REGULATORY SETTLEMENT AGREEMENT

This Regulatory Settlement Agreement is entered into by and between Zurich American Insurance Company and its insurance subsidiaries, including but not limited to, Steadfast Insurance Company, Fidelity & Deposit Company of Maryland, Empire Fire & Marine Insurance Company, American Guarantee & Liability Insurance Company, Empire Indemnity Insurance Company, and Assurance Company of America (collectively, the "Zurich Insurers"), and the principal insurance regulator (or his or her authorized representative) of each state that adopts, approves and agrees to this Regulatory Settlement (the "Settling Insurance Regulators").

ARTICLE I
RECITALS

WHEREAS, certain insurance regulators and state attorneys general have initiated civil investigations (collectively, the "Investigations") into the certain acts, practices and courses of conduct that are referred to in the Second Consolidated Amended Commercial Class Action Complaint (the "Consolidated Complaint") filed in the putative class action styled *In re Insurance Brokerage Antitrust Litigation*, MDL No. 1663, Civil No. 04-5184 (FSH) (the "Class Action") that is pending in the United States District Court for the District of New Jersey (the "Class Action Court"), which Investigations include review of : (*i*) the practices by which insurers (including the Zurich Insurers) provide quotations to insureds and prospective insureds through brokers and agents in connection with the placement and renewal of insurance contracts, and (*ii*) contracts, agreements, arrangements and understandings respecting the payment of commissions that are contingent upon, among other things, the broker or agent placing a particular number of policies or dollar value of premium with the Zurich Insurer; and

WHEREAS, certain insurance regulators and state attorneys general have alleged generally that the Zurich Insurers, along with other unrelated insurance companies, were active participants in a scheme with various insurance brokers to falsify quotes in order to facilitate the brokers' steering of business to preferred insurers, in exchange for which the brokers similarly steered certain business to the Zurich Insurers, and that such conduct created a false appearance of market competition to the detriment of consumers and violated the Unfair Insurance Practices Act and other laws of this State/Commonwealth; and

WHEREAS, the Zurich Insurers do not admit the above allegation; and

WHEREAS, the Settling Insurance Regulators have found that:

1. the Zurich Insurers have cooperated, and continue to cooperate, with the insurance regulators, as well as with the state attorneys general, in connection with the issues arising respecting the conduct that is the subject of the Investigations;

2. the Zurich Insurers have reviewed their practices relevant to the conduct and issues that are the subject of such investigations and have adopted and will continue to reform compliance efforts relevant to such conduct and issues;

3. Zurich American Insurance Company, Steadfast Insurance Company, Fidelity & Deposit Company of Maryland, Empire Fire & Marine Insurance Company, American Guarantee & Liability Insurance Company, Empire Indemnity Insurance Company, and Assurance Company of America are named defendants in the Class Action ;

4. the claims made in the Class Action (the "Class Action Claims") by the plaintiffs (the "Class Action Plaintiffs") are made on behalf of a nationwide class of insurance

policyholders, and are based upon the acts, practices or courses of conduct that are the subject of the Investigations;

5. the Zurich Insurers and Class Action Plaintiffs have agreed to the principal terms of a settlement of the Class Action, which terms are set out in an October 14, 2005 Memorandum of Understanding (the "MOU"), a copy of which is attached as Exhibit B and incorporated herein by reference;

6. the Zurich Insurers and the Class Action Plaintiffs are in the process of negotiating the terms of a settlement agreement consistent with the terms of the MOU;

7. as set out in the MOU, execution of a settlement agreement with the Class Action Plaintiffs is subject to, among other things, the Zurich Insurers' ability to resolve the Investigations;

8. the Zurich Insurers have negotiated a settlement agreement (the "AG Settlement Agreement") and an Order and Stipulated Injunction (the "Order") (a copy of which is attached as Exhibit C) with certain of the state attorneys general ("Settling Attorneys General"), that contain substantially similar settlement terms as are set out in this Regulatory Settlement Agreement;

9. in resolving the pending Investigations, the Zurich Insurers may settle civil claims relating to the acts, practices or courses of conduct that are the subject of the Investigations with other state attorneys general and/or departments of insurance pursuant to agreements that may require the Zurich Insurers or any of them to pay a monetary amount under terms that are different from those set out in this Regulatory Settlement Agreement ("Parallel Agreements"); and

10. the Zurich Insurers may negotiate a Parallel Agreement with the New York Attorney General and/or New York Department of Insurance (the "NY Parallel Agreement"); and

WHEREAS, the Zurich Insurers and each of the Settling Insurance Regulators wish to resolve any and all issues, allegations and/or claims based upon the acts, practices or courses of conduct that are the subject of the Investigations; and

WHEREAS, each of the Settling Insurance Regulators finds that:

1. this Regulatory Settlement Agreement adequately addresses the principal collective concerns of the Settling Insurance Regulators and thus is in the public interest;

2. this Regulatory Settlement Agreement is entered into solely for the purpose of resolving any and all issues, allegations and/or claims that arise as to the Zurich Insurers based upon the acts, practices or courses of conduct that are the subject of the Investigations, and is not intended to be used for any other purpose;

3. there is no intent on the part of the Settling Insurance Regulators in entering into this Regulatory Settlement Agreement that any of its terms place the Zurich Insurers at a competitive disadvantage; and

4. the Zurich Insurers enter into this Regulatory Settlement Agreement without admitting any issue, allegation and/or claim that has arisen or might arise as to the Zurich Insurers based upon the acts, practices or courses of conduct that are the subject of the Investigations; and

WHEREAS, each Regulatory Settlement Agreement shall become effective on the date that it is signed by the Zurich Insurers and a Settling Insurance Regulator.

