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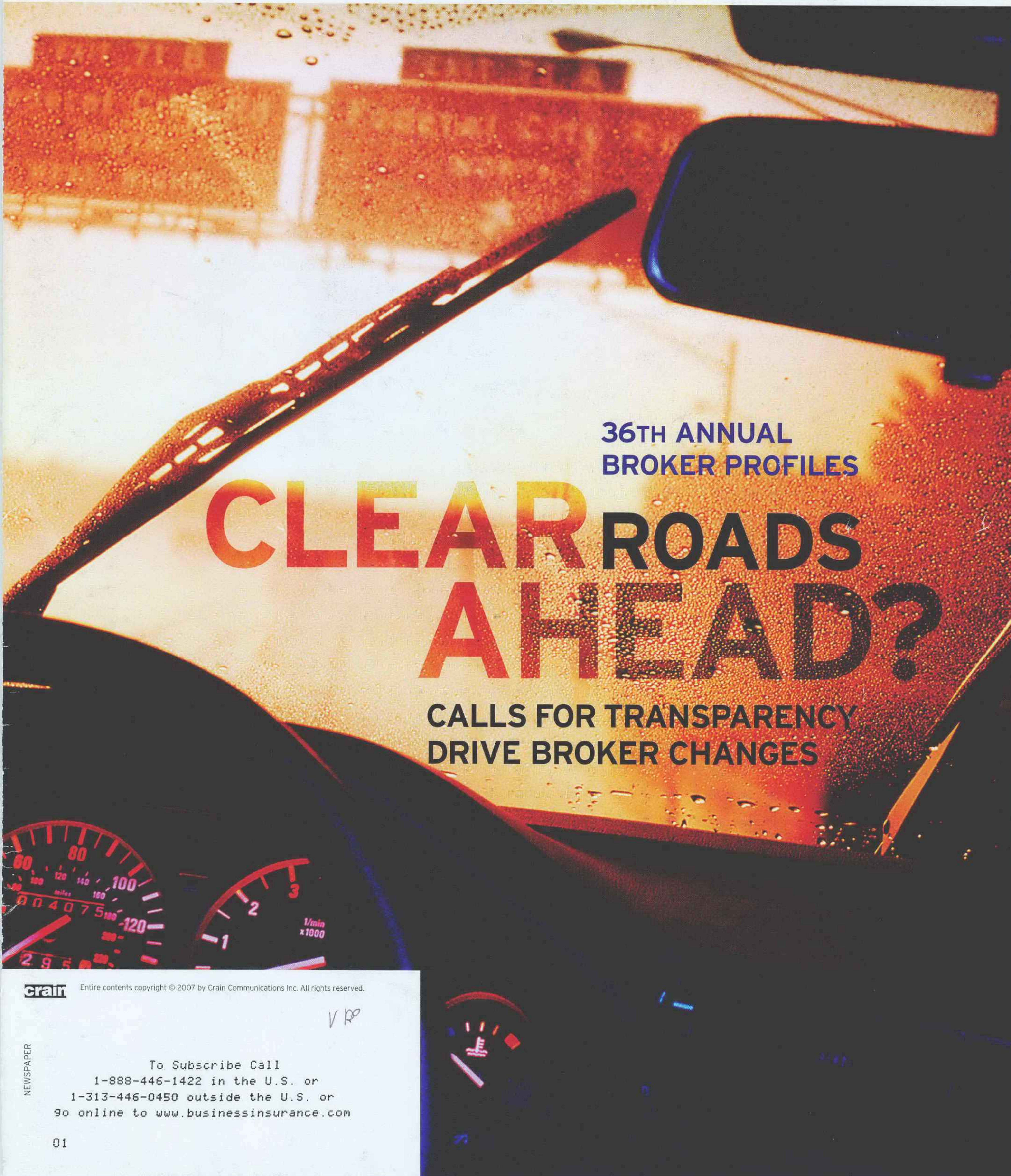

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SUMMER HEAT FUELS SAFETY CONCERNS FOR WORKERS / PAGE 4

PROBLEMS WITH ADHESIVE CAUSED TUNNEL COLLAPSE, INVESTIGATORS FIND / PAGE 3

Incentive-based plan raises questions

Wellness program gives big deductible cuts to the healthy

By JOANNE WOJCIK

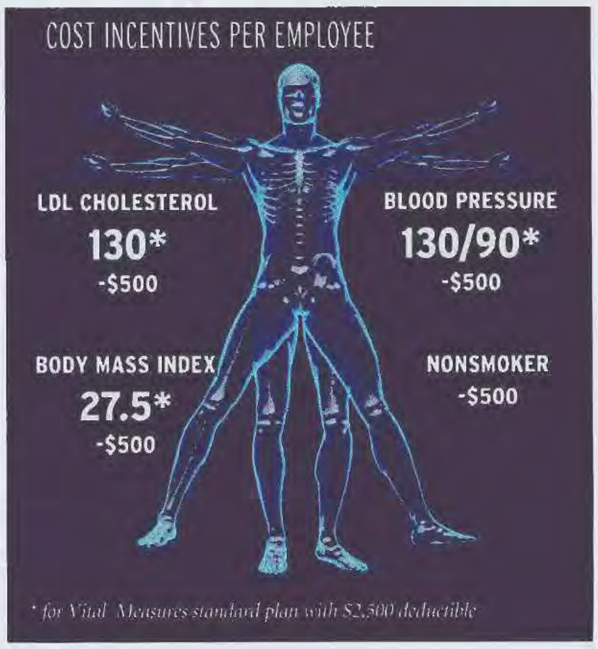
A wellness program launched this month by Minnetonka, Minn.-based UnitedHealth Group Inc. has the benefits community in a quandary.

Many benefits experts agree with the objectives of the Vital Measures program, which combines a UnitedHealth-administered high-deductible plan with a supplemental plan administered by Fort Wayne, Ind.-based Beni-Comp Group that permits employees to "buy down" their deductibles if they meet specified standards for tobacco nonuse, body mass index, blood pressure and cholesterol. However, some experts question whether it complies with nondiscrimination rules governing wellness programs offered in conjunction with group health care coverage.

The rules, which were designed to ensure compliance with the Health Insurance Portability and Accountability Act that applies to insured and self-insured group health plans, limit total rewards for wellness programs to 20% of employee-only or 20% of family coverage—if all covered individuals are allowed to participate in the wellness program.

But incentives in one of UnitedHealth's Vital Measures plans provide credits totaling $2,000—$500 for each of the four biomarkers—to offset a $2,500 individual deductible, or $4,000 to buy down a $5,000 family deductible. Given that the national average health benefit cost is about $4,242 for individuals and $11,480 for families, according to a 2006 Kaiser Family Foundation survey, UnitedHealth's maximum credits far exceed the 20% threshold, points out Joe Lazzarotti, a

See **INCENTIVES** page 54



* for Vital Measures standard plan with $2,500 deductible

In Brief

Six-month cat losses total $3.43 billion: PCS

Catastrophes caused an estimated $3.43 billion in insured property damage in the United States during that first half of the year, according to the Insurance Services Office Inc.'s Property Claim Services unit. That includes $2.18 billion in estimated losses during the year's second quarter, PCS said. Six catastrophes—defined as events that cause at least $25 million in insured property losses and that affect a significant number of policyholders and insurers—occurred during the second quarter, PCS noted.

Ex-Brightpoint exec fined over finite deal

A New York federal court ordered Brightpoint Inc.'s former director of risk management, Timothy Harcharik, to pay $50,000 in fines for his role in a fraudulent finite risk deal struck in 1998 between Brightpoint and American International Group Inc., the Securities and Exchange Commission said. The final judgment entered against Mr. Harcharik follows a four-day trial in May that found him liable of aiding and abetting fraud in the Brightpoint-AIG deal. The jury did not find Mr. Harcharik liable for two of five total charges brought against him by the SEC. The civil case was the first finite risk-related securities case to go to trial. AIG in 2003 paid $10 million to settle charges by the SEC over the 1998 finite transaction with Brightpoint, which the SEC charged did not involve any actual risk transfer.

Retiree class action against Caterpillar OK'd

A judge for the U.S. District Court

See **IN BRIEF** page 55

INDEX

THE GLOBAL PORTFOLIO

Stone Point Capital, which manages the Trident Funds, has made numerous investments in the insurance sector, including its recent investment in Edgewood Partners Insurance Center. Among its other investments are:

Location	Based in
ARC Excess & Surplus L.L.C.	Garden City, N.Y.
AXIS Capital Holdings Ltd.	Bermuda
CompWest Insurance Co.	San Francisco
Harbor Point Ltd.	in Bermuda
James River Group Inc.	Richmond, Va.
Lockton International Holdings Ltd.	London
Mercator Risk Services Inc.	New York
Paris Re Holdings Ltd.	Bermuda

Ex-ABD, BISYS execs to head new venture

Edgewood Partners backed by private equity

By SALLY ROBERTS

SAN MATEO, Calif.—A new upper middle-market brokerage will hit the streets of California this week with two veteran insurance executives at the wheel.

Dan F. Francis, former president and chief executive officer of ABD Insurance & Financial Services Inc., and John G. Hahn, former president of BISYS Commercial Insurance Services Inc., will formally launch Edgewood Partners Insurance Center on completion of Edgewood's first acquisition, which is expected to close early this week.

In June, Greenwich, Conn.-based private equity firm Stone Point Capital, together with Messrs. Francis and Hahn, committed up to $100 million to build Edgewood. Late last

See **BROKERS** page 52

Retiree health VEBAs may be start of trend

Deal by Dana Corp. may spur future care financing deals

By JERRY GEISEL

TOLEDO, Ohio—A financially troubled automotive components manufacturer's agreement to contribute nearly $800 million to special tax-exempt trusts to pay for retiree health care and other benefits could be a model for much bigger retiree health care financing and liability transfer deals.

Under the agreement reached last week between Toledo, Ohio-based Dana Corp. and the United Steelworkers and the United Auto Workers unions, Dana will contribute about $700 million to two voluntary employee beneficiary associations that will be set up by the unions and provide health care benefits to current and future retirees represented by the unions.

Dana, which will contribute the $700 million after it emerges from bankruptcy reorganization, also will contribute about $80 million in common stock of the reorganized company.

Much of the money will come from the purchase of Dana convertible preferred stock by Centerbridge Capital Partners L.P., a private equity investor.

After Dana—which lost $739 million last year on revenues of $8.5 billion—makes its contributions to the VEBAs, its responsibility to provide retiree health care benefits to current and future USW- and UAW-represented retirees will end. Union-appointed trustees will administer the VEBAs.

At the same time, retiree health care benefits no longer will be a subject of collective bargaining between Dana and the unions.

Through the arrangement and other parts of the settlement, which still must be approved by a bankruptcy court and ratified by USW and UAW members, Dana estimates it will save more than $100 million a year, while eliminating $1.1 billion in projected liability for retiree health care and other benefits from its financial statements.

The agreement mirrors one Goodyear Tire & Rubber Co. reached late last year with the USW, under which the Akron, Ohio-based tire manufacturer is contributing $1

See **VEBA** page 54

Response: Fee disclosure

CONTINUED FROM PAGE 16

from a client, it does not accept any fees from the insurer.

The same policy applies to supplemental commissions, Mr. Reece said referring to the compensation plan introduced by some insurers earlier this year to replace contingent commissions.

If any part of the fee is paid by the client, the broker will ask the insurer to exclude the entire account from its commission calculations and will not accept a commission for it. "So it's fairly easy to determine and very easy to monitor that," Mr. Reece said.

Although some brokerages ascribe to RIMS' proposed business model, a majority of intermediaries continue to accept contingent commissions across the board, relying instead on disclosure. "I think a lot of (agents and brokers) are taking the approach that they are going to be transparent and they will continue to receive contingent commissions unless there is an insured that says it doesn't want them to and then they will address that issue specifically for that insured," said Bobby Reagan, president of Reagan Consulting Inc. in Atlanta.

Gloria Gonzalez contributed to this report.

Public or private, risk managers say broker service quality matters most

Even so, some worry private entities may not be as transparent

By JUDY GREENWALD

Risk managers are not losing any sleep over the prospect of their publicly held insurance brokerages going private.

They say so long as their brokers continue to deliver quality service, it makes little if any difference to them as to whether the firms are owned by shareholders or private equity firms.

These risk managers—some of whose own companies also have gone private—point to Willis Group Holdings Ltd. as a reassuring example. They say there was no noticeable impact on the quality of Willis' operations between 1998, when Kohlberg Kravis Roberts & Co. took the brokerage private, and its 2001 initial public offering.

The one possible concern is that a privately held broker, which has fewer reporting requirements, may be less forthcoming in providing information about its operations, say some risk managers. The fact that privately held companies are not subject to the Sarbanes-Oxley Act's governance requirements may be an issue as well.

Private equity funds have been particularly active in the insurance brokerage business of late. Recent deals include the $1.4 billion buyout of Briarcliff, Manor, N.Y.-based USI Holdings Corp. and the $1.9 billion buyout of Chicago-based Hub International Ltd., both of which were publicly held, and the $1.1 billion buyout of Newport Beach, Calif.-based Alliant Insurance Services Inc. from another private equity fund.

Meanwhile, rumors continue to circulate of hedge funds' interest in other brokerages.

Nevertheless, most risk managers say they are not worried.

"I don't know that it makes any difference," said James D. Hinton, vp-risk and insurance at Nashville, Tenn.-based HCA Inc. "I mean, private equity's taken over lots of companies," including HCA, which went private in November 2006.

Thom Hansen, director of risk management at Little Rock, Ark.-based Alltel Corp. Inc., which also is being taken private, said he does not believe a brokerage's ownership affects the quality of service it provides its clients.

Some clients may be dropped because their inclusion does not create a good client mix, but "that's an everyday business decision that any company would make, not just a brokerage company," said Mr. Hansen.

"Clearly, there are a lot of financial controls and reporting controls for publicly held companies," said Carolyn Snow, director, insurance and risk management at Louisville, Ky.-based Humana Inc. "On the other hand, there are a lot of privately held, regional brokers that have excellent reputations for management and service."

"I believe the real issue for us, as risk managers, is...around quality of service, quality of the personnel, in particular the support staff, and transparency in all the transactions," she said. "Publicly held or privately held, to me, just doesn't have that great a significance."

"In the overall scheme of things, history has proven...that both private and publicly held companies can be very successful," said Lance Ewing, vp-risk management in Memphis, Tenn., for Harrah's Entertainment Inc.

"It all comes down to the individuals and the people that are being represented to the risk management professionals," said Mr. Ewing. "I'm more concerned about the quality of service we're receiving" and if the brokerage servicing the account has the necessary resources, knowledge

See PRIVATE page 20

On the Web

BROKER RESOURCES

Business Insurance TOP 10 BROKERS 2007 www.businessinsurance.com

Video interviews, more on largest brokers

Video interviews with top executives at the world's leading brokers, profiles on the 10 largest companies and more are available online. Hear CEOs discuss their firms' strengths and how they deliver value to clients. To see the videos, visit *www.BusinessInsurance.com/brokers2007*.

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Ex-Marsh president sues broker over severance

Executive says broker used Spitzer probe as excuse to terminate

By SALLY ROBERTS

LANDOV

Roger Egan former president and COO of Marsh Inc. left the brokerage in 2004.

NEW YORK—Roger Egan, former president and chief operating officer of Marsh Inc. and now head of Integro Ltd., is suing his old company, charging that Marsh & McLennan Cos. Inc. owes him a severance package in connection with his 2004 departure from the brokerage amid an investigation of its practices.

In a suit filed last week in New York State Supreme Court, Mr. Egan, who is chief executive officer of New York-based Integro, says MMC used the 2004 bid-rigging investigation as an excuse to terminate him and thereafter refused to make various dividends, stock awards and pension payments that Mr. Egan was entitled to upon his termination.

In October 2004, Eliot Spitzer, then-New York Attorney General, sued Marsh, charging that it rigged bids and steered business to favored insurers to the detriment of clients. MMC paid $850 million in 2005 to settle the suit.

In November 2004, Mr. Egan was asked to step down from his position at Marsh due to his accountability as a senior officer of the business units Mr. Spitzer was investigating, not based on "any suggestion of culpability," according to an MMC statement the company issued at the time. Mr. Egan, who had worked for the broker for 32 years, would be helping with transition, MMC said in its statement.

According to the complaint, in a private meeting shortly after that, MMC President and Chief Executive Officer Michael Cherkasky told Mr. Egan that MMC would come up with a "generous settlement" for him and said that he should retain an attorney to facilitate the negotiation.

Shortly thereafter, Mr. Egan, through his attorney, presented Mr. Cherkasky with a proposed separation agreement, which contained

See **EGAN** page 55

Legal woes at law firm won't curb stock suits

No lasting effects seen from kickback probe at Milberg Weiss

By DAVE LENCKUS

Legal troubles at securities class action specialist Milberg Weiss L.L.P. haven't and won't lead to a drop in securities suits, many observers say.

PLEA AGREEMENT: Class action attorney David Bershad pleaded guilty to federal charges last week. Go to www.businessinsurance.com/bershad to read the plea agreement.

But some observers maintain that the difficulties for the prominent firm—once a national leader in filing securities class action claims—have been a major reason that claim volume has dropped and likely will remain at or near a 10-year low for at least the short term.

Last week, former Milberg Weiss named partner David Bershad pleaded guilty to charges in connection with a federal investigation of an alleged kickback scheme with lead plaintiffs designed to increase the firm's chances of being appointed lead counsel in securities class action cases. For years, Milberg Weiss had been among the top firms nationally in the number of securities cases in which it served as lead or co-lead counsel.

The U.S. attorney in Los Angeles last year indicted Mr. Bershad, the firm and another former named partner. The investigation, which started several years ago, is ongoing.

Since the indictment, the firm has lost numerous attorneys and its status as the go-to law firm for lead securities fraud plaintiffs, observers note. A representative for Millberg Weiss was unavailable for comment.

