

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

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In the Matter of

QBE FINANCIAL INSTITUTION RISK SERVICES, Inc.,
QBE INSURANCE CORPORATION, and QBE HOLDINGS, Inc.,

Respondents.

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CONSENT ORDER

On October 3, 2011, the New York State Department of Financial Services (“DFS”), commenced an investigation, pursuant to the New York Insurance Law and Financial Services Law (“FSL”), of QBE Holdings, Inc.’s (“QBE Holdings”) subsidiaries, QBE Financial Institution Risk Services, Inc. (“QBE FIRST”) and QBE Insurance Corporation (“QBE Insurance”), concerning force-placed insurance policies issued in New York State (the “Investigation”). This Consent Order contains the findings of the Investigation, allegations of DFS resulting from the Investigation, and the relief agreed to by DFS, QBE FIRST, QBE Insurance, and QBE Holdings.

FINDINGS

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

Relevant Entities

1. QBE Holdings, a Delaware corporation that is an insurance holding company, is the parent company of QBE FIRST and QBE Insurance (collectively, “QBE”). QBE provides force-placed homeowners’ insurance to mortgage servicers throughout the United States, including

New York. Industry participants also refer to force-placed insurance as “lender-placed insurance.” QBE Insurance writes force-placed insurance policies for hazard and flood coverage in New York State. QBE FIRST acts as the program manager for QBE’s force-placed insurance program and also provides outsourced services to mortgage servicers, including tracking insurance coverage, and administers the claims for QBE’s force-placed insurance program.

2. In December 2008, QBE Holdings acquired QBE FIRST, which was then known as ZC Sterling Corporation (“ZC Sterling”). Prior to the acquisition, ZC Sterling managed force-placed insurance programs for other insurers, primarily Zurich in North America underwriting companies, including Empire Fire and Marine Insurance Company (“Empire Fire and Marine”). QBE assumed Empire Fire and Marine’s market share after the acquisition. ZC Sterling changed its name to Sterling National Corporation after being purchased by QBE Holdings, and then changed its name to QBE FIRST in 2011.
3. In June 2011, QBE Holdings acquired from Bank of America Corporation (“BOA”) the force-placed insurance business of Balboa¹, substantially all of Balboa’s assets, and Newport, a BOA subsidiary that provided outsourced services to mortgage servicers, including insurance tracking services. Although BOA retained the BA Insurance Group, BIC and MIC legal entities, QBE manages all of Balboa’s force-placed business and Balboa entered a 100% quota share reinsurance agreement with QBE pursuant to which QBE receives Balboa’s premiums and assumes the risk of Balboa’s force-placed insurance. Balboa’s existing force-placed insurance policies are in run off and being transitioned to QBE

¹ Balboa is defined to refer to BOA’s subsidiaries BA Insurance Group, Inc. (“BA Insurance Group”), Balboa Insurance Company (“BIC”), Meritplan Insurance Company (“MIC”), Newport Insurance Corporation (“NIC”), and BOA’s former subsidiary Newport Management Corporation (“Newport”).

Insurance. QBE Holdings' acquisition of Balboa's business greatly expanded QBE's market share, and QBE is now the second largest force-placed insurer in New York.

Background on Force-Placed Insurance

4. Force-placed insurance is insurance taken out by a bank, lender or mortgage servicer when a borrower does not maintain the insurance required by the terms of the mortgage or applicable law. This can occur if the homeowner allows the homeowners' policy to lapse, or if the bank or mortgage servicer determines that the borrower does not have a sufficient amount of coverage. Homeowners have reported that when they are charged for force-placed insurance, the premiums are far in excess of the premiums those homeowners were charged for voluntary homeowners insurance. Yet force-placed insurance often provides far less protection for the homeowner, while protecting the lender's or investors' interest in the property.² The high cost of force-placed insurance, including QBE's force-placed policies, is due at least in part to relationships between mortgage servicers and their affiliates and payments by force-placed insurers and their affiliates, including QBE, to such servicers and their affiliates. While servicers choose the force-placed product for their mortgage loan portfolio, the high premiums are charged to homeowners, and in the event of foreclosure, costs are passed onto investors.
5. Force-placed insurance involves a number of different actors. To start, there are the homeowners whose voluntary homeowner's policies have either been cancelled, have lapsed, or have not been renewed, most often because a homeowner is facing financial hardship. In some instances, insurance is force placed in error or due to a dispute about required coverage. Lenders (banks) from whom homeowners obtained their mortgages employ mortgage

² In the case of QBE's New York policies, homeowners are not protected for contents of their homes or for third-party liability.

servicers as their agents, collecting and distributing payments from borrowers and handling defaults, modifications, settlements, and foreclosure proceedings. Servicers may or may not be subsidiaries of or otherwise affiliated with lenders, and may or may not also own portfolios of mortgage loans.