NOW THEREFORE, the Zurich Insurers and each of the Settling Insurance Regulators hereby enter into this Regulatory Settlement Agreement and agree as follows:

ARTICLE II
REGULATORY SETTLEMENT AGREEMENT TERMS

A. ACCEPTANCE

1. By virtue of their execution of this Regulatory Settlement Agreement, each of the Settling Insurance Regulators acknowledges and agrees that: (*i*) he or she has read and understands the terms and conditions of the MOU and (*ii*) he or she has read and understands the terms and conditions of this Regulatory Settlement Agreement.

B. ADMINISTRATIVE AGREEMENTS

Based upon extensive negotiations with the Settling Attorneys General, the Zurich Insurers agree to do the following:

1. RESTITUTION

a. The Zurich Insurers shall pay or cause to be paid to Settlement Class Members one hundred million dollars ($100,000,000) (the "Settlement Amount") plus fifty-one million seven hundred thousand dollars ($51,700,000) (the "Additional Settlement Amount"), which amounts (collectively, the "Combined Settlement Amount") will be distributed pursuant to the Plan of Allocation and which payment shall, as more fully set out in Paragraph II.E, resolve all of the issues, allegations and claims that arise as to the Zurich Insurers pursuant to the Investigations; *provided* that the payment of the Combined Settlement Amount shall be made pursuant to the terms and conditions set out in the Class Action settlement agreement, which terms and conditions shall provide, among other things, that, within ten (10) business days following preliminary approval of the settlement agreement by the Class Action Court, the

Zurich Insurers shall (*i*) pay or cause to be paid an initial payment from the Combined Settlement Amount (the "Initial Payment") plus one hundred thousand dollars ($100,000) to cover the costs of providing notice to Settlement Class Members and (*ii*) deposit or cause to be deposited the Combined Settlement Amount less the Initial Payment into an escrow account, which account shall be subject to an escrow agreement that provides, among other things, (*a*) that the account shall be under the joint control of the Zurich Insurers, Co-Lead Counsel and the Settling Attorneys General and (*b*) for the payment of interest to Settlement Class Members on the monies deposited in the escrow account, with such interest to be calculated at the one-year LIBOR rate for the period starting from the date the monies are deposited into the escrow account until such date as the monies are transferred out of the escrow account after approval of the class action settlement becomes final and no longer subject to appeal; *provided further* that the terms Settlement Amount, Settlement Class Members and Plan of Allocation have the same meaning as in the MOU.

b. No part of the Combined Settlement Amount shall be used to pay (*i*) the attorneys' fees or expenses of counsel for the Class Action Plaintiffs, including but not limited to the fees and expenses of Co-Lead Counsel (as that term is defined in the MOU), (*ii*) the attorneys' fees or expenses of any of the Settling Attorneys General or the Settling Insurance Regulators or (*iii*) any portion of the State Payment, as that term is defined in Paragraph II.B.2.a below. No portion of the Combined Settlement Amount shall be considered a fine or a penalty.

c. Pursuant to the terms of the MOU, the Plan of Allocation, which shall be subject to approval by the Class Action Court, shall be prepared by Co-Lead Counsel upon consultation with, and with the cooperation of, among others, the Settling Insurance Regulators

and shall provide that the Combined Settlement Amount shall be fairly allocated among the states and Settlement Class Members in a manner that responds to all of the Class Action Claims for the entirety of the Settlement Class Period, *provided* that the terms Settlement Class Members and Settlement Class Period have the same meaning as in the MOU.

d. To the extent the Zurich Insurers or any of them enter into a Parallel Agreement with any state other than Ohio, the Zurich Insurers shall be given a credit against the Additional Settlement Amount (a "Settlement Credit"), which Settlement Credit shall equal the amount paid pursuant to such Parallel Agreement; *provided* that application of the Settlement Credit shall be subject to the following:

(1) no portion of the Settlement Credit shall be used to pay fines, penalties, fees or costs incurred in connection with any Investigation or any Parallel Agreement (including the NY Parallel Agreement);

(2) the aggregate amount of all Settlement Credits applied against the Additional Settlement Amount pursuant to this Paragraph II.B.1.d shall not exceed thirty million nine hundred thousand dollars ($30,900,000), which amount shall be allocated as follows: twenty-nine million nine hundred thousand dollars ($29,900,000) shall be available as a Settlement Credit in connection with any monetary amount (other than the payment of a fine, penalty, fee or cost) that the Zurich Insurers must pay pursuant to a NY Parallel Agreement (the "NY Settlement Credit") and a total of one million dollars ($1,000,000) shall be available as a Settlement Credit in connection with any monetary amount (other than the payment of a fine, penalty, fee or cost) that the Zurich Insurers must pay pursuant to a Parallel Agreement other than, for avoidance of doubt, a NY Parallel Agreement or an Ohio Parallel Agreement.