Only Lerach Coughlin Stoia Geller Rudman & Robbins L.L.P. of San Diego remains the kind of high-volume securities class action law firm that Milberg Weiss once was, according to observers.

But Milberg Weiss' legal troubles have prompted prominent plaintiffs attorney Bill Lerach to contemplate retiring to prevent distractions at his firm, the Lerach firm confirmed in a recent statement. Mr. Lerach was a named partner at Milberg Weiss for years until 2003.

See **SUITS** page 53

AP PHOTOS

A section of concrete ceiling panels fell in an Interstate 90 connector tunnel in Boston last year, crushing a car and killing a passenger in the vehicle.

Big Dig tunnel collapse blamed on adhesive

Several parties faulted in investigators' report on fatal accident

By RUPAL PAREKH

BOSTON—A fatal ceiling collapse in Boston's "Big Dig" tunnel a year ago stemmed from an epoxy adhesive used in the tunnel's construction, the National Transportation Safety Board concluded last week.

In July 2006, a Boston woman who was a passenger in a vehicle traveling through the Interstate 90 connector tunnel was crushed when a section of concrete panels weighing about 26 tons detached from the tunnel roof.

The NTSB, which laid blame on many fronts, said its full report on its investigation into the accident would be released in coming weeks.

In a synopsis released last week, though, the Washington-based agency stated the probable cause for the ceiling collapse was "an inappropriate use of an epoxy anchor adhesive," which over time deformed in a process called "creep" to the point where several of the tunnel's ceiling support anchors pulled free and caused a portion of the roof to collapse.

See **COLLAPSE** page 50

1967 - 2007 40TH FORTY YEARS OF BI

ON OCT. 8, 2007, *Business Insurance* will celebrate its 40th anniversary of publication. Each week until then, *BI* will offer a peek at news we reported during the past four decades.

JULY 9, 1990 Insurers laid claim to hundreds of millions of dollars in treasure recovered from the S.S. Central America, which sank off South Carolina in 1857. Columbus America Discovery Group, which salvaged at least three tons of gold bullion and rare coins, argued the insurers had insufficient proof they paid the original claims.

JULY 16, 1990 Douglas Barlow becomes the first risk manager elected to the Insurance Hall of Fame. The risk manager at Canadian company Massey-Ferguson Ltd. from 1959 until his retirement in 1972 was honored for creating the first global insurance and risk management program in 1962, among other contributions.

Workplace accommodation responsibilities to be shared

Federal appeals court says employer failed to fulfill its obligations

By JUDY GREENWALD

ST. LOUIS—Employers and their disabled employees have a shared responsibility to resolve accommodation requests, says a federal appellate court in upholding a $100,000 jury award in favor of a worker who uses a wheelchair who unsuccessfully suggested several accommodations and was then terminated.

The employer "failed to engage in the interactive process," although the employee did his part as called for under the Americans with Disabilities Act, said the 8th U.S. Circuit Court of Appeals in its July 6 decision in *Equal Employment Opportunity Commission and Ahmet Yigit Demirelli vs. Convergys Customer Management Group Inc.*

Mr. Demirelli, who has a rare condition known as brittle bone disease, was hired at Cincinnati-based Convergys' call center in January 2001. Under the company's strict tardy policy, employees with 14 or more violations in a single year could be disciplined.

Mr. Demirelli was often late for work and in returning from lunch. The call center's two van-accessible handicapped parking spaces were usually occupied when he arrived, causing him to either wait for the space to become unoccupied or find an alternative.

Parking at a nearby theater, though, took 10 minutes "and caused Demirelli considerable physical pain," says the opinion. He also had a problem finding the spaces available earlier in the morning and the spots were still occasionally occupied even during a later work shift as well.

Mr. Demirelli's condition and the call center's layout also hampered an on-time lunch return, says the decision. Convergys' call center is "a maze of hundreds of cubicles," but unlike most employees, Mr. Demirelli could not simply look over the tops of the rows of cubicles to find an available workstation. Convergys does not assign employees to work in specific cubicles.

His time-consuming search for a workstation was exacerbated by narrow aisles and navigating obstacles "such as stray chairs or chatting colleagues," says the decision.

Convergys terminated Mr. Demirelli in June 2002.

The record does not show Convergys "fulfilled its obligations to explore possible accommodations for Demirelli's disability," says the opinion by the unanimous three-judge panel. "In fact, the record evidence shows that Demirelli assumed Convergys' responsibility by offering several potential accommodations," which included an extra 15 minutes for lunch.

"Convergys offers no convincing evidence the jury's award of $100,000 for emotional damages shocks the conscience," the decision says.

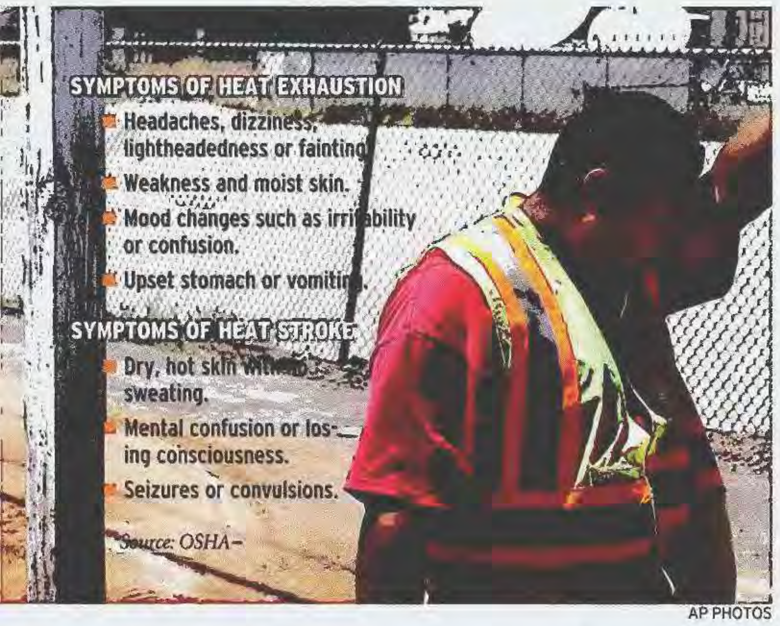
"This company was formidable in its opposition to accommodate this

See **ACCOMMODATE** page 50

CASE HIGHLIGHTS

- The disabled plaintiff who uses a wheelchair had trouble finding parking and locating a workstation in the office.
- The plaintiff fulfilled his obligations under the law in terms of suggesting reasonable accommodations, including an extra 15 minutes for lunch.
- The employer, though, which refused his request, failed to fulfill its own obligations, the court said.

Source: Court documents



AP PHOTOS

Safety concerns rise as temperatures soar

Breaks, liquids, shade are key tools in fight against summer heat

By BETH MURTAGH

The sweaty dog days of summer are not only uncomfortable, but can create health-threatening conditions for outdoor workers without proper safety strategies, experts say.

"We're like cars," said Norman Harris, a certified industrial hygienist with the PMA Insurance Group in Blue Bell, Pa. "Our circulatory system is our radiator cooling system. We let that radiator run dry, we're more likely to overheat."

Although drinking plenty of water in hot weather seems like common sense, dehydration and overheating contributed to more than 2,600 heat-related workplace illnesses or injuries in 2005, according to the Bureau of Labor Statistics.

Heat-illness prevention runs the gamut from providing water to using advanced technology to calculate the work-to-rest ratio. Steel workers, for example, often are weighed before and after shifts to monitor any excessive water loss.

Standard good practices include providing ample water and shade breaks.

"Industrial hygienists have some very detailed tactics on how to prevent heat illness," said Ken Martino, Specialty Risk Services' senior vp in Hartford, Conn. One of these instruments is a wet-bulb globe thermometer, which measures the effect of high temperatures, humidity and solar radiation on people and helps industrial hygienists determine safe exposure levels for workers in adverse weather.

Safety consultants recommend several steps to keep workers safe when the mercury rises. Mr. Martino said managers should monitor weather forecasts and arrange the work accordingly. "Make the schedule more flexible. Start earlier in the day, have breaks in the peak period or start later in the day." When working outdoors, employees should don hats and light-colored

See **HEAT** page 6

Enhanced captive law aims to build more interest in Hawaii as domicile

Amended law establishes maximum premium tax liability

By JERRY GEISEL

HONOLULU—Legislation signed into law last month by Hawaii Gov. Linda Lingle intends to increase Hawaii's appeal as a captive domicile.

The new law, supported by both captive regulators and the state's captive insurance industry, places an annual $200,000 cap on premium taxes—regardless of how much business is generated—paid by Hawaii captives.

While only one or two of the state's 163 captives now do enough business to benefit from the cap on premium taxes, it could encourage other employers to set up captives in the state, according to captive managers,.

"We are thinking of the future," said Mike Coulter, deputy managing director with Aon Insurance Managers in Honolulu.

Additionally, the measure, which amends Hawaii's 21-year-old captive statute, allows captives to be licensed as limited liability companies, clarifies capital and surplus requirements, adds flexibility in how captive assets can be invested and elevates the state's top captive regulatory position to deputy commissioner from captive administrator in the insurance department.

"It gives that position much more visibility and emphasizes its importance," said Gerald Yoshida, director and partner at law firm at Char Hamilton Campbell & Yoshida. He also is chairman of the Hawaii Captive Insurance Council.

These changes come as Hawaii—the longtime second-largest captive domicile in the United States—faces

See **CAPTIVE** page 53

Renowned lawyer Ronald Jacks dies

Mr. Jacks served as first president of Reinsurance Assn. of America

Mr. Jacks

Ronald A. Jacks, an internationally known insurance and reinsurance attorney, died earlier this month.

Mr. Jacks, 71, who resided in both Matapouri, New Zealand, and Annapolis, Md., died July 6, in Auckland, New Zealand. He had been diagnosed with pancreatic cancer in February.

Mr. Jacks headed the insurance practice group at the Chicago-based law firm now known as Mayer, Brown Rowe & Maw L.L.P. when he retired in 1997. He then continued to engage in international insurance and reinsurance arbitrations and mediations.

During his career, he was chosen as the first president of the Washington-based Reinsurance Assn. of America in 1968 and later served as general counsel of CNA Insurance Cos.

Mr. Jacks also served as president of the U.S. Chapter of the International Assn. of Insurance Law and was a member of its worldwide Presidential Council. He was a founding member and director emeritus of ARIAS U.S., a Mount Vernon, N.Y.-based nonprofit that promotes arbitration.

He was a member of the American Bar Assn.'s Standing Committee on Law and National Security and was chairman of the ABA's Committee on International Insurance and Reinsurance Law.

Mr. Jacks began his legal career as a trial attorney in the appellate section of the civil division of the U.S. Department of Justice, was a special assistant to then-Attorney General Robert F. Kennedy and chairman of the Attorney General's Honor Graduate Program. He was also a partner at the former Chicago-based law firm of Isham Lincoln & Beale.

He graduated with honors from the University of Minnesota's Law School, was an editor of the Law Review and a member of the Order of the Coif. He later served on the school's board of governors.

Mr. Jacks was married to Kathryn J. McIntyre, former publisher and editorial director of *Business Insurance*, who retired in 2001.

In addition to Ms. McIntyre, he is survived by his sons Brian and Bradley; brothers Craig and Gary; and grandson Benjamin.

Mr. Jacks was cremated in Auckland on July 7. A private memorial service was held at his New Zealand home on July 13. A second memorial service will be held at St. James Episcopal Cathedral in Chicago at 10 a.m. August 14.

In lieu of flowers, the family requests that contributions be made to City of Hope, a cancer center, at 1500 E. Duarte Road, Duarte, Calif. 91010; or North Haven Hospice in Tikipunga, P.O. Box 7050, Whangarei, New Zealand.

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Heat: Breaks, liquids, shade are key tools in fight against hot weather

CONTINUED FROM PAGE 4

clothing. Some workers opt to wrap their heads in wet towels. Frequent drinking breaks—Gatorade and water instead of caffeinated drinks—are essential to replace water the body loses through sweating.

Some employees, such as older, overweight or diabetic individuals, are more vulnerable to the elements. "Being overweight is probably the worst thing," said Mr. Harris of PMA. Overweight people, who are already at risk of not being able to regulate their body heat, take longer to acclimate to hot weather, he said.

Supervisors should adjust these at-risk employees' schedules or work conditions accordingly.

HEAT STRESS FACTS

FACTORS LEADING TO HEAT STRESS

High temperature and humidity; direct sun or heat; limited air movement; physical exertion; poor physical condition; some medicines; and inadequate tolerance for hot workplaces.

PREVENTING HEAT STRESS

- Know signs/symptoms of heat-related illnesses; monitor yourself and coworkers.
- Block out direct sun or other heat sources.
- Use cooling fans/air-conditioning and rest regularly.
- Drink lots of water—about 8 oz. every 15 minutes.
- Wear lightweight, light colored, loose-fitting clothes.
- Avoid alcohol, caffeinated drinks or heavy meals.

Source: OSHA

Develop a plan

A contingency plan is vital should heat illness strike, Mr. Martino said. "One part is training supervisors in knowing signs. The other part is having a plan once you've identified that person (as sick). Know the EMS number or where the closest clinic is and what you're going to do for that person."

Acclimation to hot weather is a "big factor" for the physically fit, as well, Mr. Harris said. It takes up to two weeks for a person new to outdoor work to get used to the temperature.

Many outdoor workers, such as landscaping crews, can self-pace their hydration and cool-down breaks. "My guys are pretty much on their own and they take breaks when they need them," said Kevin Crotchfelt, owner of Sun Valley, a property maintenance company in Scottsdale, Ariz. "I supply them with as much water, ice and Gatorade product as they need. I leave it up to them; if they feel tired, they take a break."

But in other industries, such as those involving machinery, self-pacing is not an option.

"Where you get into trouble is where you can't take a break because there's not enough alternative workers to take your place," Mr. Harris said. "The worker feels obligated to continue to work at the rate of the machine." Road paving is such a case, he said. In this area of work, managers should staff enough alternates so workers can be rotated between hot work areas and shaded break sites.

And, in most circumstances, those shaded break areas should have large fans to cool workers, Mr. Harris said. But when temperatures climb past 95 degrees, the increased air velocity past the skin actually makes the individual hotter. "You just don't want to blindly think air movement helps the situation," he said.

These heat safety precautions aren't just for construction crews, factory workers or groundskeepers. The 60,000 employees at Disney World in Orlando, Fla., also follow guidelines as they work outside in the summer. Character performers in heavy costumes spend less time on stage and more time in air conditioned break rooms, a spokeswoman said. Costume designers have also changed the costumes to increase air flow.

Employees manning food stands in the park work in the shade or beneath umbrellas. And safety tips, like hydration and recognizing the signs of heat illness, are spread through employee meetings, information in break rooms and through newsletters.

The Occupational Safety and Health Administration has no specific regulations regarding work-related heat illness, but the federal agency does distribute tips on how employees can stay safe (see box).

In 2006 California's OSHA became the first state to single out the issue with new guidelines requiring employers to train supervisors and workers in heat illness awareness. The new rules came after 13 heat-related fatalities in 2005.

Often the biggest obstacle is not creating heat safety plans, but making sure that employees change their behavior and that policies are followed on the work site.

"You have to sell it to people who say, 'I've worked in the heat all my life,'" Mr. Martino said. One strategy is for managers to treat employees as "industrial athletes," he said. "You don't see a coach leave (athletes) out on the field for 10 hours with no water."

Ruling spurs EEOC to revise age-bias regs

By JUDY GREENWALD

WASHINGTON—The Equal Employment Opportunity Commission has issued revised regulations in response to a 2004 U.S. Supreme Court decision that permits employers to favor older workers over their younger colleagues.

But attorneys warn that a number of states' laws prohibit this practice and they would supersede the federal regulations.

In its first ruling on the issue, the high court ruled in *General Dynamics Land Systems Inc. vs. Cline* that the Age Discrimination in Employment Act permits corporate employee benefit plans to favor older employees over younger ones.

The ruling prevented what could have been a slew of litigation against employers, which for decades have designed and offered a wide array of benefit plans that offer more generous benefits to older employees (*BI*, March 1, 2004).

Some of these offerings include early retirement incentives, in which employers give extra benefits to encourage older employees to retire and avoid layoffs.

Under the new EEOC regulations, which were published in the July 6 Federal Register, favoring an older individual over a younger person because of age is not unlawful discrimination under the ADEA even if the younger person is at least 40.

An employer's request for date of birth or age on a job application is not in and of itself an ADEA violation, the regulations say also, but application forms that request such information "will be closely scrutinized to assure that the request is for a permissible purpose and not for purposes proscribed by the Act."

Similarly, help wanted ads that ask applicants to disclose their age do not violate the act, but will be closely scrutinized as well, the regulations say.

Richard I. Greenberg, an attorney with Jackson Lewis L.L.P. in New York said, "In general, I think the regulations are very straightforward and consistent with the Supreme Court's decision."

The regulations, however, do not affect applicable state, municipal or local laws, and a number of states, including New York, New Jersey and Maine, have laws that do not permit favoring an older individual over a younger person, say attorneys.

Jonathan D. Wetchler, an attorney with Wolf, Black, Schorr & Solis-Cohen L.L.P. in Philadelphia said although the EEOC regulations reflect the *Cline* decision, the EEOC is also "clarifying that there can still be state laws that are stricter when it comes to discrimination."

As a result, "Companies with employees in those states still need to recognize that they're not off the hook with respect to discriminating against people because they're younger." They need to read the "fine print," said Mr. Wetchler.


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Business Insurance OPINIONS

Benefit certainty far better than a promise

RETIREE HEALTH CARE funding agreements between two major employers and unions representing employees covered by collective bargaining agreements show promising corporate and organized labor realism about the benefits.

As we report on page 1, automotive parts manufacturer Dana Corp. and the United Steelworkers and the United Auto Workers unions recently reached an agreement in which Dana will contribute hundreds of millions of dollars to special tax-exempt trusts, known as voluntary employee beneficiary associations, to fund retiree health care obligations.