6. Some lenders and/or mortgage servicers have affiliated insurance agencies or brokers that receive commissions from force-placed insurers for services the agencies or brokers purportedly provide. To the extent those agencies or brokers provide any services, most of those services are not ones that insurance agencies or brokers typically provide.
7. Force-placed insurers perform insurance tracking and placement of force-placed policies. The mortgage servicer provides access to the necessary information for the force-placed insurer to monitor homeowners' insurance policies to ensure that there is adequate coverage in the case of damage or destruction. The force-placed insurers are also generally responsible for corresponding with homeowners to provide necessary information and update records.
8. The two dominant companies that currently perform these services and write force-placed policies in New York as well as nationwide are QBE and Assurant, which together comprise at least 90% of the force-placed insurance market. The force-placed insurers, in turn, cede some of their risk to reinsurers, some of which are also subsidiaries or affiliates of lenders or mortgage servicers. Reinsurance arrangements with lenders or servicers are pursuant to quota share agreements.

QBE's Rates and Loss Ratios

9. As discussed below, the actual losses for the force-placed hazard insurance programs QBE FIRST has managed have been extremely low for more than a decade, and have been

consistently below the expected loss ratios in the rate filings QBE Insurance and Empire Fire and Marine made with the New York Insurance Department.³ Despite those facts, neither QBE nor Empire Fire and Marine adjusted their rates downward to reflect their actual loss experience. In fact, when QBE Insurance made its initial rate filing in 2009, it selected Empire Fire and Marine's rates despite the decade of extremely low loss ratios.

10. In 1997, with ZC Sterling's guidance, Empire Fire and Marine submitted its initial rate filing for force-placed hazard insurance to the New York Insurance Department. ZC Sterling developed Empire Fire and Marine's force-placed program and was responsible for its day-to-day operations, including preparing form and rate filings, receiving premiums, administering claims, and tracking homeowners' insurance coverage to determine whether coverage had lapsed. The rates for the Empire Fire and Marine program were not based on any actuarial or statistical justification. Instead, ZC Sterling and Empire Fire and Marine adopted the rate that Assurant had on file with the Insurance Department -- \$1.20 per \$100 of coverage. The practice of adopting rates already on file for another insurer is known as a "me too" rate filing.

11. ZC Sterling, an affiliate of Zurich from 1997-2005, structured the Empire Fire and Marine program in such a fashion that Empire Fire and Marine would lose money if the actual loss ratio ever reached 55%, the expected loss ratio filed with the New York Insurance Department. From 2004 to 2006, ZC Sterling received a flat commission of 47.5% of net written premium. In 2007, ZC Sterling's commission was increased to 50% of net written premium. These flat commissions were in addition to the contingent "profit" commissions discussed in paragraph 15 below. This commission structure ensured that Empire Fire and

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

Marine would have lost money if the actual loss ratio was 55%. Given this structure, it appears that neither ZC Sterling nor Empire Fire and Marine expected the loss ratios to approach the 55% expected loss ratio filed with the Department.

12. In fact, Empire Fire and Marine's actual loss ratios were consistently far lower than 55%.

From 2006 through 2008 respectively, Empire Fire and Marine's loss ratios for force-placed hazard insurance in New York were 20.7%, 18.6%, and 29%. Despite years of low loss ratios, neither ZC Sterling nor Empire Fire and Marine revised the rates to reflect the actual loss experience.

13. In January 2009, with ZC Sterling's guidance, QBE Insurance submitted its initial forms and rates to the New York Insurance Department. QBE selected \$1.20 per \$100 of coverage as its rate and 55% as its expected loss ratio. QBE did not do any actuarial or statistical analysis to determine the appropriate rate. Instead, it adopted Empire Fire and Marine's rates and expected loss ratio in a "me too" filing. In a memorandum accompanying its filing, QBE stated, "Because this is a new program and QBE Insurance Corporation has no experience for this program, the rates and rules currently approved under the Empire Fire and Marine insurance program are being adopted with minimal changes." Although this statement technically may be true -- QBE *Insurance* was new to force-placed insurance -- ZC Sterling had been managing the day-to-day operations of Empire Fire and Marine's force-placed program, using the same rates adopted by QBE Insurance, for approximately twelve years, and shared the loss experience from the Empire Fire and Marine program with QBE Insurance.

14. Despite knowing that the loss ratios for Empire Fire and Marine's program were consistently far below 55%, QBE did not adjust its rates to reflect those low loss ratios. Not surprisingly,

QBE Insurance's loss ratios for force-placed hazard insurance have been substantially below the 55% expected loss ratio QBE filed with the Department. From 2009 to 2011 respectively, QBE Insurance's actual loss ratios for force-placed hazard insurance in New York were 18.2%, 18.5%, and 13.5%. Even in 2012, a year with a severe storm, QBE's loss ratio for force-placed hazard insurance was just 45.3%, substantially lower than the expected loss ratio in its rate filing.

QBE's Profit Commissions

15. Empire Fire and Marine and QBE Insurance have paid contingent "profit" commissions to QBE FIRST when loss ratios were kept below a certain figure, which has ranged from 34% to 45.6% -- both significantly below the expected loss ratios Empire Fire and Marine and QBE Insurance filed with the Insurance Department. This creates a troubling incentive for QBE FIRST to keep loss ratios as low as possible. As discussed above, Empire Fire and Marine's and QBE Insurance's loss ratios have consistently been below the figure that triggers the contingent commission.