(3) a Settlement Credit shall be applied against the Additional Settlement Amount and refunded to the Zurich Insurers from the escrow account after the amounts with respect to which the Zurich Insurers are seeking such Settlement Credit have been paid to insureds pursuant to the terms of the relevant Parallel Agreement; *provided* that if the amount distributed to insureds pursuant to the NY Parallel Agreement (the "NY Distributed Amount") is less than the NY Settlement Credit, the NY Settlement Credit shall be reduced by an amount equal to the difference between the NY Settlement Credit and the NY Distributed Amount (the "NY Settlement Credit Balance").

e. If any portion of monetary relief (other than a fine, penalty, fee or cost) that the Zurich Insurers are required to pay or cause to be paid under the terms of a Parallel Agreement (including a NY Parallel Agreement) is not claimed by the persons or entities eligible to receive such relief under the Parallel Agreement and the Parallel Agreement provides for such unclaimed monetary relief to be distributed to Settlement Class Members (the "Spillover Amount"), such Spillover Amount shall be distributed to Settlement Class Members pursuant to the Plan of Allocation in a manner that is not inconsistent with the terms of the relevant Parallel Agreement; *provided* that if the NY Settlement Credit has been reduced pursuant to the proviso in paragraph II.B.1.d(3) above, then, at the time the Spillover Amount is provided for distribution to Settlement Class Members, the NY Settlement Credit Balance shall be applied as a credit against the Additional Settlement Amount and refunded to the Zurich Insurers from the escrow account.

2. PAYMENT TO STATES

a. Within sixty (60) days following the execution date of this Regulatory Settlement Agreement, the Zurich Insurers shall pay or cause to be paid by wire transfer, certified check or other guaranteed funds into an escrow account(s) as directed by the Settling Attorneys General the amount of twenty million dollars ($20,000,000) (the "State Payment"), which escrow account(s) shall be subject to an escrow agreement that shall provide, among other things, that (*i*) if the AG Settlement Agreement is terminated pursuant to its terms prior to December 27, 2006, the State Payment shall be refunded to the Zurich Insurers from the escrow account(s) less any reasonable attorneys' fees and out-of-pocket expenses incurred by the Settling Attorneys General and the Settling Insurance Regulators in connection with their Investigations of the Zurich Insurers as of the date of termination and (*ii*) if the AG Settlement Agreement has not been terminated as of December 27, 2006, then the escrow account(s) shall be terminated and the State Payment (plus accrued interest) shall be distributed to the Settling Attorneys General and the Settling Insurance Regulators; *provided* that the State Payment represents (*a*) disgorgement in lieu of civil penalties and/or (*b*) attorneys' fees and costs that have been or that will be incurred by the Settling Attorneys General and/or the Settling Insurance Regulators relating to (*i*) their investigation of the acts, practices and courses of conduct that are the subject of the AG Settlement Agreement and this Regulatory Settlement Agreement, (*ii*) negotiating the AG Settlement Agreement and this Regulatory Settlement Agreement, (*iii*) facilitating notification to Settlement Class Members, (*iv*) monitoring and inspecting the implementation of, and providing consumer outreach regarding, the Class Action settlement, (*v*) obtaining final approval of the Class Action settlement by the Class Action Court that is no

longer subject to appeal, (*vi*) responding to any appeals taken respecting the Class Action Court's approval of the Class Action settlement and (*vii*) monitoring and enforcing compliance with the Order. The State Payment shall be used as set forth in consent judgments between each Settling Attorney General and the Zurich Insurers to be entered in each of the signatory states' respective court and, absent limitations in such consent judgment and consistent with applicable state law, the monies may be, at the sole discretion of the Settling Attorney General in each signatory state, applied for any of the following purposes: (*i*) payment of attorneys' fees and costs, (*ii*) antitrust or consumer protection law enforcement, (*iii*) deposit into a state antitrust or consumer protection revolving fund or (*iv*) any other use in accordance with state law; *provided further* that the Settling Attorneys General shall be responsible for allocating the State Payment among the Settling Attorneys General and the Settling Insurance Regulators.

C. **BUSINESS REFORMS**

Based upon extensive negotiations with the Settling Insurance Regulators, the Zurich Insurers agree to do the following:

1. COMPLIANCE PROGRAM

a. The Zurich Insurers shall implement a compliance program meeting the requirements of this paragraph II.C.1 (which requirements are also incorporated into the Order); *provided* that to the extent that the Zurich Insurers seek within the ten-year (10-year) time period beginning as of the date the Order is entered (the "Term") to modify any term of the legal compliance program that is set out below in any material respect, they shall provide the Settling Attorneys General and the Settling Insurance Regulators with notice of their intention to make such modification no less than sixty (60) business days prior to implementing it.

b. Within thirty (30) business days following entry of the Order, the Zurich Insurers shall:

(1) Create, to the extent not already created, a United States Compliance Office (the "Compliance Office") with responsibility for all compliance and regulatory control matters relating to this Regulatory Settling Agreement and which embraces the following principles:

(a) A Chief Compliance Officer of North America (the "Compliance Officer"), who, with respect to the Zurich Insurers, currently has direct reporting responsibility to the Zurich Financial Services Group Compliance Officer and to the Chief Executive Officer of Zurich North America Commercial; *provided however*, that the Compliance Officer shall not be retained, compensated, disciplined or dismissed by any person other than the Zurich Financial Services Group Compliance Officer with the concurrence of the Chief Executive Officer of any company with respect to which the Compliance Officer has compliance responsibility, who together shall also be solely responsible for approving a budget and resources for the Compliance Office.

(b) The Compliance Office shall be funded and staffed in sufficient amounts to provide reasonable assurances that the Zurich Insurers will not engage in the acts, practices or courses of conduct that are the subject of this litigation.

(c) The development or strengthening of a training program (including written or online training materials, resources and advisories) for all executive officers and employees that emphasizes the culture of compliance and a supervision and control environment designed to: (i) foster compliance with applicable laws and regulations; (ii) assist

with the detection and prevention of criminal and inappropriate conduct; and, (iii) otherwise meet the requirements of the United States Sentencing Guidelines for compliance programs.

