits, from life insurance to disability insurance, usually are bought by employers through brokers as well.

**MARSH SUSPENDS FEES FROM INSURERS; SHARES PLUNGE FOR SECOND DAY**

Oct. 15 (Bloomberg) -- Marsh & McLennan Cos., the world's largest insurance broker, suspended collecting the fees that New York Attorney General Eliot Spitzer called "*lucrative payoffs*" in a lawsuit. The company's shares have plunged as much as 48 percent since yesterday's filing.

Marsh's stock dropped $6.32 to $28.55 as of 11:57 a.m. in New York Stock Exchange composite trading. Moody's Investors Service lowered its ratings outlook on Marsh's A2 senior debt rating to negative from stable. The shares fell 25 percent yesterday.

Spitzer said the industry is tainted in "*virtually every line of insurance.*" Marsh, led by Chief Executive Officer Jeffrey Greenberg, 53, and the rest of the insurance industry now face the same sort of inquiries Spitzer inflicted on mutual fund and securities firms.

"It looks again like it isn't a question of a few bad apples, but a bad barrel," said Vanguard Group founder John Bogle Sr. "We're seeing this over and over again."

Spitzer said Marsh collected $800 million of contingency fees during 2003, a year when profit was $1.54 billion. Fox-Pitt, Kelton analyst Jon Balkind said in a note to clients 90 percent of these fees go to the company's bottom line due to low overhead costs. The disclosed revenue amount may not be factual, said Balkind.

Spitzer alleged that Marsh, the world's largest insurance brokerage, took the fees for steering unsuspecting clients to certain insurers. The suit says Marsh was so intent on winning fees it devised a phony bidding system to make customers believe insurers were competing for business.

**Greenberg Statement**

"We are greatly disturbed by the allegations of wrongdoing," Marsh's Greenberg said in a statement. "We take them very seriously and we are conducting a thorough investigation."

The review is being led by Michael Cherkasky, the former CEO of Kroll Inc., who joined the company when Marsh bought the investigative firm earlier this year. Cherkasky reports to Greenberg, and independent board directors.

The spread on March & McLennan's 5.375 percent notes maturing in 2014 widened 60 basis points to about 185 basis points above comparable Treasuries, traders said.

American International Group Inc. shares declined $2.82, or 4.7 percent, to $57.18 on the NYSE. Two American International executives were arrested yesterday and pleaded guilty in the case.

Spitzer said American International, Hartford Financial Services Group Inc., Ace Ltd. and Munich Re participated in "*steering and bid rigging,*" though they weren't named as defendants in the suit.

**Press Releases:**
Munich-American RiskPartners Not a Defendant in Eliot Spitzer Complaint

PRINCETON, N.J.--(BUSINESS WIRE)--Oct. 14, 2004--American Re today issued the following statement:

New York State Attorney General Eliot Spitzer today filed a civil complaint against Marsh & McClennan Companies and Marsh, Inc. Munich-American RiskPartners is not a defendant in that complaint. Munich-American RiskPartners has been cooperating with the Attorney General's office in this investigation and will continue to do so.

Munich-American RiskPartners is a division of American Re-Insurance Company, which is a member of the Munich Re Group. Risks are underwritten on behalf of American Re-Insurance Company and certain other member companies of the Munich Re Group. American Re, through its subsidiaries, writes treaty and facultative reinsurance, insurance, and provides related services to insurance companies, other large businesses, government agencies, pools and other self-insurers.

Contacts: American Re
Christine Skurbe, 609-243-5558
Or Patricia Casey, 609-243-4595
Or Robin Willcox, 609-243-4333

A Statement from the Independent Directors of Marsh & McLennan Companies, Inc.

NEW YORK--(BUSINESS WIRE)--Oct. 14, 2004--The Board of Directors of Marsh & McLennan Companies, Inc. has learned of the lawsuit brought against Marsh & McLennan by the Attorney General of New York. An independent review is underway. The review will be thorough, prompt and efficient. Pending the results of the review, we will not draw any conclusions. We have full confidence in the company's leadership. When the review has been concluded, the Board will take all appropriate action in the interests of our shareholders, employees and our clients.