Commissions to Insurance Producers Affiliated with Mortgage Servicers

16. In some cases, QBE has paid commissions to insurance agencies and brokers that are affiliates of mortgage servicers. Typically, the commissions are ten to twenty percent of the premium written on the servicer's mortgage loan portfolio, a percentage that is in line with standard property and casualty commissions. The evidence from the Investigation indicates that the affiliated agencies and brokers do little or no work for the commissions QBE has paid them. QBE has done much of the work associated with force-placed insurance, including tracking insurance coverage and communicating with homeowners. These arrangements could create an incentive for mortgage servicers to purchase higher priced

force-placed insurance and for mortgage servicers to place more homeowners into force-placed insurance, because their affiliates earn more commissions as premiums increase.

17. Commissions paid to affiliates of servicers is a form of reverse competition; when insurers compete for servicers' business by offering higher commissions to servicers' affiliates, there is no incentive to reduce force-placed insurance premium rates. Commissions are paid to affiliates of servicers because they are a cost of staying in the market, not for any particular work the affiliates perform. Commissions on force-placed insurance have been reduced in recent periods by some force-placed insurers.

Payments to Servicers and their Affiliates

18. QBE has also made lump sum payments to servicers' affiliates. In 2008, ZC Sterling paid nearly \$10 million to American Home Mortgage Servicing, Inc.'s ("AHMSI's") affiliated insurance agency for certain marketing services AHMSI agreed to provide, at the same time that ZC Sterling and AHMSI executed an agreement to force-place insurance on the AHMSI's mortgage portfolio. In addition to the lump sum payment, ZC Sterling agreed to pay commissions to AHMSI's affiliated insurance agency.
19. QBE has also paid mortgage servicers what it characterizes as the servicers' expenses related to force-placed insurance. These payments appear to be substitutes for commissions; the servicers to which QBE pays the expense reimbursement do not have affiliated insurance agencies or brokers.

Violations

20. DFS alleges that the foregoing acts and practices of QBE and Balboa violate Insurance Law §§ 2303, 2324 and 2403.

AGREEMENT

WHEREAS, QBE FIRST and QBE Insurance neither admit nor deny DFS's Findings and allegations set forth above;

WHEREAS, the terms of this Consent Order apply to QBE FIRST, QBE Insurance and any subsidiary or affiliate of QBE Holdings through which they are acting in New York or may hereafter act in New York with respect to the subject matter of this Consent Order (collectively, the "New York FPI Companies");

WHEREAS, QBE Holdings is a party to this Consent Order solely for the purpose of binding the New York FPI Companies;

WHEREAS, DFS is willing to accept the terms of this Consent Order pursuant to the Insurance Law and FSL, and to discontinue, as described in paragraph 47 below, its Investigation;

IT IS HEREBY UNDERSTOOD AND AGREED, by and between the parties, insofar as force-placed insurance is written on New York properties, that:

I. Loss Ratios, Rate Filings and Reporting

1. Within ten (10) days of the Effective Date of this Consent Order, QBE Insurance shall file with DFS force-placed hazard premium rates with a permissible loss ratio of sixty-two (62) percent, supported by the required data and actuarial analysis that is acceptable both professionally and to DFS, together with any new forms for its force-placed hazard insurance.
2. On April 1, 2016, and every three years thereafter, the New York FPI Companies shall re-file their force-placed hazard premium rates with DFS, supported by required data and actuarial analysis that is acceptable both professionally and to DFS, taking into account

the loss experience over the preceding period and an appropriate rating factor for catastrophe exposure and other factors.

3. Commencing in 2015 and continuing annually, the New York FPI Companies shall, within 30 days after filing their NAIC Annual Statements, re-file with DFS their force-placed hazard premium rates for any force-placed hazard insurance policy form that has had an Actual Loss Ratio⁴ of less than 40 percent for the immediately preceding calendar year.
4. The New York FPI Companies shall have separate rates for (a) force-placed hazard insurance and (b) hazard insurance obtained by a mortgage servicer on real estate owned property.
5. No later than April 1st of each year, the New York FPI Companies shall report to the superintendent, for each of their force-placed insurance policy forms for the preceding calendar year:
 - a. Actual Loss Ratio;
 - b. earned premium;
 - c. itemized expenses;
 - d. paid losses;
 - e. loss reserves;
 - f. case reserves; and
 - g. incurred but not reported losses.

⁴ For purposes of this Consent Order, “Actual Loss Ratio” shall mean the sum of paid losses, case reserves and incurred but not reported losses, expressed as a percentage of earned premium.