(d) The enhancement or creation of a program pursuant to which the Compliance Officer reports findings and recommendations to the Chief Executive Officer of Zurich North America Commercial, with further reporting of material findings or recommendation that are not timely addressed to the Zurich Financial Services Group Compliance Officer or Group General Counsel, and through these individuals, to the Board of Directors of Zurich Financial Services as necessary.

(e) The enhancement or implementation and publication of a electronic/telephonic facility for recordation and archiving of reports (including those provided anonymously) by Zurich Insurer officials and employees of complaints respecting violations of laws, regulations, fiduciary duties, and/or the Zurich Insurers' policies, practices and procedures by any official or employee of a Zurich Insurer.

(f) Consultation by the Compliance Officer with experienced compliance counsel to provide advice and assistance to the Compliance Officer in connection with the investigation, evaluation and prosecution of violations of laws, regulations and prescribed policies, practices and procedures applicable to the Zurich Insurers' operations.

(g) The enhancement or development of a disciplinary program to ensure that instances of misconduct are recorded and disposed of according to a graduated scale of sanctions, including reprimand, reduction or suspension of bonus, reduction in base compensation, suspension or degradation of title and/or supervisory responsibility, and dismissal (with or without severance benefits).

(h) Such special policies, practices, training and procedures as the Compliance Office deems necessary and appropriate to provide effective supervision and oversight to the business conducted by the Zurich Insurers' excess casualty operations.

(i) The enhancement or development of a records retention policy designed to ensure that electronic and hard copy documentation respecting quotations for Commercial Insurance Policies provided to prospective insureds, but not bound, are maintained until such time as, from time to time, an internal audit of such quotations is undertaken and completed.

c. The Compliance Office, with the assistance of experienced compliance counsel, shall, on a continuing basis, be responsible for the following:

(1) Furnishing a copy of the Order within thirty (30) business days of entry of same to each of the Zurich Insurers' officers and directors, and to each of the Zurich Insurers' employees (and their supervisors) who has authority to underwrite, quote, bid, write or contract Commercial Insurance Policies; *provided* that the Compliance Officer need not provide a copy of the Order to employees whose functions are purely clerical or manual and do not include quoting, writing or selling Commercial Insurance Policies;

(2) Furnishing within thirty (30) business days a copy of the Order to any person who succeeds to a position described in Paragraph II.C.1.c(1);

(3) Arranging for an annual briefing to each person described in Paragraph II.C.1.c(1) on the meaning and requirements of the Order and all laws covered by it;

(4) Obtaining from each of the Zurich Insurers' officers and directors certification that he or she: (i) has read and, to the best of his or her ability, understands and

agrees to abide by the terms of the Order; (ii) does not have specific knowledge of any violation of the Order that has not been reported to the Compliance Officer; and (iii) understands that any person's knowing failure to comply with the Order may result in an enforcement action for contempt of court against such person for violation of the Order;

(5) Maintaining: (i) a record of certifications received pursuant to Paragraph II.C.1.c(4); (ii) a file of all documents related to any alleged violation of the Order and laws covered by the Order; and (iii) a record of all communications related to any such violation, which shall identify the date and place of the communication, the person(s) involved, the subject matter of the communication, and the results of any related investigation; and

(6) Reviewing the final draft of each speech made by any officer or director addressing the provision of bids respecting Commercial Insurance Policies in order to ensure its adherence with the Order.

d. The Compliance Program shall address at least the following topics:

(1) federal antitrust laws;

(2) state antitrust laws;

(3) state unfair insurance practice laws;

(4) state insurance laws and regulations;

(5) the fiduciary obligation of Broker or Agent to clients; and

(6) the overall obligation of the Zurich Insurers' employees not to engage in conduct that is fraudulent or deceptive, or to aid others who are engaging or attempting to engage in fraudulent or deceptive conduct.

e. Within sixty (60) business days of entry of the Order, the Zurich Insurers shall present to the Settling Attorneys General and the Settling Insurance Regulators a written report that it has implemented or is in the process of implementing a compliance program consistent with the terms set out in the Order for their review.

f. If the Compliance Officer learns of any violation of any of the terms and conditions contained in this Regulatory Settlement Agreement, he or she shall take steps to ensure that the Zurich Insurers immediately take appropriate action to terminate or modify the activity so as to comply with this Regulatory Settlement Agreement and the Zurich Insurers shall report any such violations and any related corrective action to the Settling Attorneys General and the Settling Insurance Regulators no later than twenty (20) days after determining that a violation in fact occurred.

g. If the Zurich Insurers believe the duties of specific employees are significantly specialized, they may offer specialized compliance programs for those employees.

h. The Settling Attorneys General and/or the Settling Insurance Regulators may, at their expense and upon reasonable notice, attend and witness the presentation of any compliance presentations required by this Regulatory Settlement Agreement.

i. The Settling Attorneys General and the Settling Insurance Regulators may jointly retain, at the Zurich Insurers' expense, an expert in the insurance industry to assist them in reviewing any aspect of the legal compliance program that the Zurich Insurers adopt pursuant to the terms of this Regulatory Settlement Agreement.