Statement of Aon Corporation on New York Attorney General Complaint against Marsh & McLennan

CHICAGO--(BUSINESS WIRE)--Oct. 14, 2004--Aon Corporation (NYSE:AOC)
The complaint the New York Attorney General filed today against Marsh & McLennan contains allegations of certain practices - such as soliciting "fictitious quotes," bid-rigging, and accepting payments from insurers not to shop quotes - that would violate Aon policies and that, to the best of our knowledge, our employees have not engaged in. As for the practice of brokers accepting compensation for services provided to insurers, such compensation is a longstanding and well-known practice in the insurance industry and is disclosed to clients, as Aon and others have previously noted. Aon will continue to cooperate with the Office of the Attorney General to address the concerns raised in his investigation.

Aon Corporation (www.aon.com) is a leading provider of risk management services, insurance and reinsurance brokerage, human capital and management consulting, and specialty insurance underwriting. The company employs approximately 52,000 professionals in its 600 offices in more than 120 countries. Backed by broad resources, industry knowledge and technical expertise, Aon professionals help a wide range of clients develop effective risk management and workforce productivity solutions.

This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results, depending on a variety of factors. Potential factors that could impact results include the general economic conditions in different countries around the world, fluctuations in global equity and fixed income markets, exchange rates, rating agency actions, resolution of regulatory issues, including those related to compensation arrangements with underwriters, pension funding, ultimate paid claims may be different from actuarial estimates and
actuarial estimates may change over time, changes in commercial property and casualty markets and commercial
premium rates, the competitive environment, the actual costs of resolution of contingent liabilities and other loss
contingencies, and the heightened level of potential errors and omissions liability arising from placements of
complex policies and sophisticated reinsurance arrangements in an insurance market in which insurer reserves are
under pressure. Further information concerning the Company and its business, including factors that potentially
could materially affect the Company's financial results, is contained in the Company's filings with the Securities and
Exchange Commission.

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The Wall Street Journal
Risky Business
Insurers Reel From Spitzer's Strike
Subpoena on Bid-Rigging Spurred Rush to Admit Collusion With Broker Fallout for a Family Dynasty

By MONICA LANGLEY and THEO FRANCIS
Staff Reporters of THE WALL STREET JOURNAL
October 18, 2004; Page A1

On a Friday afternoon last month, the nation's largest insurance companies were served with subpoenas from the
New York attorney general asking an explosive question: Had they ever engaged in bid-rigging?

By the next week, several of the biggest insurers told the attorney general's office they had paid kickbacks for
having business steered to them and had submitted sham bids to mislead customers. Their panicked responses
revealed evidence of a broad scheme of collusion and price-fixing within the $1.1 trillion insurance industry.

"It's the same kind of cartel-like behavior carried out by organized crime," Attorney General Eliot Spitzer privately
told his top officials, according to people who heard the remarks. "It's like the Mafia's 'Cement Club,' " added Peter
Pope, deputy attorney general in charge of the criminal division, at the same meeting. Mr. Pope was referring to
construction projects in which a corrupt contractor rotated cement companies into jobs based on kickbacks.

Mr. Spitzer's office last week charged that Marsh & McLennan Cos., the world's largest insurance broker, with as
much as 20% of the market, played the part of the corrupt contractor. In a civil complaint filed Thursday in a New
York state court, Mr. Spitzer alleged that New York-based Marsh cheated corporate clients by rigging bids and
collecting big fees from major insurance companies for throwing business their way.

The charges followed a frantic two weeks in which major insurance companies, including American International
Group Inc., Ace Ltd. and Hartford Financial Services Group Inc., scrambled to present evidence to Mr. Spitzer of
how they worked with Marsh to cheat customers. By helping the attorney general build his case, the insurers were
hoping to get credit for cooperation and reduce their eventual punishment. The result: a probe that might have
dragged on for months rapidly accelerated.
Mr. Spitzer has secured guilty pleas from two midlevel managers at AIG and one Ace executive for their roles in the alleged scheme. More criminal cases against individuals are expected in coming weeks.

The broad nature of the bid-rigging allegations raises the possibility that the scandal could engulf other major players and lead to an overhaul of the insurance business. Marsh, AIG and Ace have suspended the practice of "contingent commissions," in which an insurer pays a broker in exchange for steering business its way.