II. Prohibited Practices

6. The New York FPI Companies shall not issue force-placed insurance on mortgaged property serviced by a servicer affiliated with QBE Holdings.
7. The New York FPI Companies shall not pay commissions to a servicer or a person or entity affiliated with a servicer on force-placed insurance policies obtained by the servicer.
8. The New York FPI Companies shall not reinsure force-placed insurance policies with a person or entity affiliated with the servicer that obtained the policies.
9. The New York FPI Companies shall not pay contingent commissions based on underwriting profitability or loss ratios.
10. The New York FPI Companies shall not provide free or below-cost outsourced services to servicers, lenders, or their affiliates, provided, however, that outsourced services do not include expenses associated with tracking functions that the New York FPI Companies incur for their own benefit to identify and protect themselves from (a) exposure to lost premium and losses on properties on which no other insurance coverage is in effect, or (b) administrative costs associated with providing and subsequently canceling force-placed insurance on properties on which force-placed insurance is not required.
11. The New York FPI Companies shall not make any payments, including but not limited to the payment of expenses, to servicers, lenders, or their affiliates in connection with securing business.

12. The requirements and prohibitions of this section II shall take effect only if and when they apply to every New York licensed insurance company writing force-placed insurance on New York properties, whether by legislation, regulation, or agreement.
13. If any subsequently effective New York statute or regulation prescribes requirements inconsistent with the provisions set forth in this section II, the New York FPI Companies may request that DFS modify this Consent Order to conform to such statute or regulation, and DFS shall not unreasonably deny the requested modification.
14. Nothing in this Consent Order shall preclude any payments pursuant to the various agreements related to QBE Holdings' acquisition of the force-placed insurance business of Balboa, substantially all of BIC's and MIC's assets and liabilities, and the Newport legal entity. Notwithstanding the foregoing, it is understood and agreed that DFS has not approved the contract relating to the acquisition and no statement shall be made implying that DFS has approved, directly or by implication, the contractual arrangements between the parties.

III. Notices

15. To the extent that the New York FPI Companies mail or deliver notices relating to force-placed insurance to a borrower on behalf of a mortgage servicer, the New York FPI Companies shall use all commercially reasonable efforts to obtain their servicer clients' consent to provide:

- a. A clear and conspicuous⁵ disclosure in all notices provided to a borrower that a New York FPI Company or an affiliate is staffing the mortgage servicer's telephones, if that is the case; and
 - b. A clear and conspicuous disclosure, to be approved by DFS, on the front of envelopes that the mailing contains important homeowners' insurance information.
16. Any contract entered by the New York FPI Companies with mortgage servicers to provide force-placed insurance subsequent to the Effective Date of this Consent Order shall include requirements that the New York FPI Companies provide the disclosures set forth in 15.a., if applicable, and 15.b. above.

IV. Coverage Amount

17. The amount of coverage that the New York FPI Companies force place on any homeowner shall not exceed the last known amount of coverage, provided that if the last known amount of coverage did not comply with the mortgage, then the amount of coverage shall not exceed the replacement cost of improvements on the property.

V. Premium Refunds

18. Each Eligible Claimant (defined below) who submits a timely and complete Notice and Claim Form (in the form annexed hereto as Exhibit A) with the required supporting documentation to the Claims Administrator (defined below) shall be entitled to a premium refund in an amount calculated as set forth below.
19. For purposes of this Consent Order, "force-placed insurance issued by QBE" shall mean (a) force-placed insurance policies written by QBE Insurance and (b) force-placed insurance policies issued under a program managed by QBE FIRST or its predecessors,

⁵ For purposes of this Consent Order, the term "clear and conspicuous" means that the statement, representation or term being disclosed is of such size, color, and/or contrast and is so presented as to be readily noticed and understood by the person to whom it is disclosed.

including but not limited to the Empire Fire and Marine force-placed insurance program described above.

20. “Eligible Claimant” is hereinafter defined to mean the following:

a. Any New York consumer who demonstrates that:

(1) the placement of force-placed insurance issued by QBE with an effective date on or after January 1, 2008 caused, directly or indirectly, the consumer to (a) default on his or her mortgage payments, or (b) incur the foreclosure of that mortgage, including loss of possession and title to the property, and

(2) he or she either (a) paid some or all of the premium for force-placed insurance issued by QBE to the mortgagee or loan servicer, or (b) remains liable to pay some or all of the premium for force-placed insurance issued by QBE to the mortgagee or its assignee, as a part of a deficiency judgment following the foreclosure.

(3) For this category of claims:

(a) it shall be conclusively presumed that a force-placed insurance placement did not cause a default or foreclosure, if the force-placed placement occurred:

(i) six or more months before the claimant defaulted on his or her loan payments, or

(ii) after either (a) the date of the claimant’s first default on his or her loan payments, or (b) the Effective Date of the Consent Order, whichever comes first;