2. CEASE AND DESIST

a. The Zurich Insurers shall not directly or indirectly knowingly provide or offer any Broker or Agent placing, renewing, consulting on or servicing any Commercial Insurance Policy a false, fictitious, inflated, artificial, "B," alternative, back-up or throw away bid, quote or indication, or any other quote or indication that is not based upon bona fide business, actuarial or underwriting considerations when the quote or indication is given.

b. The Zurich Insurers shall not enter into, engage in, or solicit or otherwise seek to enter any agreement, not permitted by applicable law, with any Broker or Agent, or with any insurance company, reinsurance company, insurance exchange, or any person employed by, or an agent of, any such entity to allocate customers or markets, to rig bids or quotes, or to submit bids or quotes that would violate Paragraph II.C.2.a.

c. The Zurich Insurers shall not directly or indirectly pay or accept a request to pay any Compensation to a Broker or Agent as a quid pro quo for the Broker's or Agent's inclusion of the Zurich Insurers on a list of insurance companies from which the Broker or Agent will solicit bids or quotes for clients, nor enter into any other type of "pay-to-play" arrangement.

d. The Zurich Insurers shall not engage in any agreement not permitted by applicable law, to fix or stabilize prices, rig bids, allocate customers or engage in any other conduct that constitutes a violation of the federal antitrust laws, state antitrust laws, unfair insurance practices laws, or any other insurance laws or regulations.

3. COOPERATION WITH SETTLING INSURANCE REGULATORS

a. Within 120 days of the closing of each calendar year that falls within the Term, the Zurich Insurers shall submit to the Settling Attorneys General and the Settling

Insurance Regulators a report demonstrating their compliance with all of the provisions of this Regulatory Settlement Agreement; *provided* that the Settling Insurance Regulators shall, consistent with state law, keep confidential any information contained in the Annual Report that is marked confidential by the Zurich Insurers.

b. The terms of this Regulatory Settlement Agreement are binding on the Zurich Insurers, their directors, officers, managers, employees, successors and assigns, including, but not limited to, any person or entity to whom the Zurich Insurers or any of them may be sold, leased or otherwise transferred, during the Term.

c. The Zurich Insurers shall continue to fully and promptly cooperate with the Settling Attorneys General and the Settling Insurance Regulators with regard to any regulatory investigation or related proceeding or action regarding any person, corporation or entity, including but not limited to, former employees of a Zurich Insurer; *provided* that each person who receives documents or information pursuant to this paragraph shall, consistent with state law, (i) keep the documents or information confidential and (ii) if consistent with state law, return any documents or information received from the Zurich Insurers by no later than ten (10) days following the date on which any regulatory investigation or related proceeding or action is concluded. Cooperation shall include, without limitation:

(1) the voluntary production (without service of subpoena) of (*i*) any and all non-privileged information and documents or other tangible evidence reasonably available and requested by a Settling Attorney General or a Settling Insurance Regulator in connection with an Investigation and (*ii*) any compilation or summaries of information or data

that a Settling Attorney General or a Settling Insurance Regulator reasonably request be prepared;

(2) the use of reasonable best efforts on the part of the Zurich Insurers to ensure that current and former officers, directors, employees and agents of a Zurich Insurer fully and promptly cooperate with the Settling Attorneys General and Settling Insurance Regulators in connection with any Investigation or related proceeding, including attendance (without service of a subpoena) at any proceeding as requested by a Settling Attorney General or a Settling Insurance Regulator; and

(3) With respect to any document withheld or redacted on the grounds of privilege, work product or other legal doctrine, submission of a written log by the Zurich Insurers indicating: (*i*) the type of document; (*ii*) the date of the document; (*iii*) the author and each recipient of the document; (*iv*) the general subject matter of the document; (*v*) the reason for withholding the document; and (*vi*) the Bates number or range of the withheld document.

d. The actual or potential applicability of the McCarran-Ferguson Act to the conduct covered by the documents or witnesses requested pursuant to paragraphs II.C.3.c(1)-(2) shall not be a basis for withholding information in response to such a request.

e. To determine or secure the cooperation contemplated by this Regulatory Settlement Agreement, and without limiting otherwise applicable law, any duly authorized representative of a Settling Attorney General or a Settling Insurance Regulator shall be permitted, upon reasonable notice and during normal business hours:

(1) Access to all non-privileged book, ledgers, accounts, correspondence, memoranda, other records, and documents in the possession or under the control

of a Zurich Insurer, as applicable, relating to any matters contained in this Regulatory Settlement Agreement; and,

(2) To interview officers, managers or employees of the Zurich Insurers, as applicable, regarding any matters contained in this Regulatory Settlement Agreement.

4. DISCLOSURE OF COMPENSATION

a. As of the Commencement Date, each of the Zurich Insurers shall require, in connection with the placement or renewal of a Commercial Insurance Policy issued by a Zurich Insurer, that each Broker or Agent has undertaken to provide each Insured with Disclosure. For purposes of Regulatory Settlement Agreement, the terms:

(1) "Base Compensation" means a retail or wholesale commission paid by a Zurich Insurer to a Broker or Agent in connection with the placement of a Commercial Insurance Policy that is a percentage of the premium that will be paid by the Insured on the Commercial Insurance Policy.

(2) "Broker or Agent" means an insurance producer licensed to do business as such in any state within the United States, that, collectively with its affiliates and any of their respective employees, receives any Compensation from a Zurich Insurer in connection with the placement of insurance for an Insured or represents the Insured with respect to that placement; *provided however*, that the term Broker or Agent shall not include an insurance producer that has been appointed a Captive Agent by a Zurich Insurer and that discloses to the Insured or a representative of the Insured that the insurance producer or its affiliate or their

employees will receive Compensation from a Zurich Insurer in connection with that placement and/or for the provision of services to the Insured for the Zurich Insurer.

(3) "Captive Agent" means a representative of a Zurich Insurer who is obliged to submit specified business only to a Zurich Insurer or to give a Zurich Insurer first-refusal rights on the placement of a Commercial Insurance Policy.

(4) "Commencement Date" means, for Commercial Insurance Policies, one hundred eighty (180) days from the execution date of the AG Settlement Agreement.