Next on the hot seat: Aon Corp., the second-largest U.S. insurance broker, with more than $6.7 billion in brokerage revenue world-wide last year. Investigators are examining whether the Chicago-based firm improperly steered its customers based on fees from insurers and whether it engaged in bid-rigging. Mr. Spitzer is also probing whether Aon directed business to insurers willing to use its services when buying "reinsurance," or insurance coverage for insurance companies, according to people familiar with the matter. This practice, known as "tying" or "leveraging," might result in policyholders getting an inferior deal.

Aon said in a statement last week that soliciting fictitious quotes, bid-rigging and accepting payments from insurers in exchange for not shopping business around "would violate Aon policies." Aon said "to the best of our knowledge, our employees have not engaged" in those practices.

Aon also said it is cooperating with Mr. Spitzer's office. However, the head of the investment protection unit in Mr. Spitzer's office, David D. Brown IV, accused Aon of "dragging its feet as much as it can."

Mr. Spitzer's inquiry is widening. He plans to examine whether life and health insurers engaged in bid-rigging, according to people familiar with the matter. On Friday, two companies reported receiving fresh subpoenas from the attorney general: life insurer MetLife Inc. and National Financial Partners Corp., a broker to wealthy individuals and smaller companies. Both companies had received subpoenas earlier in the probe. A MetLife spokesman declined to comment. National Financial Partners said it isn't aware of its employees asking insurers to provide fictitious or inflated quotes to clients.

"Our investigation is reaching into many corners of the insurance industry to determine how corrupt its business practices are," said Mr. Spitzer in an interview.

Insurance stocks have plummeted and their market value has collectively fallen by tens of billions of dollars. Marsh stock has fallen by more than one-third; the company lost a total of $9 billion in market capitalization last Thursday and Friday.
For now, the hottest seat in the industry is occupied by Jeffrey W. Greenberg, Marsh's chairman and chief executive. At last Thursday's news conference announcing the case against Marsh, Mr. Spitzer snapped: "The leadership of that company is not a leadership I will talk to."

Mr. Greenberg is part of an insurance dynasty that has been shaken by Mr. Spitzer's charges. His brother runs Ace and his father runs AIG -- and both insurers were among the first to name Jeffrey Greenberg's company as a possible wrongdoer. (See related article.)

Twice in the past year, Mr. Spitzer has found problems at Marsh units. Last fall, its Putnam Investments unit became the first mutual-fund company charged in that industry's trading scandal for allowing favored customers to buy and sell shares in ways that cheated other investors. Putnam settled charges against it for $110 million. And earlier this year, the firm's Mercer Human Resource Consulting unit admitted to giving the New York Stock Exchange's board inaccurate or incomplete information about the pay of former stock exchange Chairman Dick Grasso.

'Pay to Play'

At the heart of the insurance scandal are allegations of bid-rigging and "pay to play" deals. Businesses seeking insurance often hire a broker such as Marsh, which in turn solicits bids from several insurers. Marsh is alleged to have sought artificially high bids from some insurance companies so it could guarantee that the bid of a preferred insurer on a given deal would appear cheapest and would win the business at hand. Such machinations violate New York state antitrust laws and the broker's duty to act in the best interest of its clients, Mr. Spitzer charges.

The lawsuit also targets contingent commissions, the widespread practice among insurers of paying brokers extra commissions based on the volume or profitability of the business the broker directs to them. These commissions gave Marsh an incentive to direct business to insurers paying it the most-generous fees, not those with the best price or terms, Mr. Spitzer alleges.

It was the industry's use of contingent commissions that initially triggered Mr. Spitzer's investigation. In April, the attorney general issued subpoenas about the fees, which a growing number of policyholders and others have criticized as a kind of kickback.

Within a few months, hundreds of boxes of documents crowded the 23rd floor of the lower Manhattan skyscraper where the attorney general's investment protection bureau is located. Mr. Brown, the unit's head, instructed interns and law students to plow through them. They found many instances of Marsh brokers steering business to insurers paying the most in contingency commissions, according to a person familiar with the matter.