After that, Dana will have no further obligation to contribute or provide health care benefits to current or future UAW- or USW-represented retirees.

> *The advantages to Dana and Goodyear are obvious.*

The agreement follows a nearly identical accord reached earlier this year between Goodyear Tire & Rubber Co. and the USW.

The advantages to Dana and Goodyear are obvious. In exchange for a fixed contribution—$1 billion for Goodyear and nearly $800 million for Dana—the employers are shedding enormous liabilities. Goodyear pegs its projected liability for retiree health care benefits at $1.3 billion, while Dana's estimate is just over $1 billion.

With those liabilities behind them, the companies' financial statements will be much improved and their creditworthiness should improve, helping them to attract new capital. For Dana, in particular, the agreement will surely help them emerge from bankruptcy reorganization.

Union executives obviously understand the trade-offs involved in the agreements. Their retiree members will lose what has been an open-ended company promise to provide benefits. On the other hand, there will be real financial security—the money contributed to the VEBAs—for benefits.

Given how other companies—several in the steel industry come to mind—have failed and retirees have lost their health care benefits, union leaders have come to recognize that financial security for benefits is more valuable than a promise of rich but unfunded benefits.

This idea deserves trial —outside the courts

FEW IDEAS—good or bad—receive immediate acceptance without some sort of trial run. We're heartened that an idea that we think could prove to be a very good one may get its chance at a trial run sooner rather than later.

That's the idea of having special health courts deal with medical malpractice cases. Proponents of such courts, which would allow experts to review claims and pay compensation according to a schedule of benefits much as is the case in workers compensation, hold the courts would speed compensation and give some missing certainty to the system.

As we reported recently, health courts have received renewed attention, and for good reason. The current litigation-based system takes a considerable amount of time to deliver results. The truly injured may have to wait an unjustifiably long time to get their just compensation, if they ever receive it. In other cases, a less meritorious complaint may get compensation out of proportion to the loss.

Bipartisan legislation that would allow states to use health courts on a trial basis has been introduced in both houses of Congress. We urge lawmakers to approve it. Health courts may not provide all—or maybe even any—of the answers needed to improve the medical malpractice compensation system. But even the best idea must prove itself worthy or unworthy, and health courts deserve the opportunity to do so.

BI beats list

In an effort to ensure continuing timely coverage of risk management, insurance and benefit-related news, Business Insurance has formalized a list of its reporters' assigned beats. This list is not intended to be exclusive but rather to represent core subject areas of importance to BI readers. BI welcomes ideas and tips from readers on these and other areas. Following is a list of the beats and the principal reporters for each:

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Benefits–health care and ancillary benefits: Joanne Wojcik.

Benefits–retirement savings/pensions: Jerry Geisel.

Bermuda market: Rupal Parekh.

Canada–risk management and benefits: Gloria Gonzalez.

Claims management: Rupal Parekh.

Employment practices: Judy Greenwald.

Environmental risk management: Sally Roberts.

Federal regulation/ legislation–benefits: Jerry Geisel.

Federal regulation/ legislation–risk management: Mark A. Hofmann.

Health care industry operations: Gloria Gonzalez.

Industry Focus: Rodd Zolkos, Meg Fletcher.

Insurance coverage litigation: Douglas McLeod.

Insurance fraud: Douglas McLeod.

Latin American markets: Roberto Ceniceros.

Property/casualty industry operations: Judy Greenwald.

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Property loss control/ cat risks: Mark A. Hofmann.

Regulation of insurance: Meg Fletcher.

Reinsurance: Judy Greenwald.

Risk management profession: Dave Lenckus.

Runoffs/receiverships: Douglas McLeod.

Safety/ergonomics: Meg Fletcher.

Surplus lines/wholesalers: Roberto Ceniceros.

Tort reform: Mark A. Hofmann.

Work/life benefits and EAPs: Sally Roberts.

Workers compensation: Roberto Ceniceros.

Online Poll at www.businessinsurance.com

How effective are financial incentives for employees in achieving wellness program goals?

NEXT WEEK'S POLL: *Should special health courts be established to deal with medical malpractice claims?*

***BI* Online Poll tool sponsored by Wausau Insurance Cos.**

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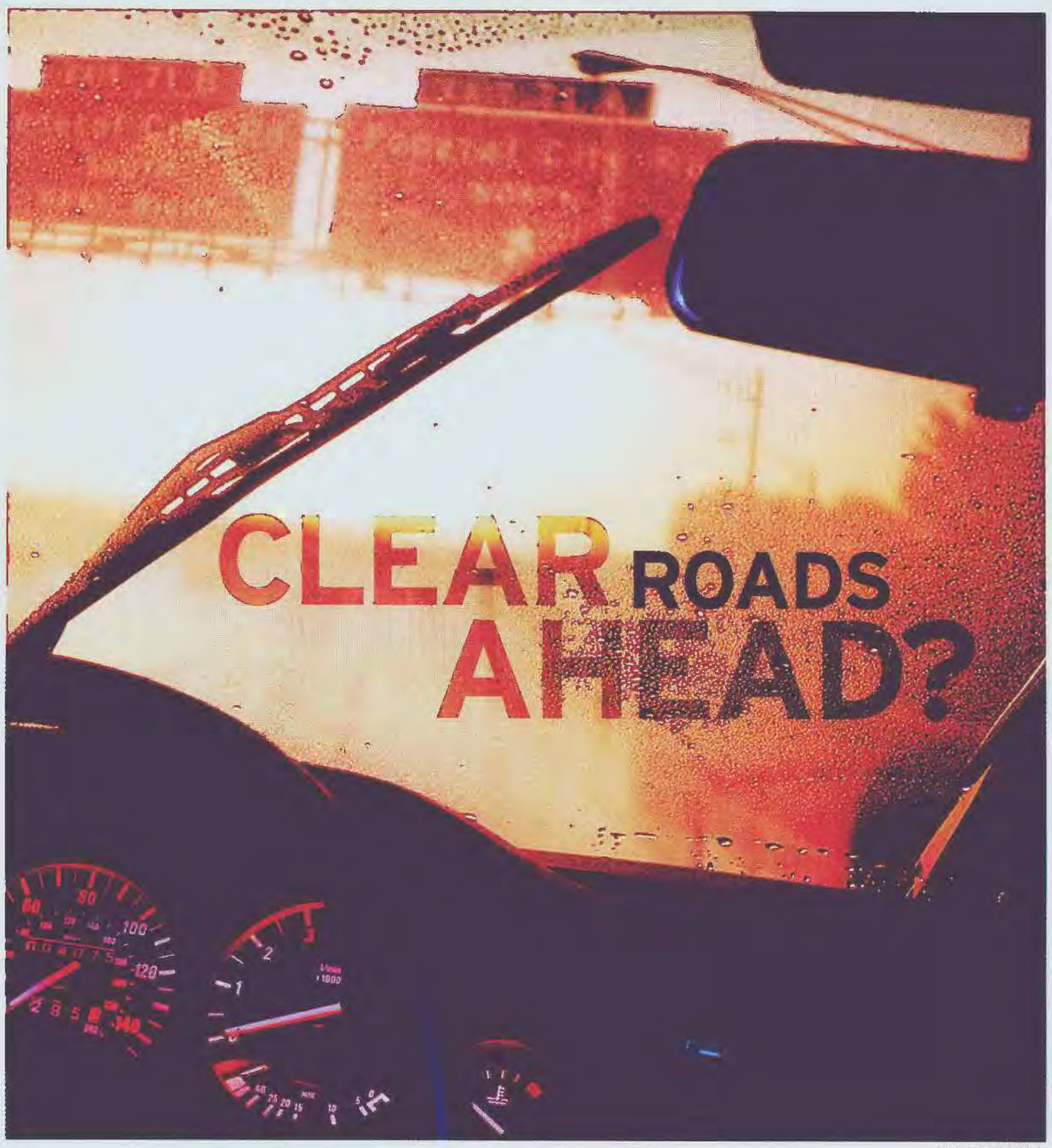

PHOTO NETWORK

Brokers gain from premium funds, but most buyers don't mind

Simplified billing outweighs concerns over interest income

By RUPAL PAREKH

For most risk managers, the practice of brokers collecting buyers' premiums—as well as interest income earned on the money before remitting it to insurers—is not a major concern, buyers and observers say.

Efficient management of insurance premium payments is part of the value and service provided by brokers, brokers say.

The majority of risk managers agree that cutting one check to a broker is simpler than a direct-bill system to multiple insurers. In certain cases, though, buyers are bypassing brokers and paying insurers directly.

Under the current system, buyers commonly pay insurance premiums via their broker, who places the funds in an interest-bearing premium trust fund account before sending them to insurers.

For most risk management business, said Tom Golub, president and chief executive officer of Beecher Carlson Holdings Inc. in Atlanta, the hold time in which a broker can keep premiums is 30 to 45 days, while smaller agency business tends have hold periods of up to 90 days.

"Certainly, the top risk managers we deal with understand that, and they're not going to pay us Day One, either," said Mr. Golub. "So you're probably talking about money being held incrementally for a week or so."

For each premium dollar that New York-based Marsh & McLennan Cos. Inc. collects from U.S. clients, the average holding period is about 10 days, a company spokesman said.

MMC reported $180 million in fiduciary interest income in 2006 across the various MMC operating companies.

According to a spokesman for Chicago-based Aon Corp., Aon in 2006 earned $161 million "in investment income from holding client premiums."

"The process wherein the broker or agent holds the premium for a period of time is really steeped in tradition, and perhaps the old industry custom and practice, (where) the local agent was the local representative of the insurance company and collection of premium was one of its many functions," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago.

"It's never been a great issue for us and we've never had a lot of discussion from either our clients or our carriers on the topic," said H. Wade Reece, chairman and president of Raleigh, N.C.-based brokerage BB&T Insurance Services Inc.

In fact, there has not been much talk about the subject—until recently.

At the Risk & Insurance Management Society Inc.'s 2007 annual conference, held in New Orleans in May, the question was posed to a panel of brokerage CEOs: "Why do brokers continue to hold on to buy-

See **FIDUCIARY** next page

36th Annual Broker Profiles

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Fiduciary: Buyers see some value in paying via brokers

CONTINUED FROM PREVIOUS PAGE

ers' insurance premiums before remitting them to insurers?" When pressed, the heads of several large brokerages said they would be willing to discuss the issue individually with clients.

The issue made headlines previously when Michael Segal, the former owner, chairman and CEO of Near North National Group Inc. in Chicago, was sentenced to prison in late 2005 after being found guilty of taking millions of dollars held in the brokerage's premium trust fund account for his personal use (*BI*, Dec. 5, 2005).

Near North National Insurance Brokerage Inc., once the 18th-largest broker of U.S. business, based on $199.9 million in 2002 brokerage revenues, also was convicted on certain related fraud charges.

Brokers say collecting client premiums is a needed service they offer to customers.

"For a variety of reasons, U.S. clients and insurance companies typically prefer that brokers act as the intermediary in the premium billing process and, in doing so, brokers provide a range of useful services that typically involves significantly more than just forwarding a check," a spokesman for MMC said in an e-mail. "Additionally, since placements often occur in down-to-the-wire situations, clients typically feel most confident relying on their broker to ensure the premium payment gets to the right place and gets...recognized by the insurance company.'

"Billing and collection is often a costly activity, involving multiple insurance companies across multiple coverage lines and at times requiring tax filings, affidavits and surplus lines issues," the MMC spokesman added. "Rather than receive and process each invoice separately, the efficiency gained from amalgamating or making batch payments lowers overall costs for everyone, including the clients."

Joe Plumeri, chairman and CEO of Willis Group Holdings Ltd., said: "It is important in the process of administering premiums that we are able to collect premiums from clients and match them with the correct insurers. In the absence of being able to do that, you got clients with 27 to 30 different checks to different insurers, waiting for a receipt for all of that...is very inefficient."

The issue of brokers holding buyers' insurance premiums before remitting them to insurers is a "lim-

See FIDUCIARY page 14

Brokers expecting tougher rules on disclosure

The insurance industry is poised to see heightened disclosure regarding interest earned by brokers on client premiums.

"To the extent there has not been disclosure, as a result of (the Risk & Insurance Management Society Inc.'s) concern and or position on this matter, we will begin to see brokers disclose that they may earn interest income (from) fiduciary funds received from the client awaiting transmission to the insurance company," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago.

Some are already doing it; according to a spokesman for New York-based Marsh & McLennan Cos. Inc.

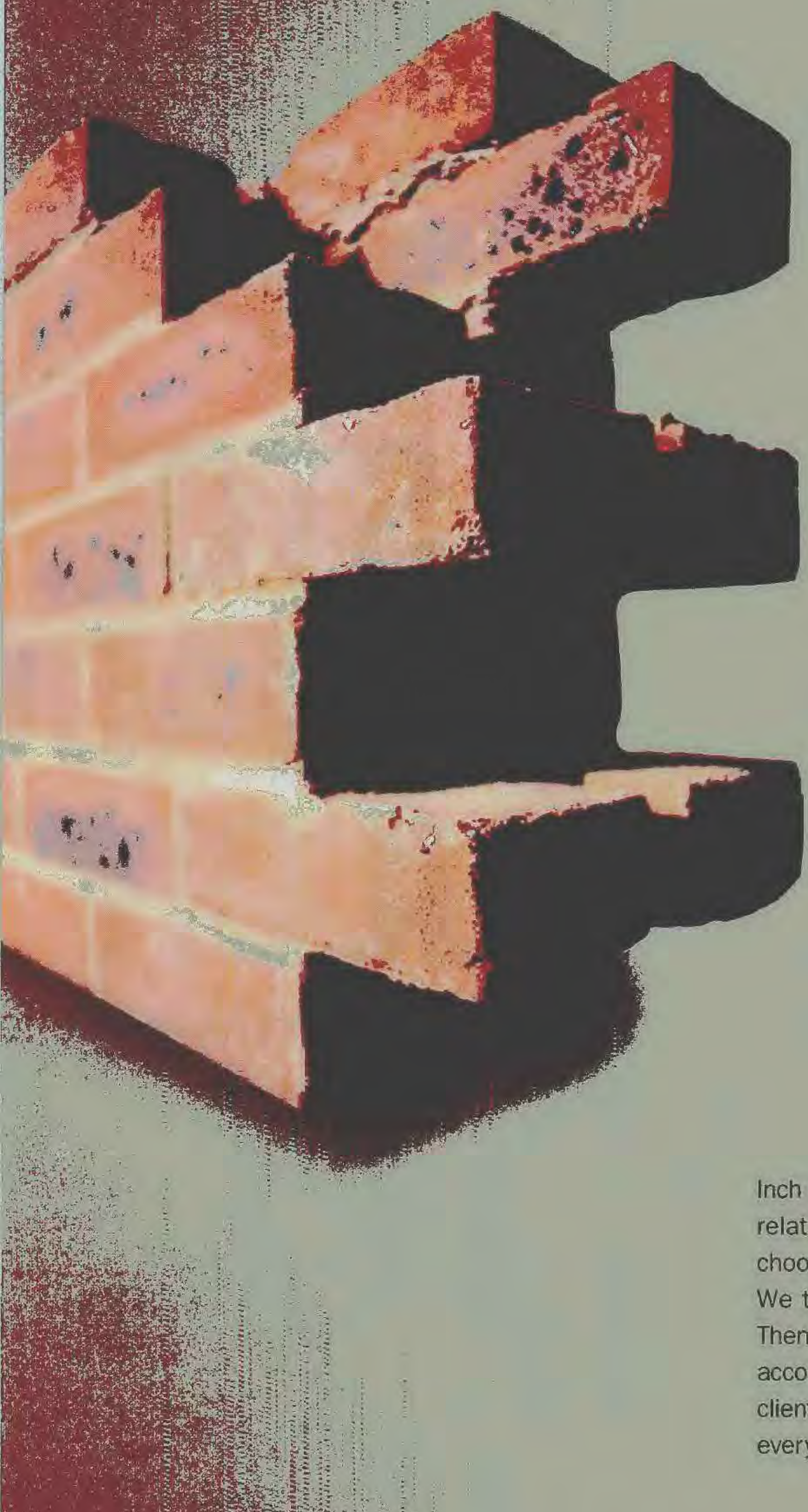
Since 2005 as part of its annual disclosure process, MMC has been telling U.S. clients the aggregate amount of investment income earned by the brokerage on premiums it held on behalf of insurers. MMC also notes in its client agreements that it invests and retains the investment income on the premium payment funds it receives from clients prior to remitting them to the insurer, the spokesman said.

At broker Willis Group Holdings Ltd., "It's not disclosed, but I think it should be described and defined, because the question has come up legitimately," said Joe Plumeri, chairman and chief executive officer of Willis. "Very, very shortly we will be defining what we do, why we do it and how we do it. I think people are under the impression that we get money and we keep it for 60 or 90 days just for the purposes of float. We do not do that," Mr. Plumeri said.

Chicago-based Aon Corp. is "open to have a dialogue" and "engage in conversations that clients might wish to begin" about the issue of interest earned on client premiums, a spokesman said.

While compensation disclosure procedures at Atlanta-based Beecher Carlson Holdings Inc. do not automatically include fiduciary investment income, "we'll give viability to the client on that," said Tom Golub, president and CEO.

—By Rupal Parekh



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Fiduciary: Payments via brokers

CONTINUED FROM PAGE 12

ited concern" for Carolyn Snow, director, insurance risk management at Louisville, Ky.-based Humana Inc.

"The ease of paying the broker directly, with the ability to reasonably manage the payment date, offsets our concerns about them holding our funds," Ms. Snow said. Humana's broker is Willis.

"We have a very complicated system of accounts payable," said Scott B. Clark, risk and benefits officer for Miami-Dade County Public Schools, the nation's fourth-largest school district.

