



Kansas Insurance Department

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COMMISSIONER OF INSURANCE

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Kansas Insurance Department Applauds Broker Activity Settlement

TOPEKA, KS – With the recent settlement between Marsh & McLennan Cos. Inc. and the New York State Insurance Department and New York Attorney General, the Kansas Insurance Department is voicing its support of the cooperative initiatives that led to this announcement. The Kansas Insurance Department applauds the results of the joint investigation between the two state agencies into fraud and anti-competitive practices related to broker compensation agreements.

“Moving quickly and decisively, as they did, is so important in reaffirming the public’s trust in the regulatory process.,” said Kansas Insurance Commissioner, Sandy Praeger.

The Kansas Insurance Department is a member of the National Association of Insurance Commissioners (NAIC) and collaborated with the organization in moving quickly to address the issue and protect consumer interests. As such, the NAIC Executive Task Force on Broker Activities was formed, initiating a three-pronged action plan designed to engage consumers, provide a solution, coordinate multi-state inquiries and leverage state expertise and resources:

Fraud Reporting: As an immediate means to empower consumers and proactively address issues surrounding the use of compensation arrangements by insurance brokers, the NAIC has launched an online insurance fraud reporting system. This system allows for consumers to provide detailed information anonymously through a centralized reporting system that can be accessed through the NAIC Web site at www.naic.org. The reporting system is also accessible through the Kansas Insurance Department website at www.ksinsurance.org. Reports of suspected fraud received through the NAIC system are immediately turned over to the respective states for investigation.

Full Inquiry and Coordination: The Kansas Insurance Department has initially written to several domestic companies and agencies in Kansas to gather facts in a standardized manner and is taking the necessary time to analyze the issues and determine next steps for regulatory intervention. As part of this investigation broker compensation practices across a broad spectrum of insurance products is being reviewed..

Greater Transparency on Broker Compensation: To help achieve a long-term solution, the NAIC adopted amendments to the NAIC Producer Licensing Model Act to address producers’ disclosure of compensation. These amendments will ensure consumers are provided the necessary information to understand any potential conflicts of interest a producer may have because of the manner in which the insurance producer is compensated.

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The NAIC is also considering the development of additional requirements, such as recognition of a fiduciary responsibility of producers, disclosure of quotes received by a broker, and disclosures relating to agent-owned reinsurance arrangements.

“If a broker is paid by a customer to find insurance for their business, the broker needs to disclose if they also are receiving a commission from an insurance company that is bidding for that business,” said Praeger. “Only then can that customer fully understand the terms of the bid process.”

The lawsuit, filed by New York Attorney General Eliot Spitzer, contended that Marsh's customers had to pay more for insurance due to the conflicting interest represented by the incentive payments. Although Marsh did not formally admit to wrongdoing, a company executive apologized for what he characterized as the shameful and unlawful actions of a few people at the company. The \$850 million, to be paid over a period of four years, will compensate approximately 100,000 corporations and small businesses that acquired commercial insurance through Marsh from 2001 to 2004. Marsh stopped taking incentive payments after the lawsuit was filed and agreed to change the way it does business in the settlement.

Insurance consumers are encouraged to call the Kansas Insurance Department's toll-free Consumer Hotline at 1-800-432-2484 or visit the Department's web site at www.ksinsurance.org if they have questions or need information about any insurance product sold in Kansas.

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About the Kansas Insurance Department

Headquartered in Topeka, Kansas, the Kansas Insurance Department regulates and monitors the activities of 23,000 resident agents, 42,000 non-resident agents and 1684 insurance companies licensed to do business in the state of Kansas. The department's overriding objective is to protect consumers and help maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. For more information, visit the Kansas Insurance Department on the Web at www.ksinsurance.org.