On Thursday, Sept. 9, Mr. Brown, riding the train back to Albany where his family lives, received an e-mail message on his BlackBerry from the office. The subject line read, "Just when you thought you had heard it all," he says. The message contained excerpts from one insurer's e-mail that described Marsh fixing insurance bids. Mr. Brown forwarded the e-mail to Mr. Spitzer, who answered, "These guys are in real trouble," according to a person familiar with the exchange.

Early the next week, an excited law student presented to Mr. Brown another apparent example of bid-rigging. On Sept. 17, a wave of subpoenas went out under the state law prohibiting fraud and under the Donnelly Act, New York's antitrust law. Insurance companies had two weeks to respond.

That's when the insurance industry went into a tizzy. The companies had retained outside lawyers with white-collar-crime expertise. For example, Marsh hired Davis Polk & Wardwell, a law firm whose team includes Carey Dunne, a Harvard Law School classmate of both Mr. Spitzer and Mr. Brown. (Mr. Dunne had recommended that Mr. Spitzer hire Mr. Brown for his current job.)
Among the first calls to the attorney general was one from AIG, headed by Maurice R. "Hank" Greenberg, whose eldest son is Jeffrey Greenberg, Marsh's chief executive. Another early call came from yet another insurance firm headed by a Greenberg -- Ace, whose president is Evan Greenberg, Jeffrey's younger brother.

Ace and AIG jockeyed to be the first to meet with the attorney general. "They were racing to be the first to acknowledge the bid-rigging," says one official. "They wanted to appear most cooperative to get the best treatment."

The insurance executives took Mr. Spitzer seriously because of his track record: His investigations of Wall Street brokerages' research practices and of the mutual-fund industry had exposed widespread and longstanding malfeasance. Both led to huge fines and an industry overhaul.

On Oct. 1, Mr. Spitzer's lawyers met in the morning with AIG and in the afternoon with Ace. Both insurers disclosed instances of alleged price-fixing by Marsh. Hanging over the room was the knowledge that companies headed by a father and a son were providing evidence that could damage another son.

Hartford officials visited the attorney general's staff the following week with Hartford's own evidence of purported bid-rigging. Mr. Spitzer's lawyers quickly added the new information to a draft complaint they were preparing.

It wasn't until last Tuesday that Marsh -- the central player in the alleged price-fixing scheme -- came in to address the bid-rigging charges. Marsh's general counsel, William Rosoff, said he knew of no wrongdoing, according to a person at the meeting. Mr. Rosoff said Mr. Spitzer's subpoenas were hurting Marsh's business, and then asked the attorney general to describe what his investigation had found, this person says.

The attorney general refused. "You've had every opportunity to figure this out for yourself," he told Mr. Rosoff, says this person. "You've had clear indications for the last six months."

Marsh declined to comment on Mr. Spitzer's allegations or its meetings with the attorney general's office. "I can only say that we take the allegations very seriously. Our company doesn't stand for the sorts of things that are alleged," Jeffrey Greenberg said in an interview last Friday. "We don't condone bid-rigging, we don't condone wrongdoing."

Around the same time, Mr. Spitzer's office told two mid-level AIG managers to cooperate or face arrest. Jean-Baptist Tateossian, a manager in AIG's national accounts unit, and Karen Radke, a senior vice president in an AIG unit, decided to plead guilty to a felony, which would be reduced to a misdemeanor in exchange for their cooperation. Lawyers for both Mr. Tateossian and Ms. Radke declined to comment.

With the pleas settled, the attorney general filed the complaint on Thursday. At the news conference afterward, he lambasted Marsh's management, and called on the company's board to make changes.

On Friday, AIG's Hank Greenberg held a conference call with research analysts and investors. He said he was "sickened" by the wrongdoing and said AIG was cooperating fully. Mr. Greenberg also looked to spread the blame around. He said New York's insurance regulator failed to respond to requests from AIG in July 2002 and October 2003 for clarification on the legality of the contingent-fee arrangements.

State Insurance Superintendent Gregory V. Serio said in an interview that instead of giving a quick answer to AIG, his department decided to find out more about commission practices. He said his department has sought information from hundreds of insurers and brokers, and its investigation is continuing.

The various probes highlight a weakness in the industry's regulation. Insurance is the only financial-services industry without a federal regulator, and the patchwork of state insurance regulators has long been viewed as weak.