(5) "Commercial Insurance Policy" means any contract, policy, agreement or binder of insurance sold to a commercial or business enterprise or a governmental entity; *provided however*, that Commercial Insurance Policy does not include insurance respecting a natural person's personal real property, personal automobile, life, disability or health coverage; *provided further* that Commercial Insurance Policy shall not include any contract, policy, agreement or binder of insurance that is or was effective on or before Commencement Date unless such contract, policy, agreement or binder of insurance is renewed or extended for a period in excess of thirty (30) days after the Commencement Date.

(6) "Compensation" means anything of material value received by a Broker or Agent directly from a Zurich Insurer, including, but not limited to, monetary payments, Base Compensation, Contingent Compensation, brokerage fee, service fee, incentive, rebate, money, credit, loan, forgiveness of debt, forgiveness of principal or interest, vacation, prize, gift or the payment of employee salaries or expenses; *provided however*, that the term Compensation shall not include any *de mimimis* fee or amount collected by or paid to the Broker

or Agent that does not exceed the total established by Department of Insurance for such fees or amounts.

(7) "Contingent Compensation" means Compensation paid by a Zurich Insurer to a Broker or Agent that is contingent upon the Broker or Agent: a) placing a particular number of policies or dollar value of premium with the Zurich Insurers; b) achieving a particular level of growth in the number of policies placed or dollar value of premium with the Zurich Insurers; c) meeting a particular rate of retention or renewal of policies in force with the Zurich Insurers; d) placing or keeping sufficient insurance business with the Zurich Insurers to achieve a particular loss ratio or any other measure of profitability; or e) obtaining anything else of material value for a Zurich Insurer.

(8) "Disclosure" means a Disclosure Statement delivered prior to the time at which the Commercial Insurance Policy is bound.

(9) "Disclosure Statement" means a written statement substantially in the form found in Exhibit A advising the Insured of the Compensation that may be paid to the Broker or Agent in connection with the placement of one or more Commercial Insurance Policies; *provided* that the Zurich Insurers shall notify and seek the approval of the Settling Attorney Generals and the Settling Insurance Regulators prior to making any material change to Exhibit A. The Disclosure Statement shall include the following information:

(a) If Base Compensation is paid in connection with the placement of the Commercial Insurance Policy: the maximum percentage of the premium that will be paid as Base Compensation for each Commercial Insurance Policy the Broker or Agent places with the Zurich Insurers;

(b) If Contingent Compensation may be paid to the Broker or Agent in connection with the placement of the Commercial Insurance Policy: (i) the maximum percentage of Contingent Compensation that could be paid to the Broker or Agent, (ii) the average percentage of Contingent Compensation paid by the Zurich Insurers in the immediately preceding calendar year and (iii) the factors the Zurich Insurers will consider in determining the percentage of Contingent Compensation (if any) to pay to the Broker or Agent;

(c) If any other Compensation may be paid to the Broker or Agent in connection with the placement of the Commercial Insurance Policy, how such Compensation will be determined;

(d) A website address where a Website Disclosure will be available to the Insured; and

(e) Other contact information, including a toll-free telephone number, that the Insured can use to obtain additional information regarding Compensation to the Broker or Agent.

(10) "Insured" means an individual or entity who purchased a Commercial Insurance Policy from a Broker or Agent (*a*) where the individual or entity was either domiciled in or resident in, or had any other significant contact with, the United States or (*b*) where the Commercial Insurance Policy was (*i*) entered into in the United States, (*ii*) subject to federal law or to the law of any of the states of the United States, or (*iii*) provided coverage for an insurable exposure in the United States.

(11) "Manner and Method" means

(a) when used with reference to Base Compensation, the range of *Base Compensation* the Zurich Insurers paid in the immediately preceding calendar year respecting the specific types of *Commercial Insurance Policies* to which the *Disclosure* applies, the average amount of *Base Compensation* paid for each such *Commercial Insurance Policy* in the immediately preceding calendar year and the factors considered in determining the Base Compensation that will be paid for each such Commercial Insurance Policy;

(b) when used with reference to Contingent Compensation, the range of Contingent Commission that may be paid pursuant to the *Contingent Compensation* agreement (if any) between the *Broker or Agent* and the Zurich Insurer, the average amount of Contingent Compensation paid pursuant to such agreement in the immediately preceding calendar year and the factors considered in determining the range of Contingent Compensation under such agreement (including whether the amount of Contingent Compensation is calculated with reference to (*i*) placing a particular number of policies or dollar value of premium with a Zurich Insurer, (*ii*) achieving a particular level of growth in the number of policies placed or dollar value of premium with a Zurich Insurer, (*iii*) meeting a particular rate of retention or renewal of policies in force with a Zurich Insurer, (*iv*) placing or keeping sufficient insurance business with a Zurich Insurer to achieve a particular loss ratio or any other measure of profitability or (*v*) obtaining anything else of material value for a Zurich Insurer).

(12) "Website Disclosure" means publication on a Zurich Insurer's website of the Manner and Method of Compensation that may be paid for each kind of Commercial Insurance Policy offered by the Zurich Insurer.

b. The disclosure provision set out in Paragraph II.C.4.a may be modified under the following circumstances:

(1) With the prior approval of the Settling Insurance Regulator(s) and the Settling Attorney(s) General, as applicable, in the State(s)/Commonwealth(s) where the modified disclosure will be used.