"For me to be able to pay that to my broker, with 40 to 50 participants, and get it paid properly is difficult enough." he said. "If I had to make every one of those carriers a separate vendor, it would delay the process and be much more work for the entire accounts payable system."

"If you are going to put faith in your agent or broker...but you don't trust them enough to pay the people with whom you are doing business, then I think you have bigger problems than you realize," Mr. Clark said.

"There's a few clients who don't like (brokers collecting premiums) at all, and there is a larger number of clients who don't pay attention to it at all," said Richard Betterley, president of Sterling, Mass.-based Betterley Risk Consultants Inc.

"I have not seen any particular trend to writing the premium checks directly to the carriers," Mr. Betterley said. "My sense is that the brokers are interested in controlling the flow of premium" and "writing checks directly to the carrier is something that is actively discouraged."

But a bad experience led Terry Fleming, director of risk management for Montgomery County, Md.—who is also director of external affairs for RIMS—to start paying the county's insurers directly about five years ago. "We got a notice from the insurance company that they were going to cancel our policy because the premium wasn't paid. We contacted the broker, and lo and behold, they were holding the money." Mr. Fleming declined to identify the broker.

"When we first discovered it, we told them we were going to change the way we do business. They weren't happy," said Mr. Fleming. But, in the end, Mr. Fleming told the broker "we would just move our business unless we were able to come to an agreement on it."

"I do think it's part of disclosure and transparency, and I think all risk managers have the right to know (information about brokers' holding on to client premiums) without having to ask for it," Mr. Fleming said. "But, it never hurts to put it in writing in your contracts that you have with your brokers."

Gloria Gonzalez and Sally Roberts contributed to this report.

Distinguishing agents, brokers no easy task

Difference breaks down on whether buyer, insurer represented, but sometimes it is both

By SALLY ROBERTS

When the Risk & Insurance Management Society Inc. issued its policy statement in May calling for a prohibition on contingent commissions for accounts where agents and brokers represent buyers, it in effect distinguished brokerage business from agency business based on whose interest is being served.

But such a distinction is not so easily drawn, industry observers say. Most intermediaries, for example, operate in dual roles, meaning they act as representatives of buyers in trying to obtain the best coverage at the best price, but also act as agents for insurers, which, in most cases, pay them a commission and in some cases additional contingent commissions.

There is no standard definition as to what is agency business vs. what is brokerage business within the marketplace, and consultants and intermediaries have varying definitions. Brokers that already follow RIMS' guidelines have differing views (see story page 16).

The distinction, however, has been thrust into the limelight as a result of the contingent commission scandal, with independent agents saying they should not be punished for the sins of some larger brokers that allegedly abused the contingent commissions system.

The world's four largest brokers paid more than $1 billion in client restitution in 2005 to settle allegations that they steered business to insurers that paid the highest contingent commissions. Several insurers also agreed to limit or cease contingent commission payments to agents and brokers as part of separate state settlements made in 2006.

Although the largest brokers stopped collecting contingents as a result of the scandal, the vast majority continues accepting them.

After calling in August 2005 for full disclosure of brokerage compensation regardless of whether risk managers request it, RIMS went a step further in May by calling for a prohibition of contingent commis-

Continued on next page

LEADING U.S. RETAIL BROKERS

*Ranked by 2006 retail brokerage revenues from U.S. offices**

Company	2006 revenues	% change	Company	2006 revenues	% change
Marsh & McLennan Cos. Inc.	$2,437,000,000 [1]	-2.8%	USI Holdings Corp.	$206,566,000	1.2%
Aon Corp.	$1,741,000,000	14.7%	Wachovia Insurance Services Inc.	$188,448,699	3.3%
Wells Fargo Insurance Services Inc.	$707,249,000	6.9%	Alliant Insurance Services Inc.	$170,070,000	7.5%
Willis Group Holdings Ltd.	$664,283,000	4.3%	ABD Insurance & Financial Services	$106,355,000	1.0%
Arthur J. Gallagher & Co.	$561,447,000	1.5%	Leavitt Group	$90,490,576	27.6%
Hilb Rogal & Hobbs Co.	$451,130,000	6.0%	Frank Crystal & Co. Inc.	$89,950,000	3.5%
BB&T Insurance Services Inc.	$445,228,600	11.7%	John L. Wortham & Son L.P.	$76,551,000	13.5%
Brown & Brown Inc.	$366,874,296	6.1%	Allied North America	$68,038,454	9.8%
Lockton Cos. L.L.C.	$339,522,000 [2]	12.0%	Hylant Group	$65,733,853	0.4%
Hub International Ltd.	$226,481,209	19.4%	UnionBanc Insurance Services Inc.	$58,941,000	-8.8%

**Does not include revenue from the placement of employee benefits. 1 BI estimate. 2 Fiscal year ending April 30.*
Source: BI survey

CONTINUED FROM PREVIOUS PAGE

sions within the brokerage sector (*BI*, June 4).

While RIMS said that it recognizes that these incentive payments are paid on agency-generated business where the agent is representing the insurer, "for brokers and independent agents to accept these fees in transactions that are made on behalf of the buyer, (it) represents an inherent conflict of interest."

But observers say that defining brokerage and agency business based on whether the client or insurer is represented is not so easy.

"The lines between those two are real fuzzy," said Bobby Reagan, president of Reagan Consulting Inc. in Atlanta. "There's not an agent in the country that doesn't in some case suggest they are working on behalf of the client...and yet are still legally operating as an agent of the insurance company and getting paid a commission."

Mr. Reagan says that the distinction that he sees made most frequently is based on compensation where brokerage business is more fee-based and agency business is more commission-based, he said.

"Where the gray line comes in" is that while an agent really does work on behalf of the client to get the best coverage at the best price, their payment is not coming from the client but from the insurers with whom they have a contractual relationship, said Rob Lieblein, former president and chief executive officer of WFG Capital Advisors L.P., who is now a Harrisburg, Pa.-based managing director of Hales & Co. Inc., which recently acquired WFG.

"If you're truly just brokering business and you're charging your client a fee, then it's clear that the relationship is strictly with your client," he said.

'There's not an agent in the country that doesn't in some case suggest they are working on behalf of the client.'

Bobby Reagan, Reagan Consulting Inc.

But Timothy Cunningham, a principal with OPTIS Partners L.L.C. in Chicago, said just because a broker receives a fee from a client, "I don't believe that negates their role as an agent" of the insurer. Two of the functional roles an agent plays on behalf of the insurer are the ability to bind coverage within given limitations and the ability to accept premiums, he said.

"That really doesn't have anything to do with advice to clients. It's more about business expediency," he said.

"My view is what difference does it make? If you're an agent or a broker, you have a relationship with your client and you're delivering some element of professional service to that client and there is compensation for that service."

According to Terry Fleming, RIMS' director of external affairs, the difference between agency business and broker business really comes down "to the transparency of the transaction and the understanding with the broker, agent or whoever you're dealing with."

He said, for example, that while he knows his broker has a large agency business, his contract specifies that "they are my broker and are acting on my behalf and I'm paying them for the services they are performing for me."

Mr. Fleming, who is director of the division of risk management for Montgomery County, Md., said his broker is contractually obliged to disclose all payments it receives as a result of placing his business and that if it receives contingent commissions on his account, he is refunded that money.

LARGEST U.S. BENEFIT SPECIALISTS

Brokerages deriving more than 45% of 2006 gross revenues from benefits business

Company	Revenues from benefits*	% of gross revenues
CBIZ Benefits & Insurance Services Inc.	$77,500,000	49.8%
Trion Group Inc. dba Trion	49,800,000	100
Fringe Benefits Management Co.	33,746,578	100
Associated Financial Group L.L.C.	29,960,390	54.2
SilverStone Group Inc.	15,204,000	59.9
Thesco Benefits L.L.C.	13,445,574	98.0
McGraw Wentworth	10,020,000	99.6
Sumitomo Life Insurance Agency America Inc.	6,187,407	90.4
Mid American Group Inc.	5,859,546	100
Western Benefit Solutions L.L.C.	4,280,000	100

**Includes commissions and fees from brokering group benefits coverage, benefit consulting and health care administration.*
Source: BI survey

Many brokers still accept contingent commissions

But RIMS model also not difficult to observe

By SALLY ROBERTS

Brokers that in effect adhere to the Risk & Insurance Management Society Inc.'s proposed business model on contingent commissions define agency business and broker business differently, but say it's not difficult to adhere to such a model.

RIMS has said while insurer-paid incentives are an acceptable form of compensation for agents representing insurers, "for brokers and independent agents to accept these fees in transactions that are made on behalf of the buyer represents an inherent conflict of interest."

"The way I think about it, when the total cost of risk for a client is less than $1 million, it's really unlikely they will have a risk manager," said Tom Golub, president and chief executive officer of Beecher Carlson Holdings Inc. in Atlanta. "That's just agency business. And the underwriting community defines it as agency business as well."

Unlike larger brokerage or risk management accounts that generally want to negotiate the underwriting risk transaction separately from the broker compensation transaction, smaller agency account buyers only care about whether Beecher can get them the best deal in the marketplace, Mr. Golub said.

Whether an account is fee-based or commission-based, it's all negotiable, he said. "Whatever is going to get us to the most efficient place for our customer is how we negotiate it."

"It's really not difficult to do," Mr. Golub said, referring to separating accounts into those that are paid contingents and those that are not. Because underwriters "almost always" have different underwriting units for risk management-type accounts and agency-type accounts, so the decision whether one account should be used in the underwriter's contingent calculations does not need to be made on an account-by-account basis. "Almost all the time" the accounts are going to separate underwriting units, he said.

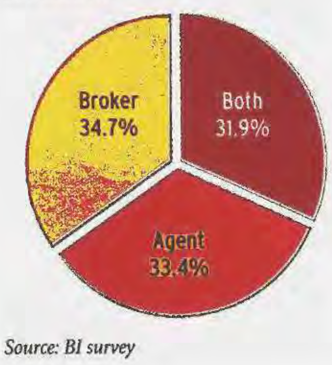
Like Beecher Carlson, BB&T Insurance Services only accepts contingent commissions on agency accounts. But rather than size, the Raleigh, N.C.-based broker defines such accounts by the form of compensation it receives.

Since January 2005, BB&T accepts contingent commissions only when it acts as an agent of the insurer and receives a commission solely from the insurer, according to H. Wade Reece, chairman and president. If BB&T accepts a fee

See RESPONSE page 18

AGENT OR BROKER

Business type of all companies listed in BI's directory



Source: BI survey

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SAMMIS
has been acquired by
USI
2007
Hales advised Sammis, Smith & Brush, Inc.

Global Special Risks
has been acquired by
HRH
2007
Hales advised Global Special Risks

SOBEL AFFILIATES INCORPORATED
has been acquired by
Brown & Brown INSURANCE
2007
Hales advised Sobel Affiliates, Inc.

isg International
has been acquired by
Arthur J. Gallagher & Co
2007
Hales advised ISG International

Byerly Insurance Agents and Brokers, Inc.
d/b/a
BYERLY
Lemoyne, Pennsylvania
has been merged into
HDH
The HDH Group, Inc.
Pittsburgh, Pennsylvania
Byerly Incorporated will operate as a division of The HDH Group, Inc.
WFG Capital Advisors LP served as a financial advisor to Byerly Incorporated

NIP
NIP Group, Inc.
Woodbridge, New Jersey
has acquired the assets of
Thomas J. Sharp & Associates, Inc.
Somerville, New Jersey
WFG Capital Advisors LP served as a financial advisor to Thomas J. Sharp & Associates

Kibble & Prentice
has been acquired by
USI
2006
Hales advised Kibble & Prentice

OXBRIDGE
Insurance Associates, Inc.
has been acquired by
Swett & Crawford
WFG Capital Advisors LP served as a financial advisor to Oxbridge Insurance Associates, Inc.

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LARGEST PRIVATELY OWNED BROKERS

Ranked by brokerage revenue. Companies with less than 20% of total gross revenues from commercial retail or employee benefits were not ranked.

Company	2006 brokerage revenues	Company	2006 brokerage revenues
Lockton Cos. L.L.C.	$657,161,000 [1]	Bollinger Inc.	$103,871,255
USI Holdings Corp.	$546,306,000	John L. Wortham & Son L.P.	$94,635,000
Hub International Ltd.	$536,731,494 [2]	Hylant Group	$90,014,223
Alliant Insurance Services Inc.	$228,476,000	Hays Group Inc. dba Hays Cos.	$85,000,000
Leavitt Group	$146,184,000	J. Smith Lanier & Co.	$81,250,386
Keenan & Associates	$132,225,000	Mesirow Insurance Services Inc.	$80,417,980
CBIZ Benefits & Insurance Services Inc.	$114,700,000	Holmes Murphy & Associates Inc.	$79,113,383
Frank Crystal & Co. Inc.	$112,545,000	NIA Group L.L.C.	$78,600,000

1 Fiscal year ending April 30. 2 Purchased by Apax Partners and Morgan Stanley Principal Investments and taken private in June 2007.
Source: BI survey

Private: Service more important than ownership

CONTINUED FROM PAGE 18

base, chemistry and competency. "I'm not overly concerned about who owns them," he said.

Service quality and insurance market access are among the factors that Mark Carufel, risk manager for Sterling Heights, Mich., says he looks for in an insurance broker. "I don't know (that) it matters" who owns the brokerage as long as those qualities are met, said Mr. Carufel.

Some risk managers point to transparency, however, as a potential issue.

Gerald Blanchard, risk manager for the Lansing Board of Water & Light in Lansing, Mich., said, "As long as there's some transparency and disclosure of what they're doing on our account," he would have no concerns about brokerage ownership.

"I think you can do a perfectly good job either way," said Tom Vance, risk manager for the city of Anaheim, Calif. In fact, being a publicly held firm can be negative because of the focus on results in response to shareholder demands.

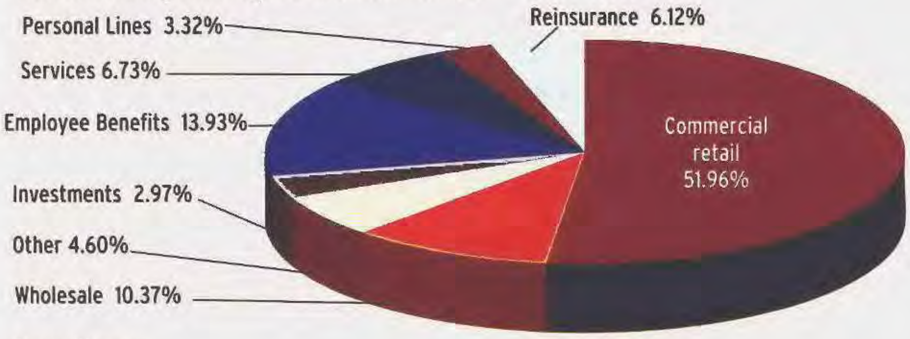
"My only concern is there is a good deal of transparency that comes along with being a publicly held company, including financial statements," he said. "I don't think private companies will have to provide as much information, even to their insurance regulatory authorities in the individual states."

Bill McMann, risk manager for Riverside, Calif.-based Fleetwood Enterprises Inc., pointed to the Sarbanes-Oxley Act. "I think it boils down to one primary issue for me, which is if the brokers go private, they're not going to be subject to

See **PRIVATE** page 26

BUSINESS BREAKDOWN

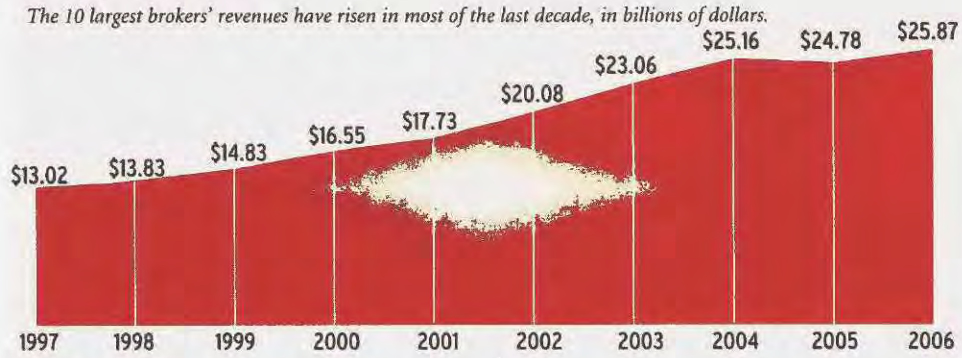
Areas contributing to the largest brokers' overall revenue



Source: BI survey

A DECADE OF GROWTH

The 10 largest brokers' revenues have risen in most of the last decade, in billions of dollars.