When Hank Greenberg was asked on the conference call which broker's contingent-fee arrangements he had raised with the insurance department, he said simply, "Marsh." It was a dramatic moment because it meant he had fingered
his son's company.

At an AIG management meeting on Saturday, a colleague asked Mr. Greenberg about the awkward situation. Mr. Greenberg told him, "Of course, I'm sad. He's my son," according to an AIG executive. Mr. Greenberg hasn't spoken with either son involved in the probe, an AIG spokesman says.

Within the industry, two burning questions are how high in the management ranks culpability will reach and how widespread the improper practices will prove to be.

AIG's Mr. Greenberg says his firm's internal probe, prompted by the subpoena the firm received in September from Mr. Spitzer's office, so far has found no link to senior management but is continuing. The two managers who pleaded guilty Thursday both worked for a division of AIG's American Home Assurance Co. The unit sells excess-casualty insurance -- coverage beyond a policyholder's regular accident insurance. Mr. Greenberg said both have been suspended.

Private lawsuits also are multiplying. Marsh, Aon and fellow broker Willis Group Holdings Inc. face a civil-racketeering suit filed in August by a policyholder, Opticare Healthy Systems Inc., Waterbury, Conn. The suit seeks class-action status in a federal court. Just after Mr. Spitzer's action last week, a policyholder group filed a civil suit in a California state court, alleging deceptive practices by a San Diego benefits broker and three major life and group-benefits insurers, MetLife, Prudential Financial and Cigna Corp.

Insurance executives are wondering if Marsh, which has promoted its strong service and commitment to clients, can maintain its dominance in the insurance-brokerage business. At Marsh, contingent commissions are a hefty chunk of revenue on top of the basic fees it receives for acting as a middleman to bring together buyers and sellers of insurance. The buyer usually pays the broker's basic fees, which can be either a flat sum or a percentage of the insurance premium.

Mr. Spitzer says contingent commissions totaled $800 million of Marsh's $11.5 billion in revenue last year. (Marsh had 2003 net income of $1.5 billion.) The fees are so profitable that Prudential Securities insurance analyst Jay Gelb estimates their absence is likely to put Marsh's 2005 earnings per share in the neighborhood of $2.25 instead of $3.45 as previously estimated.

Preferred Carriers

Marsh has maintained that it took care to prevent contingent-fee pacts from influencing its brokers' recommendations. But Mr. Spitzer's complaint identifies repeated instances in which managers purportedly pressured brokers to place business with certain insurers. Marsh managers, for instance, created lists of preferred insurance carriers, rewarded employees who sold more insurance from these companies and chastised those who didn't, the complaint says.

In April 2001, an unnamed Marsh managing director in one of the brokerage business's units wrote to regional heads and asked for "twenty accounts that you can move from an incumbent" insurer to one with a contingent-fee pact. On another occasion, an unidentified Marsh broker was praised by a boss for moving some policies to insurers who paid contingency fees to Marsh, the complaint says.

Beginning in about 2001, the complaint alleges, the effort to place business with preferred insurers had taken a big step: to bid-rigging. The complaint cites "a cast of the world's largest insurance companies" as participants.

It worked this way, according to the complaint: Marsh brokers would call underwriters at insurers including AIG and Ace for "B" quotes -- bids that wouldn't be good enough to win the business in question. In these cases, the underwriters knew that Marsh wanted another insurer to win the business.

Why participate? The insurance companies knew Marsh would protect their bids on other occasions, the complaint
says. As one Marsh managing director put it to AIG: Marsh "protected AIG's a-," when AIG wanted to retain business, and it expected AIG to help Marsh "protect" others, according to the complaint. It doesn't say where the managing director made the remark.

In December 2002, Patricia Abrams, the Ace employee who pleaded guilty to a misdemeanor Friday, worsened the insurer's bid to provide excess casualty insurance to manufacturer Fortune Brands Inc., boosting the cost to $1.1 million from $990,000, according to the suit and a person familiar with the investigation. Ms. Abrams said in an e-mail to a higher-up the following day that Marsh "requested we increase premium to $1.1M to be less competitive, so AIG does not lose [sic] the business," according to the complaint. An attorney for Ms. Abrams, who has been suspended, declined to comment.

