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## U.S. Securities and Exchange Commission

### U.S. SECURITIES AND EXCHANGE COMMISSION

#### Litigation Release No. 20825 / December 11, 2008

#### Accounting and Auditing Enforcement Release No. 2910 / December 11, 2008

*SEC v. Zurich Financial Services, 08 Civ. 10760 (WHP)(S.D.N.Y.), December 11, 2008*

#### ZURICH PAYS \$25 MILLION CIVIL PENALTY TO SETTLE SECURITIES FRAUD CHARGES

The Securities and Exchange Commission today announced the filing and settlement of charges against Zurich Financial Services Group for aiding and abetting a fraud by Converium Holding AG involving the use of finite reinsurance transactions to inflate improperly Converium's financial performance. Under the settlement, Zurich consents to the entry of a final judgment directing it to pay a \$25 million penalty plus \$1 in disgorgement and, in a related administrative proceeding, consents to the entry of a cease-and-desist order against it.

The Commission's complaint, filed today, alleges that beginning in 1999, the management of Zurich's reinsurance group, which operated under the name Zurich Re, developed three reinsurance transactions for the purpose of obtaining the financial benefits of reinsurance accounting. However, in order for a company to obtain the benefits of reinsurance accounting, the reinsurance transaction must transfer risk. Here, Zurich Re management designed the transactions to make them appear to transfer risk to third-party reinsurers, when, in fact, no risk was transferred outside of Zurich-owned entities. For two of the transactions at issue, Zurich Re ceded risk to third-party reinsurers, but took it back through reinsurance agreements – known as retrocessions – with another Zurich entity. For the third transaction, Zurich Re ceded the risk to a third-party reinsurer but simultaneously entered into an undisclosed side agreement with the reinsurer pursuant to which Zurich Re agreed to hold the reinsurer harmless for any losses realized under the reinsurance contracts. Because the ultimate risk under the reinsurance contracts remained with Zurich-owned entities, these transactions should not have been accounted for as reinsurance.

The complaint also alleges that, in March 2001, Zurich announced its intent to spin off its reinsurance group in an initial public offering. Zurich then created and capitalized Converium, which assumed the rights and obligations of Zurich's assumed reinsurance business. On December 11, 2001, Zurich spun off Converium in an IPO. At the conclusion of the IPO, the members of Zurich Re management responsible for the three reinsurance transactions ceased to be affiliated with Zurich. As a result of

the improper accounting treatment the reinsurance transactions received, the historical financial statements in Converium's IPO documents, including the Form F-1 it filed with the Commission, were materially misleading. Among other things, Converium understated its reported loss before taxes by approximately \$100 million (67%) in 2000 and by approximately \$3 million (1%) in 2001. In addition, for certain periods, the transactions had the effect of artificially decreasing Converium's reported loss ratios for certain reporting segments – the ratio between losses paid by an insurer and premiums earned that is frequently cited by analysts as a key performance metric for insurance companies.

The complaint further alleges that Converium's misstatements relate to fact that were material to investors who purchased shares in the IPO. Through the IPO, which was the largest reinsurance IPO in history, Zurich raised significantly more than it would have raised had Zurich and Converium not improperly inflated Converium's financial performance.

The Commission's complaint alleges that Zurich aided and abetted Converium's violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

In connection with the settlement, Zurich has agreed, without admitting or denying the allegations in the Commission's complaint, to pay a \$25 million penalty, plus \$1 in disgorgement. In a related administrative proceeding, Zurich has also agreed, without admitting or denying the Commission's findings, to the issuance of an order that requires Zurich to cease and desist from committing or causing any violation and any future violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

► [SEC Complaint in this matter](#)

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*<http://www.sec.gov/litigation/litreleases/2008/lr20825.htm>*

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