

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL FRAUD & CONSUMER PROTECTION DIVISION

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In the Matter of

American International Group, Inc.,

Respondent.

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CONSENT ORDER

WHEREAS the New York State Department of Financial Services (“DFS”) commenced an investigation, pursuant to the New York Insurance Law, of American International Group, Inc. (“AIG”), American Life Insurance Company (“ALICO”) and Delaware American Life Insurance Company (“DelAm”), formerly subsidiaries of AIG, and, as of November 2010, subsidiaries of MetLife, Inc. (“MetLife”), and certain other former subsidiaries and affiliates of AIG (the “Investigation”);

WHEREAS, DFS investigated whether ALICO, DelAm, and certain other former AIG subsidiaries and affiliates were doing an insurance business in New York without a New York license and aiding other insurers in doing an insurance business in New York without a New York license;

WHEREAS, the Investigation concluded that ALICO, while operating as a subsidiary of AIG, made misrepresentations and omissions concerning its insurance business activities in New York to DFS’s predecessor, the New York State Insurance Department (“NYSID”)¹;

¹ DFS was created by transferring the functions of the New York State Banking Department and the New York State Insurance Department into a new agency. This transfer of functions became effective on October 3, 2011.

WHEREAS, as a result of the Investigation, DFS concluded that ALICO, DelAm and certain other former AIG subsidiaries and affiliates have done an insurance business in New York without a license;

WHEREAS, as a result of the Investigation, DFS concluded that ALICO, DelAm and certain other former AIG subsidiaries and affiliates have solicited insurance business in New York on behalf of insurers unlicensed in New York or otherwise aided such insurers;

WHEREAS, as a result of the Investigation, DFS concluded that ALICO and certain alien insurers have collected approximately \$900 million in premiums (including renewals) from multinational corporations involving contact with its New York sales representatives from 2007 to 2012;

WHEREAS, MetLife, ALICO and DelAm entered into a Consent Order with DFS on March 31, 2014 (the “MetLife Consent Order”), which resolved various law violations set forth in that order;

WHEREAS, this Consent Order contains DFS’s findings, and the relief agreed to by DFS and AIG.

NOW, THEREFORE, DFS and AIG are willing to resolve the matters cited herein. DFS finds as follows:

FINDINGS

DFS’s findings (“Findings”) are as follows:

RELEVANT ENTITIES

1. AIG is a major insurance and financial services company, operating in more than 130 countries and jurisdictions. AIG offers life insurance networks to commercial, institutional and individual customers. AIG also provides retirement services, financial services and asset management to clients worldwide. On March 8, 2010, AIG announced an agreement with MetLife to sell ALICO and DelAm to MetLife for \$15.5 billion. On November 1, 2010, MetLife completed its acquisition of ALICO and DelAm for \$16.2 billion, consisting of \$7.2 billion in cash and \$9.0 billion in MetLife equity and other securities (the “Acquisition”).
2. ALICO is a Delaware insurance company founded in 1921. ALICO is licensed in the United States only in Delaware. ALICO, through its network of foreign branches, subsidiaries and affiliates, sells life insurance, annuities, accident and health insurance and, in the past, other types of insurance, in more than 50 countries and regions, including Japan, Europe, the Middle East, South Asia, and the Caribbean. The insurance sold through ALICO included group life, disability, medical plans that companies offer their employees and pension plans. ALICO is not now, nor has it ever been, licensed to do an insurance business in New York.
3. DelAm is a Delaware life insurance company founded in 1964. DelAm was not licensed to do an insurance business in New York for any period prior to January 1, 2013 (AIG sold ALICO and DelAm to MetLife on November 1, 2010).
4. MetLife is a holding company incorporated in Delaware and holds all of the capital stock of ALICO and DelAm.
5. The Group Management Division of AIG, and later the Global Employee Benefits Group at MetLife (collectively “GMD”), was responsible for soliciting and selling insurance to multinational companies on behalf of DelAm and ALICO’s foreign branches, subsidiaries

and affiliates as well as insurers unrelated to ALICO and DelAm. Prior to the Acquisition, GMD's personnel were located at 70 Pine Street, New York, New York and Wilmington, Delaware. At various times over at least the last twenty years, GMD personnel were employees of AIG, ALICO, American General Life Insurance Company, MetLife Group, Inc., and upon information and belief, DelAm.