Evan Greenberg, Ace's president and CEO, called Mr. Spitzer's allegations "deeply concerning" in an open letter to employees on Sunday. If an internal investigation uncovers lapses, "they will be fixed -- quickly and permanently," he wrote.

"Fortune Brands works hard to keep insurance costs and all expenses as low as possible, so we're obviously concerned," says a spokesman for the Lincolnshire, Ill., maker of Jim Beam whisky and Titleist golf balls.

Sometimes, Marsh asked for what one insurer called "drive-bys" -- insurance-company personnel making a presentation at a meeting with a client to bolster a fake bid, according to the complaint. In 2001, Marsh asked Munich American Risk Partners, a unit of reinsurance giant Munich Re, to "send a 'live body' " so Marsh could "introduce competition" for a client, the lawsuit says.

Having received several such requests, the lawsuit says, a Munich American regional manager replied in an e-mail: "We don't have the staff to attend meetings just for the sake of being a 'body'." Munich-American, of Princeton, N.J., has said it is cooperating with the attorney general's inquiry.

In several instances, AIG ended up with business it wasn't supposed to get, when the "A" bidder backed out at the last minute, according to the complaint. AIG hadn't completed the underwriting in those cases and had to "back fill" -- that is, prepare the necessary analysis after the fact.

In one case, an assistant vice president of underwriting at CNA Financial Corp. balked at providing a fake bid for insurance to cover workers' compensation and general liability for a $900 million project to renovate and build 70 schools in Greenville, S.C. According to the complaint, a Marsh broker asked the underwriter to provide a bid that would be "reasonably competitive, but will not be a winner."

In the absence of a bid from the CNA underwriter, Marsh "falsely submitted a bid under CNA's name," the complaint says. A spokesman for CNA declined to comment.

Mr. Spitzer has made clear he expects his probe to reach to employee benefits, life insurance and home and auto insurance. "Virtually every line of insurance has been implicated," he said last week.

For instance, last week's complaint alleges that Marsh had negotiated a $1 million "no shopping" agreement, under which the company would have recommended to its top individual clients who had personal insurance through Chubb Corp. that they renew those policies. The complaint said that pact, never consummated, would have been "a paid abdication of Marsh's duty to its clients."

Chubb said it is cooperating fully with the attorney general and isn't aware of any impending charges. Chubb also said it believes that neither the company nor its employees "violated any law or regulation governing compensation of insurance brokers and independent agents."

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Probe Clouds Future Of Insurance's First Family
Companies Run by the Greenbergs, AIG, Marsh & McLennan, Ace, Are Listed in Spitzer Investigation

By CHRISTOPHER OSTER
Staff Reporter of THE WALL STREET JOURNAL
October 18, 2004; Page C1

America's first family of insurance finds itself facing a tough and uncertain future because of a probe into the industry by New York Attorney General Eliot Spitzer. Companies run by Maurice R. "Hank" Greenberg and two of his sons are right in the thick of the investigation.

The attorney general has said the probe will involve much of the industry, and his initial lawsuit named companies unrelated to the Greenbergs, including Hartford Financial Services Group Inc. and Munich-American Risk Partners. But his initial salvo on insurers brought special attention to family relationships that have been whispered about in the industry for years.

In a civil lawsuit last week, Mr. Spitzer accused Marsh & McLennan Cos., where 53-year-old Jeffrey W. Greenberg is chief executive officer, of bid-rigging. The company's Marsh Inc. unit is the world's largest insurance brokerage firm. The attorney general also secured guilty pleas on related criminal counts from two midlevel executives at American International Group Inc., the world's largest commercial insurer, where the senior Mr. Greenberg is chairman and CEO.

The suit also detailed how a low-level executive at Ace Ltd. -- another big insurer, where Evan Greenberg, 49, is CEO and president -- allegedly provided a fake bid to Marsh at the broker's request. That employee, Patricia Abrams, pleaded guilty Friday to a misdemeanor restraint-of-trade charge in a cooperation deal with Mr. Spitzer.