- (b) eligibility must be established by (a) a properly completed Notice and Claim Form and (b) available bank records and other bona fide documentation supporting the claim;
 - (c) claimants who satisfy the requirements for eligibility will receive a refund equal to the difference between the force-placed premium amount and the premium that would have been assessed for the period in question under the consumer's last known voluntary policy, had it remained in effect.
- b. Any New York homeowner who demonstrates that the premium that he or she paid for force-placed insurance issued by QBE with an effective date on or after January 1, 2008 exceeded the amount authorized by the mortgage instrument. For this category of claims:
 - (1) eligibility must be established by (a) a properly completed Notice and Claim Form, (b) a copy of the mortgage instrument, and (c) supporting documentation evidencing facts sufficient to demonstrate premium payments in excess of the amount authorized by the mortgage instrument;
 - (2) claimants who satisfy the requirements for eligibility will receive a premium refund amount equal to the difference between the premium for force-placed insurance issued by QBE that he or she paid and the amount authorized under the mortgage instrument.
- c. any New York homeowner who demonstrates that he or she has incurred actual out-of-pocket premium expenses as a result of the placement of force-placed insurance issued by QBE on New York properties after January 1, 2008, if either (i) acceptable continuous voluntary coverage was in effect and, despite the presentation of written

confirmation thereof, the applicable force-placed insurer charged and did not subsequently credit back or refund force-placed insurance premiums, or (ii) the applicable force-placed insurer charged commercial force-placed insurance rates on a one-to-four family residence that should have been rated using residential force-placed insurance rates.

- (1) For this category of claims, eligibility must be established by (a) a properly completed Notice and Claim Form and (b) supporting documentation evidencing facts sufficient to satisfy the criteria in subsections V.19.c.(i) or c.(ii), above, and (c) either (1) a certificate of coverage or policy declaration page evidencing the voluntary insurance coverage that was in effect, or (2) real property records showing the single-family residence status of the property, as the case may be, provided, however, that, (A) within 10 business days of receipt, the Claims Administrator shall forward a copy of any such Notice and Claim Form by post-paid U.S. mail to the address specified in the Consent Order for notices to QBE FIRST, and (B) no payment shall be made to the claimant if, within 10 business days after receipt of such Notice and Claim Form, QBE provides to the Claims Administrator documentary evidence that (i) after receipt of confirmation of acceptable continuous coverage, the applicable force-placed insurer cancelled the force-placed insurance and refunded or credited back any force-placed insurance premiums charged for the period when other acceptable coverage was in effect, or (ii) the property was, in fact, a commercial property, as the case may be.
- (2) Claimants who satisfy the requirements for eligibility under this category will receive a premium refund in the amount of either (1) the force-placed insurance

premium actually paid by the claimant and not subsequently refunded for periods when other acceptable coverage was in effect, or (2) the difference between the commercial force-placed insurance premiums actually paid by the claimant and the premium that should have been charged for residential force-placed insurance issued by QBE.

- d. Eligible Claimants shall not include persons whose force-placed insurance policies were cancelled and the full force-placed insurance premium was refunded or credited back to them.

21. As soon as practicable, but no later than thirty (30) days from the Effective Date of the Consent Order, DFS shall select and retain an independent third party administrator to mail Notice and Claim Forms and review Notice Claim Forms submitted pursuant to this Consent Order (the "Claims Administrator"). QBE shall be fully and solely responsible for all proper fees, expenses and disbursements of the Claims Administrator in connection with the claims process prescribed in this Consent Order. Except as provided in paragraph 26, the Claims Administrator shall make the final determination concerning each claim's timeliness, completeness, adequacy of supporting documentation and eligibility for refund in accordance with the procedures, requirements and standards set forth in this Consent Order.

22. Within ten (10) days after the appointment and retention of the Claims Administrator, the Claims Administrator shall mail to all residents of New York who were placed into force-placed insurance issued by QBE at any time commencing January 1, 2008 through and including the Effective Date of this Consent Order ("Eligible Notice Consumers") -- not including any residents whose force-placed policies were cancelled as of the

inception date and as to whom any premium charged was fully refunded or credited back -- a Notice and Claim Form in the form annexed hereto as Exhibit A, in an envelope whose return address shall be “New York State Department of Financial Services / QBE Settlement Restitution Program, P.O. Box _____, [City], [State] _____” (the “Mail Notice”). The Claims Administrator shall identify the Claims Administrator’s return address, including any P.O. Box, on the envelopes containing the Mail Notice. After the Claims Administrator has posted the Mail Notices with the United Postal Service, for any Mail Notices returned as undeliverable, the Claims Administrator shall use the National Change of Address database (the “NCOA”) and attempt to obtain current mailing addresses for such returned Mail Notices. Should the NCOA show a more current address, the Claims Administrator shall re-post the returned Mail Notice to such more current address, and the applicable time frames for Eligible Notice Consumers to submit a claim and for the Claims Administrator to determine the validity of the claims shall be extended accordingly. Mail Notices returned as undeliverable shall be re-posted 30, 60, or 90 days after the date of the initial mailing, depending on the date the returned Mail Notices are received by the Claims Administrator. After doing so, no further action shall be required by the Claims Administrator to complete the mailing process.

23. No later than the date that the Claims Administrator posts the Mail Notices, the Claims Administrator shall launch a website on which will be posted for public access the Consent Order, a set of agreed-upon Frequently Asked Questions (“FAQs”) and answers concerning the refund opportunity and the claims process and a claim form. These materials shall be printable and downloadable. The identifying Uniform Resource Locator will be NY-QBEFPIrefund.com, as the case may be. The website will remain

open and accessible through the date that all claims are paid. The information on the website will include instructions for submitting claims, either by fax (if original documentation is required, with such documents to be mailed to the Claims Administrator at a specified address) or by mail, at the election of the consumer.