FACTUAL BACKGROUND

ALICO's Intentional Misrepresentations and Omissions to the NYSID

6. ALICO, while operating as a subsidiary of AIG in 2009, made intentional misrepresentations and omissions to NYSID concerning its insurance business activities in New York.
7. On July 14, 2009, ALICO's in-house and outside counsel made a presentation to then Acting Superintendent of Insurance, Kermitt Brooks. The presentation materials specifically stated that, with respect to ALICO: "No Insurance Operations Conducted in New York."
8. Following the meeting with NYSID, ALICO's outside counsel, in a letter to NYSID dated July 21, 2009, specifically represented to NYSID on behalf of ALICO that ALICO was not soliciting insurance business in New York. In pertinent part, the letter states:

ALICO presently has executive offices in the AIG building at 70 Pine Street. The Company does not solicit business in New York nor does its name appear anywhere on the building or in any building directory available to the public. The Company is not listed in any New York telephone directory. The Company's executives and staff in New York do not make, propose to make, issue or deliver any policies or contracts of insurance, underwrite any insurance risks, solicit persons to buy any insurance, bill or collect premiums or any other consideration for contracts of insurance, or adjust any insurance claims. (Emphasis added.)

9. In response to the above letter, NYSID requested additional information regarding the insurance business activities of ALICO. However, ALICO's outside counsel refused to

provide any additional information. In a letter to NYSID dated September 4, 2009, ALICO's outside counsel, on behalf of ALICO, refused to provide the requested information citing "practical" hurdles in specifying the employees' specific responsibilities. ALICO's outside counsel wrote:

I am writing pursuant to our telephone conversation wherein you asked for greater detail concerning the types of activities in which American Life Insurance Company ("ALICO") employees will engage, as described in my letter to [Rob Easton] of July 17. I have reviewed those descriptions with my client, which described categories of activities, and see no practical way to expand upon them. Obviously it would be an ultimately futile attempt to try and detail the myriad activities involved in "human resources," "strategic planning," "finance operations," "shareholder relations," or "corporate legal advice."

10. Despite ALICO's refusal to provide the requested information, NYSID conditionally concluded that the activities specified in ALICO's letter may constitute permissible "back office" functions under certain circumstances. Specifically, in a letter to ALICO's outside counsel dated November 23, 2009 (the "November 2009 Letter"), NYSID concluded that ALICO's functions "seem" to be "back office" functions that do not constitute engaging in the business of insurance in New York, and thus "may" not require ALICO to have an insurance license. However, NYSID reiterated the various restrictions on ALICO's activities in order to comply with the New York Insurance Law. As such, NYSID conditionally approved the activities provided that ALICO was engaged only in "back office" functions. In the November 2009 Letter to ALICO's outside counsel, NYSID concluded:

Yes. The general function ascribed to the various ALICO executives may come within activities in New York that constitute "back office" functions. Thus, provided that there is no contact with the public, and so long as such functions are primarily ministerial in nature, and do not involve solicitation or sale of insurance or any other activity proscribed by N.Y. Ins. Law § 1102 (McKinney 2006), they are permissible. (Emphasis added.)

11. In the November 2009 Letter, NYSID also provided an analysis that clearly identified to ALICO the activities that are not permissible under New York law. NYSID wrote to ALICO's outside counsel:

Insurance Law § 1102(a) is relevant to the inquiry. That statute prohibits any person, firm, association, corporation, or joint stock company from doing an insurance business in this state unless authorized by a license in force pursuant to the provisions of the Insurance Law, or explicitly exempted by the Insurance Law.