(2) ***Consistency of terms and conditions***: To the extent that a Settling Insurance Regulator requires that one or more of the insurers identified as "Insurer Defendants" in the Consolidated Complaint that has engaged in substantially similar conduct provide disclosure in that Settling Insurance Regulator's state respecting Compensation that is different from that required of the Zurich Insurers, the Zurich Insurers may, upon notification to that Settling Insurance Regulator and, if the attorney general for the relevant state or commonwealth is a Settling Attorney General, then also to that Settling Attorney General, modify the disclosure that they are required to provide pursuant to the terms of this Regulatory Settlement Agreement to be consistent with the disclosure required of such Insurer Defendant(s) in that Settling Insurance Regulator's State/Commonwealth.

(3) ***Market Disruption***: To the extent that the Zurich Insurers believe that they (or any of them) have suffered a market reduction in any reporting unit as a result of complying with the disclosure provision of this Regulatory Settlement Agreement, then the Zurich Insurers may petition the Settling Insurance Regulators for a modification of such provision by making such assertion to the Chair of the Broker Activities Task Force of the National Association of Insurance Commissioners (the "NAIC Task Force") (or, if such NAIC Task Force has been dissolved, the Illinois Department of Insurance (the "Illinois DOI")), who

will initiate an expedited process to review the Zurich Insurers' assertion and, after providing the Attorney General of the Commonwealth of Pennsylvania with notice and an opportunity to comment, shall issue findings of fact and a recommendation respecting the requested modification request; *provided* that if the Chair of the NAIC Task Force (or, as the case may be, the Illinois DOI) finds that the Zurich Insurers have suffered such a reduction and recommends a modification of the disclosure provision, each of the Settling Insurance Regulators shall review such findings and recommendation on an expedited basis, giving them considerable weight, and shall adopt the recommended modification or such other modification as may be consistent with the purposes of this paragraph to address any market disruption, unless such Settling Insurance Regulator disagrees with the findings and/or recommendation, or concludes that they are not applicable in its State/Commonwealth, in which case the basis and reasons for rejecting the findings and/or recommendation shall be set forth in writing; *provided* that the Zurich Insurers shall retain all rights under applicable law to obtain review of such decision by such Settling Insurance Regulator.

D. NON-ADMISSIBILITY OF AGREEMENTS AND PROCEEDINGS

1. Nothing in the MOU, this Regulatory Settlement Agreement, the Order, the AG Settlement Agreement or any Parallel Agreement shall be admissible or serve as the basis of any disqualification for any license, privilege, grant or authority or eligibility to hold any position in any State Proceeding as to any Zurich Releasee (as that term is defined in Paragraph II.E below) in connection with any State Proceeding. For purposes of this paragraph, the term State Proceeding shall mean any proceeding (whether formal or informal, administrative or judicial) brought by or on behalf of or before any state entity, including without limitation, a

proceeding in which any license or permit issued to a Zurich Releasee or the ability of a Zurich Releasee to do business is either challenged or being considered for any reason by such state entity; *provided however*, that nothing in this paragraph shall prohibit a state entity from enforcing any provision of this Regulatory Settlement Agreement.

E. RESOLUTION OF CLAIMS AND INVESTIGATIONS

1. Upon execution of this Regulatory Settlement Agreement, the Settling Insurance Regulators shall terminate each and every existing investigation, inquiry, claim and/or proceeding (whether formal or informal) as to any Zurich Insurer, as to any of a Zurich Insurer's respective parents, predecessors, successors, affiliates (as defined in 17 C.F.R. Part 210.1-02.b), divisions, business units and subsidiaries (including, without limitation, Zurich Financial Services), and as to any current or former director, officer or employee of any of the foregoing (collectively, the "Zurich Releasees") directly relating to the acts, practices or courses of conduct that are the subject of the Investigations as specifically set forth in the Consolidated Complaint or relating to any acts, practices or courses of conduct that are addressed in the Class Action Claims; *provided however*, that Zurich Releasees shall not include (*i*) any individuals who were former officers or employees of the Zurich Insurers' business unit that was known as the Marsh & McLennan Global Broking unit (also known as the Zurich Insurers' MMGB Unit) and who are no longer officers or employees of a Zurich Releasee or (*ii*) any entity that may, following the execution of the AG Settlement Agreement, become a successor, parent or acquirer of the Zurich Insurers or any of them, but such entity shall not be a Zurich Releasee only with respect to such entity's participation, prior to becoming a successor parent or acquirer of the Zurich

Insurers or any of them, in acts, practices or courses of conduct that are the subject of the Investigations.

2. None of the Settling Insurance Regulators shall initiate any new, or reinstate any terminated, investigation, inquiry, claim and/or proceeding (whether formal or informal) as to any Zurich Releasee where the investigation, inquiry, claim and/or proceeding is based upon the acts, practices or courses of conduct that are the subject of the Investigations or that are based upon the acts, practices or courses of conduct that are addressed in the Class Action Claims.

3. Nothing in Paragraphs II.E.1 and II.E.2 above shall be deemed to release any individual or entity (including any broker, insurer, defendant in the Class Action, or individual or entity specifically excluded from the term "Zurich Releasee" in the proviso to Paragraph II.E.1) other than those individuals and entities that are within the definition of Zurich Releasees.

4. Nothing in Paragraphs II.E.1 and II.E.2 shall be deemed to preclude a Settling Insurance Regulator's or a Settling Attorney General's review of acts, practices or courses of conduct that occur after the execution date of the AG Settlement Agreement.

ARTICLE III
OTHER PROVISIONS

1. The Settling Insurance Regulators will support before the Class Action Court the Class Action Court's approval of all terms and conditions of the MOU as incorporated into the Class Action settlement other than those relating to the payment of attorneys' fees and expenses to plaintiffs' counsel in the Class Action, with respect to which the Settling Insurance Regulators shall take no position.