Source: BI survey

World's 10 largest insurance brokers

Ranked by 2006 brokerage revenues

Rank	Company/Address	Phone/Fax/Web site	Chief executive	2006 brokerage revenues	% change	2006 employees	2006 offices	Percentage of revenues*: Commercial retail	Wholesale	Reinsurance	Employee benefits	Personal lines	Services	Investments	Other
1	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-6000 Fax: 212-345-3833 *www.mmc.com*	Michael G. Cherkasky, president/CEO	$10,474,000,000	3.94%	55,000	700	36.63	0	7.34	25.21	0	18.21	2.14	10.46
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 Fax: 312-381-6032 *www.aon.com*	Gregory Case, president/CEO	$6,709,000,000	3.39%	43,100	500	49.64	1.37	9.65	12.59	0	1.68	4.01	21.06
3	Willis Group Holdings Ltd. 10 Trinity Square, London, EC3P 3AX England	44-207-488-8111 Fax: 44-207-481-7096 *www.willis.com*	Joe Plumeri, chairman/CEO	$2,341,000,000	6.70%	13,000	308	54.45	5.79	23.19	10.20	1.31	1.48	3.58	0
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 Fax: 630-285-4000 *www.ajg.com*	J. Patrick Gallagher Jr., chairman/president/CEO	$1,437,800,000	6.46%	8,757	200	38.45	12.05	3.56	12.59	1.17	25.90	6.27	0
5	Wells Fargo Insurance Services Inc. 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 Fax: 312-423-2508 *www.acordia.com, www.wellsfargo.com*	David J. Zuercher, chairman/president/CEO	$1,008,737,000	5.15%	5,952	161	59.58	2.74	0.28	9.37	7.83	5.18	3.10	11.92
6	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 Fax: 386-239-5729 *www.bbinsurance.com*	J. Hyatt Brown, chairman/CEO	$864,662,662	11.49%	4,733	104	41.79	34.76	1.26	10.67	6.30	3.71	1.31	0.21
7	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London, EC3N 2PH England	44-207-528-4444 Fax: 44-207-528-4185 *www.jltgroup.com*	Dominic Burke, group chief executive	$847,042,300 [1]	2.47%	5,097	70	49.07	8.81	13.43	15.85	1.09	7.71	4.05	0
8	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 Fax: 919-716-9783 *www.bbt.com*	H. Wade Reece, chairman/president	$842,295,600	11.20%	3,996	89	50.72	28.77	0	7.00	9.46	0	2.29	1.75
9	Hilb Rogal & Hobbs Co. 4951 Lake Brook Drive, Glen Allen, Va. 23060	804-747-6500 Fax: 804-747-6046 *www.hrh.com*	Martin L. Vaughan III, chairman/CEO	$696,041,000	5.78%	3,775	127	63.46	4.85	1.06	19.34	5.78	3.42	1.48	0.60
10	Lockton Cos. L.L.C. 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 Fax: 816-960-9099 *www.lockton.com*	David M. Lockton, chairman	$657,161,000 [2]	69.25%	3,825	50	75.79	4.53	1.39	16.49	0.30	0	1.50	0

*Percentage of revenue may not total 100% due to rounding. 1 British pound=$1.8434 (2006) fiscal year ending 12/31. 2. Fiscal year ending 4/30

Source: *BI* survey

Research by Kevin Edison and Karen Tucker

100 largest brokers of U.S. business

*Ranked by 2006 brokerage revenues generated by U.S.-based clients**

2006 rank	2005 rank	Company	2006 revenue	% change
1	1	Marsh & McLennan Cos. Inc.	$5,341,740,000	1.9%
2	2	Aon Corp.	$2,750,690,000	3.4%
3	3	Arthur J. Gallagher & Co.	$1,250,886,000	4.1%
4	4	Willis Group Holdings Ltd.	$1,100,270,000	4.5%
5	5	Wells Fargo Insurance Services Inc.	$1,008,737,000	5.1%
6	6	Brown & Brown Inc.	$864,662,662	11.5%
7	7	BB&T Insurance Services Inc.	$842,295,600	11.2%
8	8	Hilb Rogal & Hobbs Co.	$682,816,221	5.7%
9	9	USI Holdings Corp.	$546,306,000	8.3%
10	11	Lockton Cos. L.L.C.	$453,441,090 [1]	19.2%
11	10	Wachovia Insurance Services Inc.	$451,077,801	6.1%
12	12	Hub International Ltd.	$391,813,991	27.5%
13	13	Alliant Insurance Services Inc.	$228,247,524	10.7%
14	15	ABD Insurance & Financial Services [2]	$168,367,000	2.2%
15	17	Leavitt Group	$146,184,000	28.7%
16	14	Jardine Lloyd Thompson Group P.L.C.	$143,997,191 [3]	2.5%
17	18	Keenan & Associates	$132,225,000	17.8%
18	16	CBIZ Benefits & Insurance Services Inc.	$114,700,000	9.6%
19	19	Frank Crystal & Co. Inc.	$112,545,000	6.8%
20	25	Bollinger Inc.	$103,871,255	24.3%
21	20	Meadowbrook Insurance Group Inc.	$98,735,000	4.1%
22	24	John L. Wortham & Son L.P.	$94,635,000	11.6%
23	23	Commerce Banc Insurance Service Inc.	$93,823,000	6.5%
24	21	Hylant Group	$90,014,223	1.2%
25	31	Hays Group Inc. dba Hays Cos.	$85,000,000	18.2%
26	26	Regions Insurance Group Inc.	$84,032,000	6.0%
27	30	J. Smith Lanier & Co.	$81,250,386	11.0%
28	35	Mesirow Insurance Services Inc.	$80,417,980 [4]	20.4%
29	29	Holmes Murphy & Associates Inc.	$79,113,383	5.2%
30	28	NIA Group L.L.C.	$78,600,000	1.6%
31	New	UnionBanc Insurance Services Inc.	$77,974,000	-2.4%
32	40	Tanenbaum-Harber Co. Inc.	$77,727,125	38.5%
33	32	Allied North America	$75,860,305	8.9%
34	36	Sky Insurance Inc.	$69,619,207	11.7%
35	37	IMA Financial Group Inc.	$69,143,901	16.2%
36	34	Guaranty Insurance Services Inc.	$68,738,794	2.3%
37	33	Compass Insurance Agency Inc.	$67,132,756	-0.5%
38	38	BancorpSouth Insurance Services Inc.	$67,018,430	15.8%
39	39	Neace Lukens Holding Co.	$65,284,628	12.9%
40	41	Insurance Office of America Inc.	$64,013,000	15.9%
41	43	Heffernan Group	$63,105,000	17.4%
42	44	Rutherfoord Cos.	$59,607,936 [5]	12.2%
43	46	Associated Financial Group L.L.C.	$55,245,756	10.1%
44	66	Beecher Carlson Holdings Inc.	$53,753,000	65.2%
45	51	James B. Oswald Co. dba Oswald Cos.	$53,718,390	24.5%
46	New	InterWest Insurance Services Inc.	$51,017,913	-0.3%
47	49	Woodruff-Sawyer & Co.	$50,967,500	12.2%
48	45	TD Banknorth Insurance Agency Inc.	$50,740,412	5.8%
49	47	Frenkel & Co. Inc.	$50,644,572	5.8%
50	48	Wausau Signature Agency	$49,998,698	5.9%
51	62	Trion Group Inc. dba Trion	$49,800,000	30.7%
52	58	Mahoney Group	$48,500,989	18.5%
53	53	Van Gilder Insurance Corp.	$48,110,297	20.7%
54	57	Cottingham & Butler Inc.	$47,566,000	15.6%
55	56	Barney & Barney L.L.C.	$45,570,000	8.4%
56	New	Integro USA Inc.	$45,000,000	N/A
57	52	Marshall & Sterling Enterprises Inc.	$44,116,104	5.2%
58	55	Western States Insurance	$43,794,816	6.7%
59	New	First Niagara Risk Management Inc.	$43,766,910	58.8%
60	61	Capacity Group of Cos.	$42,587,600	10.2%
61	59	Horton Group Inc.	$42,151,180	4.1%
62	54	Graham Co.	$41,827,673	0.8%
63	60	William Gallagher Associates Insurance Brokers Inc.	$41,697,945	3.4%
64	50	Webster Insurance Inc.	$38,771,609	-11.5%
65	64	Riggs, Counselman, Michaels & Downes Inc.	$37,854,515	8.7%
66	68	DeWitt Stern Group Inc.	$37,757,610	15.8%
67	New	Jenkins Athens Insurance Services	$37,724,025	11.4%
68	63	McQueary Henry Bowles Troy L.L.P.	$37,600,000	7.1%
69	New	ONB Insurance Group	$36,475,299	11.4%
70	69	Andreini & Co.	$36,000,000	10.4%
71	67	Eastern Insurance Group L.L.C.	$35,448,930	7.4%
72	New	Treiber Group L.L.C.	$34,000,000	6.3%
73	71	Fringe Benefits Management Co.	$33,746,578	6.2%
74	72	Higginbotham & Associates Inc.	$33,268,572	8.0%
75	77	Roger Bouchard Insurance Inc.	$33,195,646	9.6%
76	76	Bowen, Miclette & Britt Inc.	$33,136,213	10.7%
77	75	North American Insurance Agency Inc. dba North American Group	$32,460,348	10.0%
78	70	Bratrud Middleton Insurance Brokers Inc.	$32,311,000	4.2%
79	74	Lawley Service Inc.	$32,280,870	7.8%
80	73	Loomis Co.	$32,130,280	5.0%
81	78	Dawson Insurance Inc.	$32,019,822	12.3%
82	86	Assurance Agency Ltd.	$31,077,000	11.4%
83	88	Fred A. Moreton & Co.	$30,541,000	22.6%
84	81	Scott Insurance	$30,210,000	11.7%
85	87	Seitlin	$29,529,530	17.9%
86	82	Starkweather & Shepley Insurance Brokerage Inc.	$29,361,000	9.2%
87	79	Payne Financial Group Inc.	$29,156,478	2.5%
88	83	Lovitt & Touche Inc.	$28,645,441	6.8%
89	80	Frost Insurance Inc.	$28,576,336	1.8%
90	85	Parker, Smith & Feek Inc.	$28,016,000	5.0%
91	New	Kinloch Holdings Inc.	$27,000,000	N/A
92	84	R.C. Knox & Co. Inc.	$26,614,000	0.3%
93	New	Haylor, Freyer & Coon Inc.	$26,290,000 [6]	6.5%
94	95	TrueNorth Cos.	$25,737,302	25.7%
95	93	Cobbs, Allen & Hall Inc.	$25,379,280	16.6%
96	90	James G. Parker Insurance Group	$25,131,000 [7]	6.7%
97	New	SilverStone Group Inc.	$24,849,000	1.6%
98	92	Robertson Ryan & Associates Inc.	$23,917,894	6.3%
99	89	Daniel & Henry Co.	$23,406,000	-3.4%
100	91	RJF Agencies Inc.	$23,179,000	0.1%

*Companies that derive less than 20% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 Fiscal year ending 4/30. 2 Has signed an agreement to be purchased by Wells Fargo & Co. 3 Converted at the applicable rate. 4 Fiscal year ending 3/31. 5 Fiscal year ending 6/30. 6 Fiscal year ending 8/31. 7 Fiscal year ending 5/31. N/A=Not applicable

Source: *BI* survey

Researched by Kevin Edison and Karen Tucker

WHO'S THE MOST PRODUCTIVE?

Ranked by 2006 brokerage revenues per employee, smaller brokerage firms frequently outperform the largest ones.

World's 10 largest brokers	Revenues/employee	Most productive brokers	Revenues/employee
BB&T Insurance Services Inc.	$210,785	Mid American Group Inc.	$390,636
Marsh & McLennan Cos. Inc.	$190,436	Capacity Group of Cos.	$330,136
Hilb Rogal & Hobbs Co.	$184,382	Aviation Insurance Services	$320,529
Brown & Brown Inc.	$182,688	Wachovia Insurance Services Inc.	$304,988
Willis Group Holdings Ltd.	$180,077	Frank Crystal & Co. Inc.	$296,171
Lockton Cos. L.L.C.	$171,807	Alliant Insurance Services Inc.	$286,850
Wells Fargo Insurance Services Inc.	$169,479	Western Benefit Solutions L.L.C.	$285,333
Jardine Lloyd Thompson Group P.L.C.	$166,184	Thesco Benefits L.L.C.	$280,089
Arthur J. Gallagher & Co.	$164,189	Tanenbaum-Harber Co. Inc.	$264,351
Aon Corp.	$155,561	Kinloch Holdings Inc.	$245,455

Source: BI survey

Private: Broker ownership concerns some risk managers

CONTINUED FROM PAGE 20

(the Sarbanes-Oxley) requirements as a private entity the way they were as a public corporation," he said.

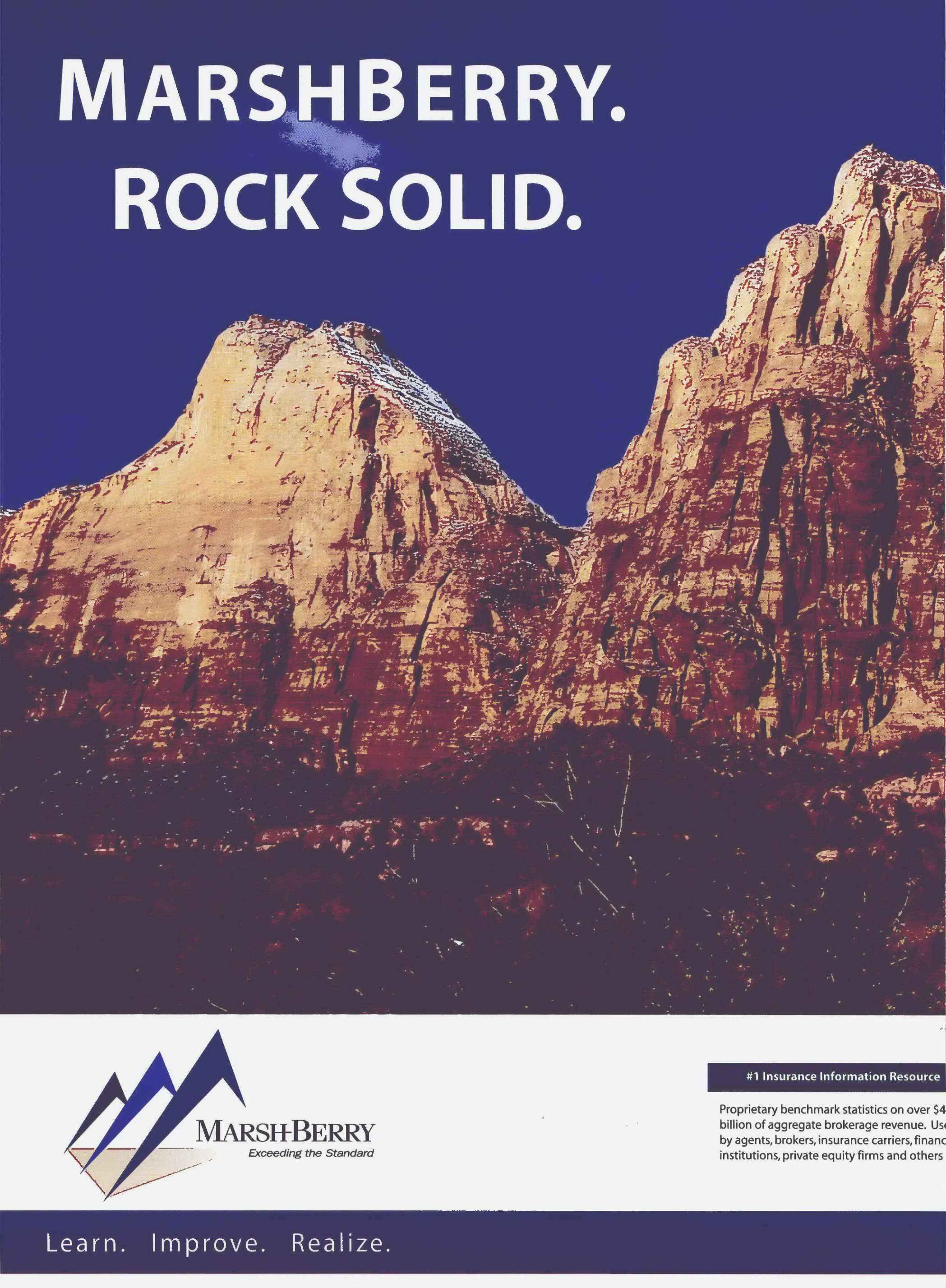
"As the risk manager of a public firm, we go through a lot of audit processes for outside auditors, and what that's done for me, personally, is given me not only a comfort factor of what goes on inside our company, but also it gives me a greater comfort factor for outside entities that I deal with," knowing they have to go through these processes as well, Mr. McMann said. As a result, "if the big names go private, there would have to be some kind of discussion about what kind of governance is in place."

"I would just have a little bit of concern simply because the private equity money can be good and it can be bad," said Judith S. Camp, director of insurance and risk management for Plano, Texas-based Triad Hospitals Inc. "I almost think it's just going to be a wait and see" situation.

Ms. Camp said her concern centers around the amount of influence the private equity money is "going to have on how the company conducts its business."

Some private equity funds will try not to "upset" matters if they see a great opportunity to make some money, "think the management team is great" and that it treats its clients well, said Ms. Camp.

But, "you just don't know whether that's going to be the case," Ms. Camp said.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by agents, brokers, insurance carriers, financ
institutions, private equity firms and others
Learn. Improve. Realize.