In turn, Insurance Law § 1101 defines the acts that constitute doing an insurance business in this state. Insurance Law § 1101(b) provides:

(b)(1) Except as provided in paragraph two, three or three a of this subsection any of the following acts in this state, effected by mail from outside this state or otherwise, by any person, firm, association, corporation, or joint-stock company shall constitute doing an insurance business in this state and shall constitute doing business in this state within the meaning of section three hundred two of the civil practice law and rules:

(A) making, or proposing to make, as insurer, any insurance contract, including either issuance or delivery of a policy or contract of insurance to a resident of this state or to any firm, association, or corporation authorized to do business herein, or solicitation of applications for any such policies or contracts;

...

(D) doing any kind of business, including a reinsurance business, specifically recognized as constituting the doing of an insurance business within the meaning of this chapter;

(E) doing or proposing to do any business in substance equivalent to any of the foregoing in a manner designed to evade the provisions of this chapter.

12. In the November 2009 Letter, NYSID also emphasized that merely acting for or aiding an unlicensed or unauthorized insurer is also a violation of the N.Y. Insurance Law:

Finally, Insurance Law Section 2117 prohibits any person, firm, association or corporation from acting for or aiding unlicensed or unauthorized insurers or health maintenance organizations. (Emphasis added.)

13. In the November 2009 Letter, NYSID concluded:

The general functions set forth in your July 21, 2009 letter, and ascribed to the various ALICO executives seem to fall within activities in New York that constitute “back office” functions, provided that there is no contact with the public, and so long as they are primarily ministerial in nature, and do not involve solicitation or sale of insurance, or any other activity, proscribed by Insurance Law § 1102. However, given the general nature of your inquiry, OGC is unable at this time to opine definitively about whether any specific activity that any of the executives may perform in New York on behalf of ALICO constitutes the doing of an insurance business.

14. As discussed in more detail below, ALICO’s insurance activities in New York prior to 2009 and to date, went well beyond engaging in “back office” functions. In fact, ALICO and DelAm were doing an insurance business in New York. Moreover, ALICO and, upon information and belief, DelAm employees, and certain AIG employees and, later, MetLife Group, Inc. employees were aiding unlicensed insurers in the doing of an insurance business in New York.

15. Less than four months after receiving the November 2009 Letter, AIG announced the Acquisition.

Unlicensed Solicitation of Insurance Business in New York

16. The Investigation has revealed, contrary to the representations of ALICO’s counsel, that the following insurance activities have been conducted by ALICO, DelAm, AIG, and MetLife from their respective offices in New York:

- (a) Sales representatives were based in New York;
- (b) The sales representatives solicited in New York insurance, including group life, disability, medical plans offered by companies to their employees, and pension plans, on behalf of ALICO and DelAm and their subsidiaries or affiliates, as well as insurers

- not affiliated with either company, without any such insurer being duly licensed in New York;
- (c) The sales representatives were engaged in direct selling in New York to multinational companies on behalf of ALICO and DelAm and their subsidiaries and affiliates as well as insurers not affiliated with either company;
 - (d) The sales representatives were not licensed as insurance brokers or agents in New York. Some of the sales representatives became licensed as insurance agents following the Acquisition;
 - (e) The sales representatives conducted sales meetings in New York concerning group insurance products of ALICO, DelAm and their subsidiaries and affiliates as well as insurers not affiliated with either company;
 - (f) The sales representatives had extensive contact with the multinational clients including periodic visits, regular phone calls and emails, deliveries of multinational pooling reports, and providing entertainment;
 - (g) The sales representatives would also make personal visits in New York to the multinational clients and potential clients;
 - (h) The sales representatives conducted “road shows” in New York in order to solicit and sell group insurance products of ALICO, DelAm and their subsidiaries and affiliates and other unaffiliated insurers. The sales representatives, for example, conducted a “road show” at the AIG corporate dining room at 70 Pine Street for multinational companies with operations in Brazil. The Brazil “road show” was designed to generate new sales in the amount of \$25 million;