2. The fact that the Zurich Insurers have entered into this Regulatory Settlement Agreement is not intended to disqualify any Zurich Releasee from engaging in any business in

any state. Nothing in this Regulatory Settlement Agreement shall relieve any of the Zurich Releasees from obligations imposed by any applicable state insurance law or regulation, or other applicable law.

3. This Agreement is not intended to and shall not confer any rights upon any persons or entities besides the Settling Insurance Regulators and the Zurich Releasees.

4. The Zurich Insurers shall maintain custody of, or make arrangements to have maintained, all documents and records that relate to the acts, practices or courses of conduct that are the subject of the Investigations for a period of not less than six (6) years.

5. Subject to paragraph II.C.4.b(1), if compliance with any aspect of this Regulatory Settlement Agreement proves impracticable, the Zurich Insurers reserve the right to request from the Settling Insurance Regulators a modification to this Regulatory Settlement Agreement accordingly.

6. Whenever this Regulatory Settlement Agreement requires that notice be provided, such notice shall be provided by certified or registered mail, return receipt requested, postage prepaid or by hand delivery to:

If to the Settling Insurance Regulators:

Office of the General Counsel
California Department of Insurance
45 Fremont Street,
23rd Floor
San Francisco, CA 94105

If to the Zurich Insurers:

Ralph C. Ferrara, Esq.
Stephen A. Best, Esq.
Ann M. Ashton, Esq.
David S. Turetsky, Esq.
LeBoeuf, Lamb, Greene & MacRae LLP
1875 Connecticut Avenue, N.W.
Suite 1200
Washington, D.C. 20009
Telephone: (202) 986-8000

Alice Kane, Esq.
Zurich North America
105 E. 17th Street
New York, New York 10004
Telephone: (917) 534-4500

David Bowers, Esq.
Zurich North America
1400 American Lane
Schaumburg, Illinois 60196
Telephone: (847) 605-6000

7. This Regulatory Settlement Agreement shall be governed by and interpreted according to the laws of the State of Illinois, excluding its conflict of laws provisions.

8. Subject to paragraph II.C.4.b(1), all matters relating to the enforcement and interpretation of this Regulatory Settlement Agreement in any particular state shall be subject to the jurisdiction of the appropriate administrative body or state courts of such state; *provided however*, that any administrative body's or state court's exercise of subject matter jurisdiction over this Regulatory Settlement Agreement shall not constitute a basis for nor give rise to personal jurisdiction over Zurich Financial Services.

9. Nothing in this Regulatory Settlement Agreement shall prevent or otherwise restrict a Settling Insurance Regulator from pursuing regulatory action against a Zurich Insurer

for regulatory issues that are unrelated to claims released pursuant to paragraphs II.E.1 and II.E.2 above.

10. Nothing in this Regulatory Settlement Agreement or any of its terms and conditions shall be interpreted to alter in any way the contractual terms of any insurance policy sold, assumed or acquired by a Zurich Insurer.

11. In agreeing to the terms of the Regulatory Settlement Agreement, each of the Zurich Insurers waives its rights to an administrative hearing and appeal under the applicable laws of the state represented by each Settling Insurance Regulator.

12. Each Settling Insurance Regulator, on behalf or his or her respective state, hereby gives express assurance that under the applicable laws, regulations and judicial rulings, he or she has the authority to enter into this Regulatory Settlement Agreement and bind that state now and in the future. By execution of this Regulatory Settlement Agreement with the Zurich Insurers, each Settling Insurance Regulator acknowledges that he/she agrees with the terms and conditions as set forth in the Regulatory Settlement Agreement.

13. This Regulatory Settlement Agreement may be signed in counterparts, each of which shall constitute a duplicate original. Execution by facsimile or by an electronically transmitted signature shall be fully and legally binding on a Settling Insurance Regulator and each of the Zurich Insurers.

14. At any time prior to the date on which the Class Action Court's approval of the Class Action settlement agreement becomes final and no longer subject to appeal, each of the parties to this Regulatory Settlement Agreement shall have the right, but not the obligation, to terminate this Regulatory Settlement Agreement if (*i*) the MOU is terminated, (*ii*) any settlement

agreement executed in the Class Action is terminated, (*iii*) the AG Settlement Agreement is terminated or (*iv*) any court refuses to enter the Order in a form substantially and materially consistent with Exhibit C. If this Regulatory Settlement Agreement is terminated, it shall be null and void and shall have no force or effect, and neither the Zurich Insurers nor the Settling Insurance Regulators shall be bound by any of its terms, except as follows:

a. The provisions of Paragraph II.B.2.a(1) relating to the refund of the State Payment from the escrow account shall continue in effect.

b. Neither this Regulatory Settlement Agreement, nor the fact of its having been made, shall be admissible or entered into evidence for any purpose whatsoever.

c. Neither the Zurich Insurers' agreement to the terms set out in this Regulatory Settlement Agreement nor its execution of this Regulatory Settlement Agreement shall constitute or be construed to be an admission by the Zurich Insurers or any of them that any wrongdoing has taken place, that any federal or state laws or common law have been violated, or that any antitrust injury has occurred.

Executed this 20 day of March, 2006

Axel Lehmann

Axel P. Lehmann
Chief Executive Officer
Zurich American Insurance Company,
Steadfast Insurance Company, Fidelity &
Deposit Company of Maryland, Empire Fire &
Marine Insurance Company, American
Guarantee & Liability Insurance Company,
Empire Indemnity Insurance Company, and
Assurance Company of America

_____

JOHN GARAMENDI
Insurance Commissioner
California Department of Insurance