24. No later than the date that the Claims Administrator posts the Mail Notices, the Claims Administrator shall establish one toll-free interactive voice response telephone number for consumers placed into force-placed insurance issued by QBE (the “IVR telephone line”) with recorded information about the settlement and the claims process, using abbreviated language from the FAQs and responses referred to in the section above. The IVR telephone lines shall be posted on the website and remain open through the date that all claims are paid.
25. Blank Notice and Claim Forms may also be posted on DFS’s website and on the NY-QBEFPIRefund.com site.
26. Notice and Claim Forms completed by Eligible Notice Consumers must be postmarked within ninety (90) days of the date of the postmarked date of mailing by the Claims Administrator (the “Claims Deadline”) and further be received by the Claims Administrator within an additional ten (10) days thereafter to be eligible for a premium refund pursuant to this Consent Order, except that any Claim Form rejected solely for untimeliness and received by the Claims Administrator after the Eligible Notice Consumer’s deadline above shall be submitted by the Claims Administrator to DFS and if DFS determines that good cause exists for accepting the untimely Claim Form in its sole discretion DFS shall direct QBE to make the appropriate premium refund to said consumers.

27. QBE shall provide to the Claims Administrator access to all relevant information including, but not limited to, consumer records within ten (10) business days of receiving a request for information from the Claims Administrator.
28. Within forty-five (45) days of the Claims Deadline, the Claims Administrator shall:
 - a. Determine the validity of each Notice and Claim Form it has received; and
 - b. Submit to DFS and QBE a detailed summary of claims received, its determination for each claim, and the amounts it has determined to be payable for each such claim.
29. Within sixty (60) days of the Claims Deadline, QBE shall wire-transfer to the Claims Administrator the total amount of the claims to be paid to Eligible Claimants.
30. Within seventy (70) days of the Claims Deadline, the Claims Administrator shall deposit in the facilities of the U.S. Post Office, for delivery by prepaid first-class mail to each claimant a written notice stating (a) whether the claim has been accepted or denied; (b) if accepted, the amount of the proposed premium refund; and (c) if denied, the reasons for the denial; and (d) for each accepted claim, a check in the required amount, payable to the Eligible Claimant. Such payment shall be accompanied by a letter from DFS, the language of which shall not be inconsistent with the language contained in the Notice and Claim Form.
31. Within thirty (30) days of making the applicable premium refund payments under this Consent Order, the Claims Administrator shall provide a list to DFS showing (a) the total amount of refunded premium provided to consumers through the restitution process, (b) the number of consumers provided with refunded premium through the restitution process, and (c) the number of restitution claim forms that were rejected.

VI. Penalty and Remedial Procedures as to QBE

32. No later than April 26, 2013, QBE shall pay a civil penalty of FOUR MILLION (\$4,000,000) to the New York State Department of Financial Services to address all underlying conduct relating to force-placed insurance issued by QBE in New York State. The payment shall be in the form of a wire transfer in accordance with DFS instructions or a certified or bank check made out to “State of New York Department of Financial Services” and mailed to: New York State Department of Financial Services, One State Street, New York, New York, 10004-1511, Att: Joy Feigenbaum, Executive Deputy Superintendent, Financial Frauds & Consumer Protection Division.
33. Neither QBE Holdings, QBE Insurance, QBE FIRST nor any of their subsidiaries 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, with regard to any or all of the amounts payable pursuant to this Consent Order.

VII. Other Relief

34. QBE Holdings, QBE Insurance, and QBE FIRST admit to the authority of DFS to effectuate this Consent Order. QBE Insurance and QBE FIRST will cease and desist from engaging in any acts in violation of the Insurance Law and FSL and will comply with the Insurance Law and FSL.

VIII. Breach of the Consent Order

35. In the event that the Department believes QBE Holdings, QBE Insurance, or QBE FIRST to be materially in breach of the Consent Order (“Breach”), DFS will provide written notice to QBE Holdings, QBE Insurance, and QBE FIRST of the Breach and QBE

Holdings, QBE Insurance, or QBE FIRST (as the case may be) 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 shall have an opportunity to rebut the evidence, if any, of DFS that a Breach has occurred and, to the extent pertinent, to demonstrate that any such Breach is not material or has been cured.

36. The Parties understand and agree that QBE Holdings's, QBE Insurance's, or QBE FIRST's failure to appear before DFS to make the required demonstration within the specified period as set forth in paragraph 35 is presumptive evidence of QBE Holdings's, QBE Insurance's, or QBE FIRST's. Upon a finding of Breach, DFS has all the remedies available to it under the New York Insurance Law and FSL and may use any and all evidence available to DFS for all ensuing hearings, notices, orders and other remedies that may be available under the New York Insurance Law and FSL.