- (i) The sales representatives had incentive compensation plans that compensated them for placing business with DelAm and the foreign operations of ALICO and its subsidiaries and affiliates and other unaffiliated insurers and were compensated based upon a percentage of premium collected by DelAm and ALICO and its subsidiaries and affiliates and other unaffiliated insurers;
- (j) ALICO and DelAm had an incentive compensation bonus that was changed from a commission at the advice of counsel. The incentive compensation bonus was based on how much the sales representatives were able to sell in terms of ALICO, DelAm and other insurers' insurance;
- (k) The sales executives in New York organized sales competitions among the sales representatives in order to increase sales productivity; and
- (l) The sales representatives also solicited purchases of group insurance products in New York for expatriate employees sent abroad by the multinational corporations on behalf of ALICO, DelAm, and their subsidiaries and affiliates and unaffiliated insurers.

17. AIG, ALICO, DelAm and MetLife insurance activities went well beyond engaging in “back office” functions. DFS has concluded that ALICO, AIG, DelAm and MetLife were soliciting insurance business in New York without a license.

VIOLATIONS

18. DFS finds the foregoing acts and practices of MetLife, AIG, ALICO and DelAm violate N.Y. Ins. Law §§ 1102, 2102(a) and 2117.

AGREEMENT

I. Civil Penalty

1. Within seven (7) days of the Effective Date, AIG shall pay a civil penalty pursuant to N.Y. Ins. Law § 109 in the amount of \$35 million to the New York State Department of Financial Services to address all underlying conduct of AIG. AIG agrees that it will not claim, assert, or apply for a tax deduction or tax credit with regard to any U.S. federal, state or local tax, directly or indirectly, for any portion of the civil monetary penalty paid pursuant to this Order. The payment shall be in the form of a wire transfer in accordance with DFS instructions or a certified or bank check made payable to the “Superintendent of Financial Services” and mailed to: New York State Department of Financial Services, One State Street, New York, New York, 10004-1511, Attn: Joy Feigenbaum, Executive Deputy Superintendent, Financial Frauds & Consumer Protection.

II. Compliance with New York Insurance Law

2. AIG and AIG affiliates and subsidiaries shall comply with N.Y. Ins. Law §§ 1102, 2102(a) and 2117.

III. Other Relief

3. AIG submits to the authority of DFS solely for purposes of effectuating this Consent Order.

IV. Breach of the Consent Order

4. In the event that the DFS believes that AIG has materially breached this Consent Order, DFS will provide written notice of such breach to AIG and AIG must, within ten (10) business days from the date of receipt of said notice, or on a later date if so determined in the sole discretion of DFS, appear before DFS and have an opportunity to rebut the

evidence, if any, on the issue of whether a breach has occurred and, to the extent pertinent, to demonstrate that any such breach is not material or has been cured.

5. AIG understands and agrees that AIG's failure to appear in response to the notice of breach within the specified period as set forth in Section IV, Paragraph 4 is presumptive evidence of AIG's breach. Upon finding of a breach, DFS may take any and all actions available to it under the New York Insurance Law and the New York Financial Services Law, and may use any and all evidence available to it for any hearings, notices, orders and other remedies that may be available under New York law.

V. No Indemnification

6. Neither AIG, nor any of its parents or affiliates shall, collectively or individually, seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, or from MetLife, Inc., or any of its parents or affiliates, with regard to any or all of the amounts payable pursuant to Section I of this Consent Order. However, in the event that MetLife should seek indemnification or reimbursement from AIG for the fine, or any portion thereof, paid pursuant to the MetLife Consent Order, AIG shall not be precluded from seeking reimbursement or indemnification from MetLife for the monetary penalty paid pursuant to this Consent Order.