The investigation has added a new level of drama to a dynasty that has seen the two sons come and go as heirs-apparent to their father at AIG. Hank Greenberg, 79, has acknowledged the awkwardness of having the world's largest commercial insurer and largest insurance broker headed by a father and son. That situation now has grown even more awkward.

After a wave of subpoenas from Mr. Spitzer sent tremors through the industry last month, insurance companies began contacting the attorney general's office to offer information about alleged bid-rigging by Jeffrey Greenberg's company. His father's and brother's companies were among the first to call.

On a conference call with industry analysts Friday, the senior Mr. Greenberg said AIG more than two years ago had asked New York insurance regulators about the legality of some contracts it had with his son's company. Saturday, at an AIG management meeting, a colleague asked Mr. Greenberg about the matter. "Of course I'm sad," he responded. "He's my son."

Analysts have said there is little to worry about in how Marsh deals with AIG and Ace, a large insurance and reinsurance company based in Bermuda. "It's one of those things that looks fishier than it is," says David Schiff, editor of Schiff's Insurance Observer, an influential industry publication.

Now Jeffrey Greenberg's leadership at Marsh is threatened by Mr. Spitzer's suit and by Mr. Spitzer's public
statements that the attorney general was "misled at the very highest levels of that company."

Mr. Schiff says Jeffrey Greenberg, whose Putnam Investments subsidiary was implicated in the mutual-fund trading scandal, could be more directly affected in the investigation because he knows insurance and is more closely associated with the brokerage unit. "Jeff is an insurance man," he says.

His training in insurance came mainly at AIG. After earning a law degree at Georgetown University in Washington, D.C., he took a job with Marsh & McLennan's insurance-brokerage unit. He became head of a group specializing in commercial aviation and aerospace, but after two years at Marsh, he moved over to the company that his father had served as CEO since 1967.

His status as the chief's son didn't shield Mr. Greenberg from his father's bombastic temper, and colleagues said Mr. Greenberg was more demanding on his soft-spoken son than on other AIG executives.

Jeffrey's rise at AIG was fast, but not without incident. In 1992, on the day Hurricane Andrew hit Florida, he wrote a memo calling the massive storm an "opportunity to get price increases now." After the media reported news of the memo, Florida regulators put a moratorium on premium increases.

By 1995, Jeffrey was heir apparent at AIG. But Mr. Greenberg, then 70, showed no signs of retiring. That June, just weeks after Evan Greenberg was promoted to executive vice president of AIG, Jeffrey Greenberg resigned from the company, saying it was "the right time for me to pursue my career independent of AIG."

Evan Greenberg joined AIG three years before his brother, but his rise was a slower one. Even so, by 1991 he was named chief operating officer of AIG companies in Japan and Korea. In 1997, the younger son became AIG's president, and his father later confirmed that he had designated Evan as his successor.

But Evan Greenberg, who subordinates and former co-workers say shares his father's temper, also bristled under his father's watch. He resigned in September 2000, and like his brother left without identifying his next step, and declined to elaborate.

His departure came as a shock. Just months earlier, the senior Mr. Greenberg, questioned at a shareholder meeting about whether AIG's biggest individual shareholder was treating succession as if it were a family affair, vigorously defended his son. He said the decision to name him successor was "the right decision ... what's best for the company."

Both sons quickly returned to prominence in the insurance industry. Jeffrey Greenberg joined Marsh & McLennan in 1995 and was named head of MMC Capital, the company's private-equity firm, in 1996. He was named CEO in 1999 and chairman in 2000.

After taking a year off, Evan Greenberg was hired by Ace in 2001 as vice chairman in charge of its global reinsurance operations. Ace, an AIG competitor, was run by Brian Duperreault, a former AIG colleague and protege of Hank Greenberg. Insurance executives who know the three men say that Evan's role at Ace has strained relations between father and son. Hank Greenberg, through a spokesman, declined to comment. Evan Greenberg didn't return phone calls seeking comment. Jeffrey Greenberg, in an interview, declined to comment on his family.

In May, Ace named Mr. Greenberg president and CEO, succeeding Mr. Duperreault, who stayed on as chairman. The promotion, widely expected in the industry, still raised a few eyebrows and sparked humorous comments about family picnics when insurance industry leaders meet.

--Theo Francis contributed to this article.

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