Supplemental pay from underwriters

Income percentage of compensation arrangements with insurers for 100 largest brokers of U.S. business

Rank	Company	Supplemental compensation	Business type
1	Marsh & McLennan Cos. Inc.	0.0%	Broker
2	Aon Corp.	0.2%	Broker
3	Arthur J. Gallagher & Co.	1.0%	Agent/Broker
4	Willis Group Holdings Ltd.	0.0%	Broker
5	Wells Fargo Insurance Services Inc.	2.0%	Agent/Broker
6	Brown & Brown Inc.	2.0%	Agent
7	BB&T Insurance Services Inc.	N/A	Agent/Broker
8	Hilb Rogal & Hobbs Co.	6.3%	Agent/Broker
9	USI Holdings Corp.	5.4%	Broker
10	Lockton Cos. L.L.C.	2.0%	Broker
11	Wachovia Insurance Services Inc.	3.0%	Broker
12	Hub International Ltd.	N/A	Broker
13	Alliant Insurance Services Inc.	N/A	Broker
14	ABD Insurance & Financial Services	8.5%	Agent/Broker
15	Leavitt Group	8.0%	Agent
16	Jardine Lloyd Thompson Group P.L.C.	1.0%[1]	Broker
17	Keenan & Associates	N/A	Agent/Broker
18	CBIZ Benefits & Insurance Services Inc.	5.0%	Broker
19	Frank Crystal & Co. Inc.	N/A	Broker
20	Bollinger Inc.	N/A	Agent/Broker
21	Meadowbrook Insurance Group Inc.	2.0%	Agent
22	John L. Wortham & Son L.P.	N/A	Agent
23	Commerce Banc Insurance Service Inc.	N/A	Agent/Broker
24	Hylant Group	N/A	Agent/Broker
25	Hays Group Inc. dba Hays Cos.	3.3%	Agent/Broker
26	Regions Insurance Group Inc.	3.0%	Agent
27	J. Smith Lanier & Co.	N/A	Agent/Broker
28	Mesirow Insurance Services Inc.	N/A	Broker
29	Holmes Murphy & Associates Inc.	N/A	Agent/Broker
30	NIA Group L.L.C.	N/A	Broker
31	UnionBanc Insurance Services Inc.	5.4%	Agent/Broker
32	Tanenbaum-Harber Co. Inc.	2.1%	Broker
33	Allied North America	2.0%	Broker
34	Sky Insurance Inc.	24.0%	Agent/Broker
35	IMA Financial Group Inc.	10.0%	Agent/Broker
36	Guaranty Insurance Services Inc.	6.0%	Agent
37	Compass Insurance Agency Inc.	6.9%	Agent
38	BancorpSouth Insurance Services Inc.	3.9%	Agent
39	Neace Lukens Holding Co.	8.4%	Agent
40	Insurance Office of America Inc.	3.0%	Agent
41	Heffernan Group	N/A	Broker
42	Rutherfoord Cos.	8.0%	Agent/Broker
43	Associated Financial Group L.L.C.	10.4%	Agent
44	Beecher Carlson Holdings Inc.	2.9%	Broker
45	James B. Oswald Co. dba Oswald Cos.	7.0%	Agent/Broker
46	InterWest Insurance Services Inc.	9.5%	Broker
47	Woodruff-Sawyer & Co.	N/A	Broker
48	TD Banknorth Insurance Agency Inc.	N/A	Agent
49	Frenkel & Co. Inc.	6.4%	Broker
50	Wausau Signature Agency	4.2%	Agent
51	Trion Group Inc. dba Trion	N/A	Agent/Broker
52	Mahoney Group	15.6%	Agent
53	Van Gilder Insurance Corp.	6.0%	Agent/Broker
54	Cottingham & Butler Inc.	3.7%	Agent/Broker
55	Barney & Barney L.L.C.	N/A	Broker
56	Integro USA Inc.	N/A	Broker
57	Marshall & Sterling Enterprises Inc.	11.0%	Agent/Broker
58	Western States Insurance	12.2%	Agent
59	First Niagara Risk Management Inc.	11.0%	Agent
60	Capacity Group of Cos.	2.0%	Agent/Broker
61	Horton Group Inc.	7.0%	Broker
62	Graham Co.	2.6%	Agent/Broker
63	William Gallagher Associates Insurance Brokers Inc.	N/A	Agent/Broker
64	Webster Insurance Inc.	4.5%	Agent
65	Riggs, Counselman, Michaels & Downes Inc.	N/A	Agent/Broker
66	DeWitt Stern Group Inc.	N/A	Broker
67	Jenkins Athens Insurance Services	5.0%	Broker
68	McQueary Henry Bowles Troy L.L.P.	7.2%	Agent
69	ONB Insurance Group	6.0%	N/A
70	Andreini & Co.	N/A	Agent/Broker
71	Eastern Insurance Group L.L.C.	15.6%	Agent
72	Treiber Group L.L.C.	N/A	Agent/Broker
73	Fringe Benefits Management Co.	N/A	Agent/Broker
74	Higginbotham & Associates Inc.	5.0%	Agent
75	Roger Bouchard Insurance Inc.	N/A	Broker
76	Bowen, Miclette & Britt Inc.	12.8%	Agent
77	North American Insurance Agency Inc. dba North American Group	4.0%	Agent/Broker
78	Bratrud Middleton Insurance Brokers Inc.	N/A	Broker
79	Lawley Service Inc.	11.3%	Agent
80	Loomis Co.	N/A	Agent/Broker
81	Dawson Insurance Inc.	5.5%	Agent
82	Assurance Agency Ltd.	5.0%	Broker
83	Fred A. Moreton & Co.	10.0%	Broker
84	Scott Insurance	7.4%	Agent
85	Seitlin	2.2%	Agent
86	Starkweather & Shepley Insurance Brokerage Inc.	17.0%	Broker
87	Payne Financial Group Inc.	N/A	Agent
88	Lovitt & Touche Inc.	N/A	Agent/Broker
89	Frost Insurance Inc.	N/A	Agent
90	Parker, Smith & Feek Inc.	10.0%	Agent/Broker
91	Kinloch Holdings Inc.	N/A	Agent/Broker
92	R.C. Knox & Co. Inc.	16.0%	Agent
93	Haylor, Freyer & Coon Inc.	4.0%	Agent
94	TrueNorth Cos.	13.0%	Agent
95	Cobbs, Allen & Hall Inc.	4.9%	Agent/Broker
96	James G. Parker Insurance Group	1.0%	Agent
97	SilverStone Group Inc.	N/A	Agent/Broker
98	Robertson Ryan & Associates Inc.	N/A	Agent
99	Daniel & Henry Co.	9.6%	Broker
100	RJF Agencies Inc.	N/A	Agent

Source: *BI* survey Supplemental compensation includes contingent and other forms of incentive income paid by underwriters [1] Less than 1.0%. N/A = Not available

Middle market: Brokers seeing opportunities in serving smaller clients

CONTINUED FROM PAGE 30

much more coordinated global approach to placing this."

Both Marsh and Willis are employing information technology to give their midsize clients access to account information and better understand their risks, Messrs. Feuer and Joost said.

A global platform and expertise in serving a broad base of industries may be differentiators for the largest brokers, but industry observers say personal relationships are what really matter in the middle market.

Personal relationships are key, said J. Hyatt Brown, chairman and chief executive officer of Brown & Brown Inc. The Daytona Beach, Fla.-based company's core business comes from serving midsize customers. Mr. Brown defines that segment as retail accounts generating between $5,000 and $250,000 in commission, with the average being about $25,000.

Middle-market customers are "looking for someone they feel they can trust, who has their interest and can take care of their insurance needs," Mr. Brown said.

Brown & Brown's producers focus on building personal relationships with business owners, but customer service representatives also may have strong relationships with client contacts, he said. That helps Brown & Brown to deliver service promptly, Mr. Brown said.

He isn't greatly worried by larger brokers' interest in competing for middle-market clients. "You're either fish or fowl. If you're used to handling large accounts, that's what you do," Mr. Brown said. Middle-market clients prefer service from people close to their level, he said. "That's what we do. We are at the ambient level at the street."

Earlier this year, consulting firm Greenwich Associates in Greenwich, Conn., released a survey on middle-market brokers that examined drivers of customer satisfaction and loyalty.

Greenwich conducted interviews with about 14,000 companies with sales between $10 million and $500 million about their brokers, and focused on about 1,300 to identify 25 key satisfaction areas. Based on scores in these areas, Greenwich identified the following brokerages as national middle-market client satisfaction leaders: Arthur J. Gallagher & Co., BB&T Insurance Services, Brown & Brown, Wachovia Insurance Services, Wells Fargo Insurance Services and USI Holdings (see related story, page 30).

A page from the 1980s

David Fox, a managing director at Greenwich, sees parallels between insurance brokers' approach to the middle market and that of national banks during the 1980s.

"Major banks looked at the middle market the way that the major brokers are looking at it today," he said. "They thought, 'What we need to do is take our capabilities and package them for the local market, and then we will be able to displace the local banks.'"

But that didn't happen, he said. To grow in the middle market, national banks had to acquire local operations, "and they consistently underrated the relationship aspect," Mr. Fox said.

Smaller clients based the relationship on "trust, tenure and certainty," he said. So "there's a huge benefit of the doubt that will go to the incumbent."

"Smaller brokers tend not to talk about their business as segments; they talk about individuals," Mr. Fox said. "The middle market is not a concept for them. When you think segments instead of individuals, it's a lot different."

Another challenge is that producers at large brokers tend to see large accounts as more rewarding, said Bill Bruno, senior vp at Greenwich. "In theory, you're viewed as a B player" if your focus is smaller accounts that don't generate as much in fees or commissions, he said. "You might feel like you're more important working for a smaller broker whose main business is the middle market."

Some analysts acknowledge that the middle market offers opportunities to brokers of all sizes.

"Fundamentally, a company can be more than one thing" and serve both large and smaller clients, said Meyer Shields, an analyst at Stifel Nicolaus & Co. Inc. in Baltimore. "The middle market is an enormously fragmented marketplace," so there's room for competition.

"All big brokers are looking for new ways to grow and improve profitability," said Gretchen Roetzer, associate director at Fitch Ratings in Chicago. "The tough part is a lot of their competitors in the middle market are still taking contingent commissions."

Large brokers can provide value and cross-sell services in the midmarket, she said. "The question is, can they do it profitably? There's a lot of learning to be done."

1 MMC

Marsh & McLennan Cos. Inc.

Marsh & McLennan Cos. Inc. has moved out of the defensive position it adopted as a result of compensation scandals that tainted the company in 2004 and 2005, and is focused on developing products and services that meet the evolving needs of its global client base, the brokerage's senior executive says.

While observers agree that the world's largest brokerage has made progress in stabilizing its operations over the past 12 months, they say it still has major issues to contend with, including lingering concerns over its earnings performance, uncertainty over its compensation structure and speculation about its future.

Marsh Inc., MMC's brokerage unit, restructured its business following bid-rigging and client-steering investigations by then-New York Attorney General Eliot Spitzer in 2004. To settle those allegations, New York-based Marsh agreed in February 2005 to pay $850 million into a compensation fund for its clients. Numerous other lawsuits seeking class-action status are still outstanding against MMC, its units, and current and former directors and officers related to the regulatory investigations.

As a result of fallout from the scandal, Marsh concentrated on protecting its franchise in 2004 and 2005. However, last year it refocused on growing its business, said Brian Storms, chairman and chief executive officer of New York-based Marsh.

A critical part of its strategy is innovation, he said. For example, in January of this year, Marsh helped form MaRI Ltd., an acronym for Marsh Risk Innovations, a sidecar insurer that offers working-layer property catastrophe capacity (*BI*, Jan. 15). Marsh plans to launch proprietary solutions for workers compensation and oil and gas risks later this year.

"You don't do those things when you're protecting your business," Mr. Storms said.

The issue of broker compensation, though, was once again thrust forward when rival brokerage Willis Group Holdings Ltd. announced that it would not accept supplemental commissions when it represents insurance buyers. Willis said the new form of compensation offered by some insurers does not avoid the conflicts of interest associated with contingent commissions (*BI*, April 30).

The Risk & Insurance Management Society Inc. followed by taking its strongest stance yet on the issue of broker compensation, calling for a prohibition on all "placement fees" paid to brokers by insurers. (*BI*, June 4).

The issue of compensation is more complex than simply debating supplemental vs. contingent commissions, Mr. Storms said. Marsh won't accept commissions tied to volume considerations, but the company also views the pricing relationship with insurers as important because the brokerage provides administrative services and support to insurers that should be paid for and that are unrelated to transactions, he said.

"No, we're not taking supplementals based on volume," Mr. Storms said. "Are we willing to have a discussion with markets about being paid for certain services? Yes, we are, and we think our clients understand that."

Marsh is analyzing proposals with various insurers to determine the level of operational service it provides and whether it can ascertain a value for that service unrelated to volume, Mr. Storms said. "We are working through that and when we have something publicly to disclose, we will," he said. "But not in the form of supplementals, not in the form of contingents. Anything that we ultimately arrive at will be fully disclosed, completely transparent. Everyone will know precisely what we're doing."

Given Marsh's history, the company's decision on compensation will be monitored carefully by its clients, analysts say.

"It's hard for me to believe that they would accept anything that looks like a contingent commission," said Mark Lane, a principal and research analyst with William Blair & Co. in Chicago.

The loss of contingent commission income was a key contributor to the company's reduced earnings in recent years, but in 2006 brokerage revenues increased 3.9% compared with 2005 to $10.47 billion. Commercial retail brokerage revenue, though, slipped 3.9% to $4.39 billion for a variety of reasons, including the decline in contingent commissions, the sale of claims management unit Sedgwick Claims Management Services Inc. and the soft insurance market, a Marsh spokesman said.

In the first quarter of 2007, MMC

Continued on next page

Marsh & McLennan Cos. Inc.

2006 GROSS REVENUES
$11,985,000,000
3.1%

2006 BROKERAGE REVENUES
$10,474,000,000
3.9%

Brian Storms, chairman/CEO-Marsh Inc.

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reported gross revenues of $2.81 billion, a 5.2% increase over the same period in 2006.

The company demonstrated "substantial improvement" in its earnings performance in the past 12 months and is "very confident" it will reach targets of 3% to 5% revenue growth and 15% to 20% earnings growth over the next three years, Mr. Storms said.

Analysts, though, have taken a mixed view on the company's earnings performance, particularly in comparison with the growth experienced by its major competitors, Chicago-based Aon Corp. and London-based Willis.

Fitch Ratings last month revised its rating outlook for Marsh to stable from negative because the insurance brokerage's performance has "sufficiently stabilized," said Greg Dickerson, associate director of the insurance group of Fitch Ratings in New York.

Marsh is running a "much leaner operation" and has integrated many of its legacy systems, he said. "I do see margins improving, maybe not to the level of Willis or Aon, but I do see them inching up," Mr. Dickerson said.

While Marsh has made progress in adding new business and retaining clients and employees, the results have been somewhat disappointing, William Blair's Mr. Lane said. In particular, Marsh's organic growth in the first quarter was the worst of the publicly traded brokerages, he said. "I don't think the outlook is any brighter today than it was 12 months ago," Mr. Lane said.

Continuing its efforts to divest noncore business units, MMC announced in February the $3.9 billion sale of Putnam Investments, its investment management unit tarnished by trading scandals, to Winnipeg, Manitoba-based Great-West Lifeco Inc. The deal is expected to close later this year.

"I think it was long overdue," Mr. Lane said of the Putnam sale. "I think it improves their financial flexibility. It allows them to focus on the insurance brokerage business. It also makes the company a more attractive takeover target" although he expressed doubt about a possible transaction.

Speculation about the future of Marsh has been rampant, particularly in light of major private equity deals involving Alliant Insurance Services Inc., USI Holdings Corp. and Hub International Ltd. as well as analyst calls for further spinoffs from MMC.

"The whole industry is going through this dislocation right now," Marsh's Mr. Storms said. "You can't control speculation. We don't spend any time engaged internally in 'what if' scenarios."

Marsh is a public company and a dominant part of MMC, he said. Whatever the long-term structure of the company, nothing will change in terms of executing its strategy, he said.

"I think what we've said is we're making the tough decisions as a public company that we would as a private company," Mr. Storms said. "We're transforming this company and there is a price to that in the short term, but we're doing it."

Marsh is "far along" in the global integration strategy it launched last year, consolidating its regional offices into cohesive units to communicate data more efficiently, Mr. Storms said.

The company expects its efforts to streamline its operations will have a positive impact, eliminating multiple systems for functions such as client management and bookkeeping and developing one system that will be used globally by the end of the year, he said.

Another part of Marsh's transformation includes changing staff in key global positions throughout the company and hiring people with the right skills necessary to execute the company's new strategy, Mr. Storms said.

Client and employee retention suffered in recent years due to the impact of the regulatory probes, but voluntary turnover levels have declined to historical levels and Marsh is aggressively recruiting, Mr. Storms said.

Last November, Marsh announced the departure of William A. Malloy, who had served as president of the brokerage unit since shortly after the Spitzer scandal broke. Mr. Malloy was not replaced.

In June, Mark McGivney joined Marsh as chief financial officer from Worcester, Mass.-based Hanover Insurance Group Inc., where he was senior vp of finance, corporate treasurer and CFO for the company's property/casualty business. He replaced Jerome Bailey, who left Marsh about 18 months ago.

Marsh made a key hire in its global compliance group with former Manhattan Assistant District Attorney Owen Heimer now heading the group's internal review and response division. As a prosecutor, Mr. Heimer won a conviction against former Tyco International Ltd. CEO Dennis Kozlowski.

The global compliance group was formed in response to regulatory issues in which the company was embroiled, but the group has moved beyond reacting to the crisis to focus on identifying risks and minimizing the company's exposures, said Bob Viteretti, chief compliance officer for Marsh Inc. "We've been able to be a bit more proactive in looking at the organization," he said.

On July 6, MMC's stock closed at $31.44 a share, with a 52-week high of $33.90 and a 52-week low of $24.00.

—By Gloria Gonzalez

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2 AON

Aon Corp. is in building mode, acquiring both talent and specific businesses over the past year to enhance its capabilities, its chief executive says.

"We're at the end of the beginning in terms of what stands before Aon in opportunity," said Gregory C. Case, president and CEO of the Chicago-based brokerage.

"Aon is all about building for the future. We see it as our time to succeed, and we'll either capture it or we won't," he said.

"It's been two years since I joined Aon, and I came in with high expectations," Mr. Case said. "What I saw was tremendous opportunity. Global demand for our capabilities was going to go up, not down. Two years later, based on what I've seen—and I'm still meeting with roughly 100 clients a month—I have more conviction than I ever have about opportunities for Aon."

One of Aon's most significant restructurings in the past year was formation of Aon Global in January, a business unit that unifies the company's global resources under one service platform. Aon Global comprises the former Global Large Corporate division, the Captives Services Group, the International Risk Management Group, Risk Consulting, Risk Engineering and other units.

Dennis Mahoney, chairman and CEO of Aon Ltd., has been tapped as chairman of Aon Global and is relocating to Bermuda. Steve McGill, CEO of Aon Risk Services Americas, will assume the additional role of CEO of Aon Global. Peter Harmer, who headed Aon's Australia/New Zealand operations, succeeds Mr. Mahoney as CEO of Aon Ltd.

"We've linked our network more closely in the spirit of delivering Aon's global capabilities in a local way," Mr. Case said.

Among other senior executive changes, Aon announced this year that Chief Financial Officer David Bolger will be leaving once his successor is named. Mr. Case praised Mr. Bolger as "a great colleague" and added that Aon's next CFO "will continue to be a valued colleague, helping us build and shape our company to operate more as a global firm."