IX. Other Provisions

37. If QBE defaults on its monetary obligations under this Consent Order, DFS may terminate this Consent Order, at its sole discretion, upon 10 days' written notice to QBE. In the event of such termination, QBE 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 from using in any way statements, documents or other materials produced or provided by QBE 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.

38. DFS has agreed to the terms of this Consent Order based on, among other things, the representations made to DFS by QBE Holdings, QBE Insurance, QBE FIRST or their counsel and DFS's own factual Investigation. To the extent that representations made by QBE Holdings, QBE Insurance, QBE FIRST or their counsel are later found to be materially incomplete or inaccurate, this Consent Order is voidable by the DFS in its sole discretion.
39. QBE Holdings, QBE Insurance, or QBE FIRST shall, upon request by DFS, provide all documentation and information reasonably necessary for the DFS to verify compliance with this Consent Order.
40. All notices, reports, requests, and other communication to any party pursuant to this Consent Order shall be in writing and shall be directed as follows:

If to DFS:

New York State Department of Financial Services
One State Street
New York, New York 10004-1511
Attention: Joy Feigenbaum, Executive Deputy Superintendent

If to QBE Holdings:

Peter Maloney, Esq.
Chief Legal Officer, QBE North America
88 Pine Street
New York, NY 10005

with a copy to:

Andrew L. Sandler, Esq.
Robyn C. Quattrone, Esq.
BuckleySandler LLP
1250 24th Street NW, Suite 700
Washington, DC 20037

If to QBE Insurance:

Peter Maloney, Esq.
Chief Legal Officer, QBE North America
88 Pine Street
New York, NY 10005

with a copy to:

Andrew L. Sandler, Esq.
Robyn C. Quattrone, Esq.
BuckleySandler LLP
1250 24th Street NW, Suite 700
Washington, DC 20037

If to QBE FIRST:

James Novak, Esq.
General Counsel
210 Interstate North Parkway
Atlanta, GA 30339

with a copy to:

Andrew L. Sandler, Esq.
Robyn C. Quattrone, Esq.
BuckleySandler LLP
1250 24th Street NW, Suite 700
Washington, DC 20037

41. 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.
42. QBE Insurance and QBE FIRST waive their right to further notice and hearing in this matter as to any allegations of past violations up to and including the Effective Date of this Consent Order and agree that no provision of the Consent Order is subject to review in any court or tribunal outside the Department.
43. This Consent Order may not be amended except by an instrument in writing signed on behalf of all the parties to this Consent Order.

44. This Consent Order constitutes the entire agreement between DFS, QBE Holdings, QBE Insurance, and QBE FIRST and supersedes any prior communication, understanding or agreement, whether written or oral, concerning the subject matter of this Consent Order. No representation, inducement, promise, understanding, condition, or warranty not set forth in this Consent Order has been relied upon by any party to this Consent Order.
45. 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 provisions of this Consent Order.
46. This Consent Order may be executed in one or more counterparts, and shall become effective when such counterparts have been signed by each of the parties hereto and So Ordered by the Superintendent of Financial Services or his designee.
47. Upon execution by the parties to this Consent Order, the DFS will discontinue the Investigation as and against QBE Insurance and QBE FIRST solely with respect to force-placed insurance policies issued in New York State by QBE. No further action will be taken by DFS against QBE Insurance or QBE FIRST for the conduct set forth in the Consent Order provided that QBE Insurance and QBE FIRST comply with the terms of the Consent Order.
48. The Effective Date of this Consent Order is the date on which it is fully executed by the parties to the Consent Order.
49. This Consent Order includes Findings of and allegations made by DFS. These Findings and allegations have not been subject to an adjudicatory hearing or judicial process in which QBE Insurance and QBE FIRST have had an opportunity to present evidence and examine witnesses.

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

Dated: April __, 2013

DEPARTMENT OF FINANCIAL SERVICES

By: _____
Joy Feigenbaum
Executive Deputy Superintendent
Financial Frauds & Consumer Protection Division

April __, 2013

QBE HOLDINGS, INC.

By: _____
Peter T. Maloney, Chief Legal Officer

April __, 2013

QBE INSURANCE CORPORATION

By: _____
Peter T. Maloney, Chief Legal Officer

April __, 2013

QBE FINANCIAL INSTITUTIONS RISK SERVICES, INC.

By: _____
James P. Novak, General Counsel

April __, 2013

THE FOREGOING CONSENT ORDER IS HEREBY APPROVED.

Dated: New York, NY
April __, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

EXHIBIT A

[ON CLAIM ADMINISTRATOR'S LETTERHEAD]

Notice and Claim Form

Re: NYS Department of Financial Services/QBE/
Balboa Force-Placed Insurance Program

Dear :

We are writing to you pursuant to a settlement between the New York State Department of Financial Services and QBE Financial Institution Risk Services, Inc. ("QBE FIRST") and QBE Insurance Corporation ("QBE Insurance") concerning force-placed insurance policies issued in New York State by QBE. You are receiving this Notice and Claim Form because you were charged for force-placed insurance by QBE.