VI. Voluntary Dismissal of Litigation

7. Within seven (7) days of the Effective Date of this Consent Order, AIG shall submit a Voluntary Notice of Dismissal With Prejudice in the action entitled American International Group, Inc. v. Benjamin M. Lawsky, in his official capacity as

Superintendent of the New York State Department of Financial Services, No. 14-cv-2355
(AJN), pending in the United States District Court for the Southern District of New York.

VII. Other Provisions

8. DFS will not initiate any proceeding against AIG, its subsidiaries and affiliates, current or former employees, officers or directors of AIG, and any party who entered into a contract concerning global employee benefits with AIG, in connection with the activities that are the subject of the Investigation.
9. If AIG defaults on its monetary obligations under this Consent Order, DFS may terminate this Consent Order, at its sole discretion, upon ten (10) days' written notice to AIG. In the event of such termination, AIG expressly agrees and acknowledges that this Consent Order shall in no way bar or otherwise preclude DFS from commencing, conducting or prosecuting any investigation, action or proceeding, however denominated, related to the Consent Order, against them, or any one of them, or from using in any way the statements, documents or other materials produced or provided by AIG prior to or after the date of this Consent Order, including, without limitation, such statements, documents or other materials, if any, provided for purposes of settlement negotiations, except as may otherwise be provided in a written agreement with DFS.
10. DFS has agreed to the terms of this Consent Order based on, among other things, the representations made to DFS by AIG and/or its counsel in connection with DFS's Investigation and the Findings of the Investigation. To the extent that representations made by AIG or its counsel are later found to be materially incomplete or inaccurate, this Consent Order is voidable by DFS in the Superintendent of Financial Service's sole discretion.

11. This settlement does not settle or resolve any matters not specifically described in this Consent Order.

12. AIG shall, upon request by DFS, provide all non-privileged documentation and information reasonably necessary for DFS to verify compliance with this Consent Order.

13. All notices, reports, requests, and other communications to any party pursuant to this Consent Order shall be in writing and shall be directed as follows:

If to DFS:

New York Department of Financial Services
One State Street
New York, New York 10004-1511
Attention: Christopher B. Mulvihill, Senior Counsel to the Superintendent

If to AIG:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attention: Robert F. Carangelo, Counsel for AIG

with a copy to:

Quinn Emanuel Urquhart & Sullivan, LLP
777 6th Street NW, 11th floor
Washington, D.C. 20001-3706
Attention: William A. Burck, Counsel for AIG

14. This Consent Order and any dispute thereunder shall be governed by the laws of the State of New York without regard to any conflicts of laws principles.

15. AIG waives its right to further notice and hearing in this matter only as to all of DFS's findings contained in this Consent Order and agrees that no provision of this Consent Order is subject to review in any court or tribunal.

16. This Consent Order may not be amended except by an instrument in writing signed on behalf of all the parties to this Consent Order.
17. In the event that one or more provisions contained in this Consent Order shall for any reason be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Consent Order.
18. This Consent Order may be executed in one or more counterparts, and shall become effective when such counterparts have been signed by AIG and approved by the Superintendent of Financial Services or his designee.
19. Upon execution by the parties to this Consent Order, DFS will discontinue the Investigation.
20. The Effective Date of this Consent Order is the date on which it shall be signed by each of the Respondents hereto and approved by the Superintendent of Financial Services.

WHEREFORE, the signatures evidencing assent to this Consent Order have been affixed hereto on the dates set forth below.

Dated: October 31, 2014

AMERICAN INTERNATIONAL GROUP, INC.

By: _____
Michael W. Leahy
Vice President, Deputy General Counsel &
Head of Litigation

THE FOREGOING IS HEREBY APPROVED.

IT IS SO ORDERED.

Dated: New York, NY
October 31, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services