While Aon's 2006 brokerage revenues of $6.71 billion make it the second-largest brokerage in the world, Mr. Case said that "Size is not a focal point for us; it's about quality and capability" in serving clients.

Business Insurance defines brokerage revenues as commissions and fees derived from insurance services, including brokerage and consulting and other income but not investment or underwriting income. Aon's 2005 brokerage revenues were $6.49 billion.

Risk and insurance services accounted for about 63% of Aon Corp.'s gross revenues in 2006, with the remainder provided by consulting and underwriting operations. Aon's gross revenues grew 5.4% in 2006, to $8.95 billion from a restated $8.50 billion in 2005. The company's 2006 net income fell slightly, to $720 million from $735 million a year earlier. Aon restated 2005 gross revenue to reflect discontinued operations.

Last November, the company sold two of its underwriting businesses, Aon Warranty Group and the Construction Program Group, for $800 million. Through prior sales, Aon no longer underwrites property/casualty insurance, focusing instead on accident and health and life business.

Significant acquisitions last year include:

- San Ramon, Calif.-based Valley Oak Systems Inc., a risk management and claims information system vendor, which Aon has merged with its eSolutions Group. In *BI*'s 2007 ranking of RMIS, the combination of Valley Oak's iVOS with Aon's RiskConsole was the fifth-largest RMIS by risk management department installations.
- Breitstone & Co., a Cedarhurst, N.Y.-based specialty environmental risk management firm. Peter C. Breitstone was named managing principal and CEO of Aon's environmental services group.
- Footman James, a U.K.-based affinity brokerage.

"We're very much in growth mode," Mr. Case said.

In 2006, Aon spent $180 million on acquisitions and has already reached that point in 2007. "We continue to make acquisitions to help our clients," Mr. Case said.

In the first quarter of this year, Aon reported a 10% rise in gross revenue, to $2.4 billion, and an 8% increase in net income, to $213 mil-

Continued on next page

Aon Corp.

2006 GROSS REVENUES $8,954,000,000 — 5.4%

2006 BROKERAGE REVENUES $6,709,000,000 — 3.4%

Gregory C. Case, president/CEO

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lion, vs. the year-earlier period.

A highlight came in April on the 20th anniversary of Aon trading as a single company under the Gaelic word meaning "oneness."

Mr. Case noted that some Aon companies, such as Hudig-Langeveldt, have existed for centuries, but the company considers its birthday as April 24, 1987, when the name Aon began trading publicly. To celebrate that event this year, he said Aon colleagues around the world volunteered for more than 200 community service projects in 60 countries.

In May, Aon created a Turnaround and Restructuring Practice, based in Boston and headed by Michael Toner, to assist clients with property and liability risk management services. TARP expects to expand its scope to include pension, compensation, employee retention and other services.

In September 2006, Aon announced an amended settlement agreement with the attorneys general in New York, Connecticut and Illinois regarding contingent compensation. While Aon in 2005 ceased accepting contingent commissions for placing business on behalf of insurance buyers, the amended agreement permits Aon to accept the commissions when it acts as a managing general agent or managing general underwriter for an individual insurance company.

Aon has not announced whether it will accept new supplemental compensation programs unveiled by several insurers in the past year, but Mr. Case suggested that Aon may elect not to receive them.

"A two-tier system wasn't helpful," with some brokers taking contingents and others not. "We struggle with how a three-tier system would be helpful," Mr. Case said. "We have not accepted any supplemental commissions and we will never do anything to jeopardize the trust we have with our clients. We will always operate in a transparent way," he said.

"A big outcome of all the work from the attorneys general was around transparency, to make sure clients understand what they get and what they pay for what they get from their brokers. I love that. It puts the knife edge on us to serve our clients," he said.

"Firms that have that capability will do well. If we do well for our clients, we'll do great, and if we don't, we won't," Mr. Case said.

An analyst sees the changes within Aon paying off under Mr. Case's leadership.

"They're focusing on core business and what needs to improve," said Gretchen Roetzer, associate director at Fitch Ratings in Chicago, who tracks Aon and other brokerages.

"Greg Case has pretty well executed on what he said he'd do when he came in two years ago. We can see a positive trend in profitability and financial flexibility," Ms. Roetzer said. "It looks like they're making all the right steps."

On July 6, Aon's stock closed at \$42.68 per share, shy of its 52-week high of \$43.65. Its 52-week low was \$31.90.

—By Regis Coccia

3 Willis

Continuing to employ a "slow and steady wins the race" approach, Willis Group Holdings Ltd. spent the past year focused on organic growth and a gradual expansion of its global footprint.

That tack seems to be working.

The London-based brokerage has been quietly carving out more market share and boosting revenues, observers say, despite softening market conditions.

After previously swearing off contingent commissions amid then-New York Attorney General Eliot Spitzer's industry probe, Willis this year said it would not take new supplemental commissions developed by some insurers in place of contingents.

While state attorneys general have approved the supplemental compensation, Willis in April announced it would reject the incentive payments.

"I just don't think that it's right...and so, we're not going to take them," Willis Chief Executive Officer Joe Plumeri said of supplemental commissions. "In my mind, I believe it's the same as a contingent—it's a conflict."

Fortunately for Willis, it weathered the compensation scandals of 2004 better than its peers, observers say.

"Of the global brokers, (Willis was) probably least impacted by loss of contingent commissions," said Greg Dickerson, analyst in New York with Fitch Ratings.

Compared with Willis rivals Marsh Inc. or Aon Corp., "the contingent commissions made up a smaller percentage of the overall revenue, roughly about 4% at the time they gave it up," and Willis "likely suffered less reputational damage than Marsh or Aon" as a result of the compensation scandals, said Mr. Dickerson.

Unlike competitors, Willis was not forced to issue an apology over contingent commissions, and Willis' settlement was reached without the filing of a lawsuit by Mr. Spitzer, Mr. Dickerson noted.

A Standard & Poor's Corp. report from May said: "In 2005 and 2006, the primary strategic goal for these global brokers was minimizing the loss of contingent commissions in an increasingly competitive market. All have restructured operations, cut expenses, sold off wholesalers, culled unprofitable businesses and refinanced liabilities to reduce financial risk and improve profitability. In 2006, the success of these moves was clearer than in 2005. Willis, thus far, has recovered the fastest."

Mr. Plumeri certainly has been pleased with Willis' performance.

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"We went through the Spitzer years and recovered very, very nicely. Our margins are still in the over-20% range—without a contingent in the house and fully transparent," Mr. Plumeri said.

Indeed, last year was a good one for Willis financially; among the world's largest four brokers, Willis reported the highest increase in 2006 brokerage revenues, a 6.7% rise to $2.34 billion.

Commercial retail brokerage revenues at the world's third largest brokerage rose 5.2% to $1.32 billion.

One area that Willis has identified as a key growth target, employee benefits, saw revenues rise 21.2% to $247.6 million in 2006. Other areas of growth included reinsurance brokerage, where revenues rose 7.7% to $563.0 million, and personal lines revenue, up 34.5% to $31.8 million.

Willis Group Holdings Ltd.

2006 GROSS REVENUES 7.1%
$2,428,000,000

2006 BROKERAGE REVENUES 6.7%
$2,341,000,000

Joe Plumeri, chairman/CEO

The broker's revenue growth is continuing this year. For the first quarter of 2007, Willis reported total revenues of $739 million, a 10% increase over the prior-year period.

"I looked back for about 14 quarters in a row. When I looked at the peer group, our revenues grew more than the average of the peer group...I've got to feel good about that," Mr. Plumeri said.

"From an operating performance standpoint, their performance continues to surpass their closest competitors...their margins and their organic growth continue to compare favorably" with Marsh and Aon, Fitch Ratings' Mr. Dickerson said.

In terms of a global footprint, Willis is "certainly not on the level with Marsh yet, but they have increased their ownership of Gras Savoye in France," said Mr. Dickerson.

"We own 38% of that company and probably about 2010, we will buy the rest," said Mr. Plumeri of its French associate, Paris-based Gras Savoye & Cie, which recorded brokerage revenues of $569.2 million in 2006.

"They won't grow to scale in the same time frame as their competitors," but the company is "growing at a measured pace," said Tracy Dolin, credit analyst with New York-based S&P.

"Their strategy is growth by acquisition to a limit of $100 million a year," noted Ms. Dolin, and "there are many years that go by" in which the broker doesn't reach that sum.

In 2006, Willis spent $98 million on acquisitions. In addition to the $25 million to purchase an additional 5% ownership in Gras Savoye, it completed eight acquisitions of retail and reinsurance brokerage companies—in Chile, Norway, South Africa, Sweden and the United States—with annual revenues of about $30 million for total spending of $73 million, net of cash acquired.

One blockbuster deal that would have marked a major departure from Willis' acquisition strategy failed to materialize.

Last October, a market source confirmed that Willis had made an informal bid earlier in the year to acquire its much larger rival Marsh & McLennan Cos. Inc. (*BI*, Oct. 23, 2006). Willis declined to comment on the matter.

For his part, Mr. Plumeri insists the company's key growth will always be organic: "That's what we do here, we build internally," he said.

Some analysts, though, question whether Willis will be able to sustain its recent growth over the long term.

Earlier this year, Merrill Lynch & Co. research analyst Jay Cohen noted in a report that Willis will be challenged to maintain its growth rate in the future due to softening market conditions.

S&P also noted in a May report on global brokers that Willis is "prone to greater earnings volatility and margin compression due to its exposure to property/casualty insurance's underwriting cycle."

But the rating agency report also said, "Willis' executive recruitment and retention strategy, as well as its expanded global scale, should result in a measurable gain in market share through 2007."

Willis increased its employee base by about 300 in 2006, bringing its total to about 13,000 worldwide.

"Our clients are sticking with us, our retention rates are high, we are opening new business around the world," said Mr. Plumeri, adding: "Our stock has done well, which is always a good thing for our shareholders."

Looking ahead, Willis will continue to focus on client service through offerings such as its Willis Quality Index to benchmark insurers and its Shaping the Future initiative to, among other things, control expenses and enhance the broker's service model, processes and technology.

"Building the systems to be able to deliver a greater knowledge, and the ability to be able to deliver greater information to our clients is very, very important," said Mr. Plumeri. "And to do it in a way that's quicker than anybody else."

On July 6, Willis' stock closed at $43.92 a share. It's 52-week high was $46.64 and its 52-week low was $31.21.

—By Rupal Parekh

4

Arthur J. Gallagher & Co.

After steering its way through fallout from the contingent commissions controversy for much of 2005, 2006 "was a back to business year," for Arthur J. Gallagher & Co., said J. Patrick Gallagher Jr., the Itasca, Ill.-based brokerage's chairman, president and chief executive officer.

"I think the hallmark of 2006 was going into a year with a complete change in business practices on the broker side," Mr. Gallagher said. "It was also a relief to have most of the controversy (about contingent commissions) start to fade as we paid out the funds we promised to pay. It seems our settlement with Illinois is seen as adequate with the other states."

He said moving to a fully transparent model in the brokerage business "was no small feat."

"This is not how the business has been done for 80 years or 100 years," Mr. Gallagher said. What's more, Gallagher does much of its business in the commercial middle market, "and our competition there quite often is the local or regional broker, and they were going to operate in the old-fashioned model," he said.

"What was probably one of the most rewarding things about our move to describing to our clients exactly how we get paid was the fact that there was no push back," Mr. Gallagher said. "That told me a couple of things. The first thing it told me, and I couldn't be prouder of this, our clients recognize the value we're providing to their company.

"By the same token, I thought it was a tremendous reflection on our culture. You could have easily had production talent, even management talent, recruited away to local competitors, basically on the premise of 'We don't have to change anything,'" Mr. Gallagher said.

He admitted his company missed some acquisition opportunities last year because of the move to full transparency. "We lost acquisitions that in some instances were afraid to move into the new environment," he said.

Looking back, Mr. Gallagher said the transparency his firm embraced in 2006 is truly a benefit that emerged from the contingent commissions issue.

"I think it's moved our relationship with our clients to a higher plane, and I think it is a good thing, which the industry never would have done if we hadn't been brought to scrutiny by regulators," Mr. Gallagher said. "The rest of it was whatever it was, but there actually was a benefit here."

And, he noted, 2006 was a "good growth year" for the company.

Gallagher's acquisitions slowed to 10 in 2005 from a record 19 in 2004. Last year, the company completed 11—all within its brokerage segment. And, said Mr. Gallagher, "It looks like 2007 will be one of our best acquisition years of all time."

So far this year, Gallagher has completed 11 acquisitions.

"I think they've done a good job of getting the acquisitions moving in the past 12 months," said Adam Klauber, managing director at Cochran Caronia Waller, an investment banking firm in Chicago.

"The company has been a very good acquirer, and I think they have done a very good job over the years of bootstrapping some acquisitions and using them to penetrate some geographies, penetrate some product lines," said Mark A. Dwelle, senior vp-equity research at investment banking firm Ferris, Baker Watts Inc. in Richmond, Va.

Last year also saw a rebound in organic growth in Gallagher's brokerage segment, Mr. Gallagher said.

Gallagher, the world's fourth-largest insurance brokerage, posted nearly $1.44 billion in brokerage revenue in 2006, an increase of nearly 6.5% from its $1.35 billion in brokerage revenue in 2005.

The company posted $128.5 million in earnings in 2006, up from $30.8 million in 2005.

"It was in many ways a great year," Mr. Gallagher said. "Of course, the most difficult thing in the year was that we lost my uncle."

Company Chairman Robert E. Gallagher died last August after a brief illness. "He was just a wonderful influence on our company. And it's been nine months now and people still miss him quite a bit," Mr. Gallagher said.

"That was the one thing that really put a damper on 2006," he said. "Here we are, fighting our way through some tough stuff, succeeding, writing some new business and then we lose our chief culture officer. And that's really what Bob was."

Thus far this year, Gallagher, like other insurance brokerages, is confronting the impact of a still-softening market.

The company had $246.0 million

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Arthur J. Gallagher & Co.

2006 GROSS REVENUES
$1,534,000,000
3.3%

2006 BROKERAGE REVENUES
$1,437,800,000
6.5%

J. Patrick Gallagher Jr., chairman/president/CEO

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in brokerage revenue in the first quarter of 2007, up 9.2% from the same period last year. Net earnings for the quarter were $9.2 million, down 12.4% from $10.5 million in the first quarter of 2006.

"The market is extremely soft and getting softer every minute," Mr. Gallagher said. "It's a significant head wind."

"The biggest thing in the whole broker sector is just the state of the whole insurance market," said Ferris, Baker Watts' Mr. Dwelle. "That affects (Gallagher) equally as much as any of their competitors."

On the positive side, "they're a strong sales organization," Mr. Dwelle said. "They've always been good at creating new business volumes." But, the analyst noted, improving margins is more difficult in the current market.

"Organic growth in the first quarter dropped 1%," Mr. Gallagher said. "Overall growth was still good—our acquisition activity has been very strong this year, I'm very pleased with the acquisition activity—but I would like to see us do better when it comes to organic growth. We're a sales and marketing company. We're used to hard markets and soft markets."

Cochran Caronia Waller's Mr. Klauber said he'd like to see the brokerage making more progress on the expense side of the ledger. "On the negative (side), we're not seeing the expense improvements we'd hoped for," Mr. Klauber said. "We'd hoped that would turn around, but so far it hasn't."

On the subject of supplemental commissions that Gallagher receives from some insurers, Mr. Gallagher stressed that they are fully disclosed to clients.

"Over 80% of our brokerage segment revenue comes to us in commissions. Our clients choose the commission route to pay us," Mr. Gallagher said. "Those commissions are disclosed. If I can get Hartford to agree, or CNA to agree or Chubb, or St. Paul Travelers, that because I don't get contingents they ought to pay me more up front, and I show that to a client who says that's appropriate compensation, then I feel zero conflict in accepting it."

"It cannot, by my agreement with regulators, be contingent on anything," Mr. Gallagher continued. "It cannot be an incentive. It has to be agreed up front. It has to be locked in and it has to be disclosed."

"By the way, I'm happy to work on a fee," Mr. Gallagher said, "as long as we're remunerated properly and profitably. And our production staff is empowered to have that discussion. They don't have to come to me."

Gallagher's stock closed at $28.30 per share on July 6, with a 52-week high of $30.42 and a 52-week low of $24.42.

—By Rodd Zolkos

5 WELLS FARGO

Wells Fargo Insurance Services Inc. expanded its capabilities and revenues over the past year, but questions linger over whether its strategy of cross-selling insurance to bank customers will succeed with large, complex commercial accounts.

Brokerage revenues for the world's fifth-largest brokerage grew to $1.01 billion in 2006, up 5.1% compared with 2005. The broker said that two-thirds of its 2006 growth was organic, with the remainder from acquisitions.

The brokerage's revenues will increase further in 2007 if WFIS' acquisition of ABD Insurance & Financial Services Inc. goes through as planned. Based on 2006 revenues, the purchase of ABD would add $164 million, based on 2006 revenues, to WFIS.

The organic growth rate, which compares favorably with other brokerages, was due to several reasons, said Dave Zuercher, president and chief executive officer of Chicago-based WFIS. Mr. Zuercher became president and CEO of WFIS in August 2006 after serving as chairman of Acordia for five years. He succeeded Peter J. Wissinger, a 20-year Wells Fargo veteran who sought a career change after serving at the helm for just eight months.

Among other things, WFIS changed its compensation structure for managers and lifted certain geographical restrictions, he said.

In the past, local managing directors received credit for sales if their staff placed the coverage, but they did not receive credit if a WFIS broker from another office flew in to make the deal.

Under the changes made, local managing directors receive credit even if a team of producers from another WFIS office steps in to place the coverage because the team has specific expertise that a certain client needs.

Previously, "we would lose sales because they were not able to put the best person in front of the client," Mr. Zuercher said. "They never got any credit for it." Now local managers are more likely to call in experts from other offices when necessary, he said.