Force-placed insurance is insurance taken out by your bank, lender or mortgage servicer when you do not maintain the insurance required by the terms of your mortgage. This can occur if you allow your homeowners' insurance policy to lapse or if your bank or mortgage servicer determines that you do not have a sufficient amount of coverage. On some occasions, homeowners have been force-placed erroneously. In many instances, the premiums for the force-placed coverage are far in excess of the premiums you were charged for your voluntary homeowners' insurance. Force-placed insurance is also sometimes referred to as lender-placed insurance.

Under the terms of the settlement, you may be entitled to a refund for some of the charges you incurred in connection with your force-placed insurance. Please complete the below questionnaire and provide copies of supporting documents, where applicable, if you believe you may qualify for a refund. **DO NOT SEND ORIGINAL DOCUMENTS.**

To qualify for a refund, you must have been force-placed by QBE on or after January 1, 2008 and meet the eligibility criteria for one of the following three categories of claimants:

- 1. You defaulted on your mortgage or were foreclosed upon because of the forced placement.**
- 2. You were charged for force-placed insurance at an amount higher than the amount permitted by your mortgage.**
- 3. You had voluntary homeowner's coverage in effect or were charged commercial force-placed insurance rates on a one-to-four family residence.**

Please note that you are not eligible if the force-placed insurance policies for which you were charged were cancelled and if the **full** charge for the force-placed insurance premium was refunded or credited back to you or your escrow account with your lender.

For additional information regarding force-placed insurance and the settlement, please visit NY-QBEFPIrefund.com.

Eligibility 1

1. Did the placement of force-placed insurance issued by QBE on or after January 1, 2008 cause you to default on (i.e., miss) your mortgage payments or cause the foreclosure of your mortgage, including losing possession and title to your home?

Yes No

2. Did you pay some or all of QBE's force-placed insurance premium?

Yes No

3. If your home was foreclosed on, do you remain liable to pay some or all of the force-placed insurance premium to your lender as part of a deficiency judgment?

Yes No Not Applicable

4. When did you stop making your loan payments?

5. When did the force-placement by QBE first occur?

6. Did the force-placement occur after the date of your first default on your loan payments?

Yes No

7. Did the force-placement occur after the **[effective date of the Consent Order]**

Yes No

8. Do you have available bank records and other documentation supporting the above? If yes, please include copies of the supporting documents. Do not send originals.

Yes No

If you satisfy the requirements for eligibility in this category, you will receive a refund equal to the difference between the force-placed premium amount and the premium that would have been assessed for the period in question under your last known voluntary policy had it remained in effect.

Eligibility 2

1. Did you pay premiums to QBE for force-placed insurance on or after January 1, 2008 for a coverage limit that exceeded the amount permitted by your mortgage?

Yes No

2. Do you have a copy of the mortgage instrument and supporting documentation demonstrating you made premium payments in excess of the amount permitted by your mortgage? If yes, please include copies of all supporting documents. Do not send originals.

Yes No

If you satisfy the requirements for eligibility in this category, you will receive a refund in the amount equal to the difference between QBE's force-placed premium that you paid and the amount authorized under your mortgage.

Eligibility 3

1. Did you pay out-of-pocket premiums as a result of force-placed insurance issued by QBE after January 1, 2008?

Yes No

2. Did you have acceptable continuous voluntary homeowners' coverage in effect at the time you were charged for force-placed insurance premiums by QBE?

Yes No

3. Did you receive from QBE a full refund or credit for the force-placed insurance premiums you paid?

Yes No

4. Did you provide QBE written confirmation that you have voluntary homeowners' insurance in effect? Yes No

If yes, did QBE nevertheless charge you for force-placed insurance?

Yes No

5. Did QBE charge commercial force-placed insurance rates on a one-to-four family residence owned by you?

Yes No

6. Do you have supporting documentation evidencing facts sufficient to satisfy the above?

Yes No

If yes, please enclose copies of all supporting documents. Do not send originals.

7. Do you have a certificate of coverage or policy declaration page evidencing the voluntary insurance coverage that was in effect?

Yes No

If yes, please enclose a copy of the certificate of coverage or policy declaration page. Do not send originals

8. Do you have any real property records showing a single-family residence status of the property?

Yes No

If yes, please enclosed a copy of the relevant real property records. Do not send originals.

If you satisfy the requirements for eligibility under this category you will receive a payment in the amount of either (1) the force-placed insurance premium actually paid by you and not subsequently refunded for periods when other acceptable coverage was in effect, or (2) the difference between the commercial force-placed insurance premiums actually paid by you and the QBE residential force-placed insurance premiums that should have been charged, as the case may be.

I state that the information provided above is true and accurate to the best of my knowledge.

Name

Signature

Address

Date

THIS NOTICE AND CLAIM FORM AND ALL SUPPORTING DOCUMENTS SHOULD BE MAILED TO '[THIRD PARTY ADMINISTRATOR] AT [ADDRESS] AND SHOULD BE POSTMARKED NO LATER THAN _____, 2013 FOR YOUR REFUND CLAIM TO BE CONSIDERED.

If you have a copy of your prior voluntary homeowner's insurance policy or declaration page, please provide a copy with your submission.