Market conditions in 2006 also helped WFIS' revenues. The broker was very active in Florida and other states in the Southeast where property rates shot up following the hurricane losses of 2005, Mr. Zuercher said.

The broker added two offices in 2006, bringing its total to 161. The two new offices provide products for personal lines and "very small" business customers," he said.

It is among small-business customers, observers say, that the brokerage's efforts to cross-sell insurance to bank customers will see the most success. Penetrating larger employers with that strategy could remain challenging, they say.

Cross-selling, however, has been a mantra at WFIS' bank parent, Wells Fargo & Co., for more than a decade, noted Richard Bove, a financial institutions analyst at New York-based Punk Ziegel & Co.

Wells Fargo & Co. decided that growth by selling additional financial products to existing bank clients is more likely to generate additional business than attempting to expand its overall customer base, and over the years it has made several acquisitions to further its strategy.

"They are the best in the business," Mr. Bove said of the parent company's cross-selling success.

But Mr. Bove agrees with others that reaching large clients though a bank cross-selling strategy could take at least a decade to prove successful. Selling complex commercial insurance products to large, diverse employers takes special skill sets that are not normally found at banks, he said.

Cross-selling insurance to large commercial bank clients makes sense on paper, said John Wicher, principal at John Wicher & Associates in San Francisco. But no one has ever succeeded at it and "there remains culturally such a vast difference between the two businesses."

WFIS' Ms. Zuercher agrees it's a tough proposition. But if WFIS succeeds, it would be difficult for competitors to follow.

"That's why we like it, because it's probably one of the hardest things to do," Mr. Zuercher said. "But it's also one of the hardest things to replicate and our company has had a culture of cross-selling that has gone back 15 or 20 years.

"So it's merely inculcating that into the brokerage business, which we have been doing over the last five or six years after our acquisition of Acordia."

Wells Fargo acquired Acordia in 2001 and changed its name to WFIS in February.

Wells Fargo Insurance Services Inc.

2006 GROSS REVENUES
$1,187,000,000 — 10.9%

2006 BROKERAGE REVENUES
$1,008,737,000 — 5.1%

Dave Zuercher, president/CEO

According to WFIS, 85% of its overall revenue is from middle-market and larger accounts.

There are 82 different businesses within Wells Fargo, Mr. Zuercher said. The parent company has "specialists" responsible for connecting those diverse businesses to further its cross-sell strategy.

They can, for example, help link customers of a Wells Fargo unit that is one of largest equipment finance entities in the United States with WFIS. Once those customers purchase equipment, they need to insure it, Mr. Zuercher said.

WFIS has also expanded services that might appeal to larger clients with complex risks.

In May 2006, while still under the name of Acordia, for example, the company announced that it established a gaming practice group in Las Vegas "as a national resource for Wells Fargo and Acordia customers and sales professionals."

The group was launched to provide risk management and insurance purchasing services for casinos, riverboats, Indian gaming and "racinos"—a combination of race tracks and casinos.

This year's purchase of Redwood City, Calif.-based ABD, which will operate as a separate unit, should help WFIS expand its risk management practice, said Mr. Zuercher.

"I think it will improve our risk management capabilities, especially on the West Coast where they have a very strong risk management culture and we tend to be more of a local broker on the West Coast," Mr. Zuercher said.

Like several other brokers that place business for midsize and small businesses, WFIS continues to accept payments from insurers. The brokerage reports that contingent or supplemental commissions accounted for 2% of its revenues.

Although, WFIS has not yet had to settle with government regulators over its acceptance of contingent commissions in the same way that its larger rivals have, the brokerage was sued in 2005 by West Virginia Attorney General Darrell V. McGraw Jr., who alleged that Acordia violated state antitrust and consumer protection laws by accepting contingent commissions for sending business to insurers. Mr. Zuercher refused to comment on the status of the suit. Officials in West Virginia say the case is still in the discovery stage and they don't expect a trial before next year.

On July 6, Wells Fargo & Co.'s stock closed at $35.33 a share, with a 52-week high of $36.99 and a $52-week low of $33.01.

—By Roberto Ceniceros

6 Brown & Brown INSURANCE

Even as market conditions make growth harder to achieve, Brown & Brown Inc. continues its upward trajectory in all four key areas of its business.

The Daytona Beach, Fla.-based company's brokerage revenues increased 11.5% last year, to $864.7 million, vaulting it to the sixth-largest brokerage in the world.

Gross revenues rose 11.7% to $878 million. Net income grew 14.5% to $172.3 million.

Those growth rates will be hard to maintain as insurance rates continue to drop, conceded J. Hyatt Brown, chairman and chief executive officer. Still, "we're getting very close to a goal we set five years ago to achieve $1 billion in revenue and a 40% operating margin," Mr. Brown said.

Brown & Brown's 2006 operating margin—also known as earnings before interest, taxes, depreciation and amortization, or EBITDA—was 39% in 2006.

Continuing softness in property and casualty markets has created "a substantial head wind" for Brown & Brown, Mr. Brown said. But, "we sell more insurance when prices are going down than when they're going up. That's the bright side," he said.

Another positive for Brown & Brown, which has long held a

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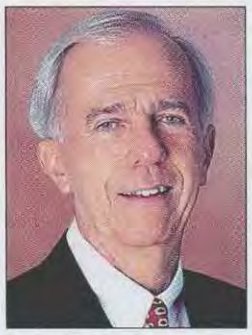
growth-by-acquisition strategy, is that more agencies and brokerage firms consider selling as returns decline, Mr. Brown noted. "We spent $56 million on acquisitions in 2006, and in the first half this year we've spent about $46 million."

Brown & Brown Inc.

2006 GROSS REVENUES
$878,003,267
11.7%

2006 BROKERAGE REVENUES
$864,662,662
11.5%



J. Hyatt Brown, chairman/CEO

In late 2005, Brown & Brown acquired reinsurance brokerage operations when it bought Axiom Intermediaries L.L.C. Reinsurance revenues in 2006 grew to $11.1 million from slightly more than $2 million a year earlier.

One of the company's largest acquisitions in the past year was ALCOS Inc., a Sterling Heights, Mich.-based agency with about $18 million in annual revenue. Roughly $11 million of that was in employee benefits business, an area where Brown & Brown continues to grow.

"We'd like to have 25% of our retail business be employee benefits," Mr. Brown said, adding that benefits accounted for $92 million, or about 17%, of its retail revenue last year. Benefit products that Brown & Brown markets include group products for medical, life, dental and disability as well as ancillary products such as long-term care insurance, he said.

Most benefits business is placed for accounts in which Brown & Brown already places property/casualty coverages, but "it flows both ways," Mr. Brown said.

Brown & Brown has four core operating segments:

- Retail, which generated $518 million in revenues in 2006, up nearly 6% from the year before. This division includes products and services for both commercial and personal lines customers.
- National programs, for which revenues rose more than 18% to $157 million. Brown & Brown sells professional liability and related coverages to a variety of professions, including dentists, attorneys, insurance agents, benefit administrators and real estate agents.
- Wholesale brokerage, which posted revenues of $163 million, up more than 28%. This unit markets excess and surplus lines for retail agencies as well as reinsurance.
- Services, which comprise third-party administration, consulting and managed health care business. Revenues in this division were $32.6 million, up 18% from 2005.

Among other highlights of the past year, Brown & Brown in January announced that Regional Executive Vp J. Powell Brown was elected president and will succeed his father, Hyatt Brown, as CEO in July 2009—the year Brown & Brown will celebrate its 70th anniversary. Jim W. Henderson, chief operating officer, was elevated to the additional role of vice chairman.

The company also stepped up its process for recruiting producers, a move enabled by the success of Brown & Brown University, which the company created four years ago "to specifically take people who were young in the business or came from another business" and learn the technical aspects of insurance from a proven sales leader in the company, Hyatt Brown explained. "We've put 100 new graduates through each year, and they end up being in the top 100 of our 600 producers very quickly," Mr. Brown said.

The majority of Brown & Brown's business is conducted as an agency, representing hundreds of insurers around the country, but it also has broker relationships, such as placing wholesale business on behalf of other retail agents and brokers, Mr. Brown said.

Brown & Brown's core customers are middle-market businesses and public entities, and most insurance programs are placed on a commission basis. Brown & Brown defines the middle market as accounts generating commissions between $5,000 and $250,000, with the average account about $25,000, Mr. Brown said. The company does place risks for some Fortune 1000 accounts, though fee-based business is only about 2% of its revenues, he said.

Unlike some of its larger competitors, Brown & Brown openly accepts contingent and other supplemental compensation from underwriters.

Most of those payments are in the form of profit-based contingent commissions, and Brown & Brown reported $41 million of such compensation in 2006, up from $35 million in 2005. All forms of compensation the company may receive—though not necessarily dollar amounts, which often are not known immediately—are fully disclosed to clients, Mr. Brown said.

In receiving profit-based payments, "we're performing a service not only to our customer but to the carrier as well," Mr. Brown said. "We share in profits if there are profits" and there's "an incentive for the agent to write a profitable account."

To help clients mitigate risk, Brown & Brown insists on risk reviews at every renewal and assesses clients' exposures if they acquire new assets or open new locations,

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said Mr. Brown, in citing an example.

"We're constantly upgrading" our customers' knowledge of their exposures, and "risk management is a constant piece of our service," he said.

Two of Brown & Brown's strengths are its "very strong sales culture" and "almost manic focus on margin expansion and expense control," said Meyer Shields, an analyst at Stifel, Nicolaus & Co. Inc. in Baltimore.

"Its margins are unrivaled in the industry," he said. One of the key differentiators from its competitors is Brown & Brown "has been very successful in exercising control over its sales force." But the company is facing tougher market conditions in which to maintain its historically high growth rates, Mr. Shields said.

On July 6, Brown & Brown's stock closed at $25.27 per share. Its 52-week high was $31.94 and its 52-week low was $24.65.

—*By Regis Coccia*

7

Jardine Lloyd Thompson Group P.L.C.

Jardine Lloyd Thompson Group P.L.C. is concentrating on its strengths one year after it sold its U.S. retail operations and abandoned plans to take over a U.K. rival, the brokerage's senior executive says.

Moves to build on those strengths in 2007 have included the purchase of Internet-based intermediary Pavilion Insurance Network P.L.C., the formation of a joint venture to operate in areas where insurance and financial markets converge, and rebranding its captive management group, among other things.

The world's seventh largest brokerage saw slight revenue growth in 2006 despite the weakness of the dollar, in which it derives much of its revenues, against the British pound, in which it pays the bulk of its costs.

Gross revenues increased to £478.9 million ($882.8 million) in 2006, up 3.4% compared with 2005, and brokerage revenues increased 2.5% to £459.5 million ($847.0 million). In its home currency, gross revenues increased by 2.1% and brokerage revenues increased by 1.2%.

The insurance market became significantly more competitive during 2006, making it more difficult for brokers to grow, said Dominic Burke, chief executive of London-based JLT.

But JLT managed to grow by "concentrating on areas where we are significant players," he said.

"If we are not or do not believe that we can become a major player in a sector then we will question whether we should be in it at all," said Mr. Burke.

The company's retail operations outside of the United States performed well in 2006, Mr. Burke said, and despite the weakness of the dollar, the group's specialty and wholesale and risk and insurance businesses saw revenue growth. The brokerage says it changed its reporting of some business and, as a result, its revenue figures for reinsurance and wholesale dropped in 2006.

In addition, Mr. Burke noted, JLT's employee benefits operations continued to grow. The company's employee benefits income in 2006 was £75.9 million ($139.9 million), up from £70.6 million ($121.2 million) in 2005.

The sale of JLT's U.S. retail operations, which was announced in September 2006, reflected an acknowledgement that it would be difficult and expensive to make significant headway in that market, he said.

JLT sold its U.S. property/casualty and employee benefits retail operations to Newport Beach, Calif.-based Alliant Insurance Services Inc. in a $100 million deal.

The operation had six offices, about 240 employees and $60 million in revenue.

"I think, with the benefit of hindsight, our move into retail business in the United States was a mistake," said Mr. Burke. The brokerage established a U.S. retail capability in 2004.

"It became clear that it would be a billion-dollar game to build out the U.S. retail business to achieve the critical mass we required. We didn't have that to spend, but we did have a good business, so it made sense to sell it," he said.

Jardine Lloyd Thompson Group P.L.C.

2006 GROSS REVENUES
$882,804,260 — 3.4%

2006 BROKERAGE REVENUES
$847,042,300 — 2.5%

Dominic Burke, group chief executive

Having a retail operation on the ground in the United States also posed a potential conflict of interest for JLT, which is a significant wholesaler of U.S. business into London and Bermuda, Mr. Burke said.

And with the sale of the retail operations completed in October 2006, JLT can now get on with building the rest of its operations, said Mr. Burke.

"We believe we can continue to grow our existing business organically by focusing our resources on our areas of strength," said Mr. Burke. "That being said, we are of the belief that an independent JLT should seek to acquire companies and be a consolidator. We are, however, mindful of today's prices and therefore remain cautious," he said.

Last year, JLT called off talks to buy Heath Lambert Group, a rival brokerage based in London. Reasons for the breakdown in talks were not given.

Earlier this year, though, JLT has acquired Pavilion for about £7 million ($13.9 million). The company provides insurance coverage for musicians, cyclists and photographers, among other things.

And in February it entered into a joint venture with London-based ICAP P.L.C., a specialty financial markets intermediary.

The joint venture will operate in the "areas where the market for insurance, financial derivatives and securities are converging," such as securitization deals.

This convergence is something that is gaining pace and represents an opportunity for JLT, said Mr. Burke.

In March, JLT rebranded its captive management operations, which were renamed JLT Insurance Management in March.

In a statement, the broker said "JLT anticipates that JLT Insurance Management will extend its services into the management of commercial insurance and reinsurance companies."

The company also announced it had set up two rent-a-captive facilities: Isosceles PCC Ltd., a protected cell company in Guernsey, and Isosceles Ltd., a segregated account company based in Bermuda.

In order to boost the company's international presence, Mark Drummond-Brady was appointed to the newly created role of international chairman of the group in October 2006.

Mr. Burke said JLT saw significant opportunities to grow its retail arms throughout the areas where the group operates.

In particular, JLT sees opportunities to grow its employee benefits business internationally, Mr. Burke noted, citing Asia, Australasia and Canada as areas of potential growth outside of the broker's strong base in the United Kingdom.

At the close July 6 on the London Stock Exchange, JLT's per share price was £4.27 ($8.61), with a 52-week high of £4.38 ($9.00) and a 52-week low of £3.32 ($6.49).

—*By Sarah Veysey*

8 BB&T

BB&T Insurance Services Inc. did not let a softening market disrupt its growth ambitions last year, posting solid double-digit revenue gains due to strong organic growth, new business sales and improved client retention.

The Raleigh, N.C.-based brokerage posted revenues of nearly $842.3 million, an 11.2% increase,

BB&T Insurance Services Inc.

2006 GROSS REVENUES
$887,817,000 — 12.1%

2006 BROKERAGE REVENUES
$842,295,600 — 11.2%

H. Wade Reece, chairman/president

despite soft pricing in several lines of business.

That made BB&T Insurance Services, a unit of banking parent BB&T Corp., the world's eighth-largest insurance brokerage based on 2006 revenue.

"We were really pleased with our earnings growth last year," said H. Wade Reece, chairman and president of the insurance unit. "Clearly, we would have had even better results had the market been neutral. But fortunately, our new business and retention emphasis more than offset the decline in market price. We stayed in a very strong growth mode."

BB&T's efforts led to an increase of more than 3% in client retention levels, Mr. Reece said. "Happy clients who stick with you," he said. "That really makes for a good year."

Organic growth, driven by contributions from companies BB&T has acquired in recent years, was another reason for solid profits. "Our emphasis on organic growth is really paying off," Mr. Reece said. "We view our acquisition program as really a means to get to long-term organic growth."

The company also took advantage of new business opportunities, the vast majority of which arose from clients changing brokers, with the company experiencing its best year in terms of new-business growth, Mr. Reece said.

"I think throughout much of BB&T Insurance, they have a strong sales culture and a lot of production talent," said Jim Campbell, a principal with Reagan Consulting Inc. in Atlanta.

BB&T's ability to post solid gains in the soft market was a testament to the company's ability to focus on executing its growth plan, analysts say.

"BB&T continues to be pretty impressive," said John Wicher, principal at San Francisco-based John Wicher & Associates Inc., which provides merger and acquisition advisory and investment banking services to the insurance industry. "What they've been doing has been a success."

Remaining focused on its strategic growth plan is important, particularly because the property/casualty market will continue to decline, barring a major catastrophic event, BB&T's Mr. Reece said.

"I think the market will continue to stay soft at least through the end of '09 and possibly longer," Mr. Reece said.

Although pricing for property catastrophe insurance moderated during the first half of this year, wind coverage still can be tough to secure, which is why Mr. Reece sees tremendous growth potential for the company's managing general underwriter, AmRisc L.P. The unit, which was spun off from CRC Insurance Services Inc. in late 2005, underwrites for Lloyd's of London, Berkshire Hathaway Inc. and units of Renaissance Reinsurance Ltd. and can provide millions in wind coverage, he said. "We think we're providing a greater service by bringing additional capacity to market," Mr. Reece said.

Unlike previous years, BB&T was relatively quiet on the acquisition front in 2006 and made two small, strategic purchases.

"BB&T did exactly what many businesses say they are going to do and don't: stop and integrate," Mr. Wicher said.

Mr. Reece anticipates BB&T will pick up the acquisition pace this year, although it will likely fall below the seven to eight annual acquisitions of previous years. So far this year, BB&T said it would expand its presence in metropolitan Atlanta and Hilton Head Island, S.C., by acquiring insurance agencies that provide property/casualty and group benefits coverage. The company likely will announce four more acquisitions by the end of the year, he said.

The integration of major acquisitions such as the 2002 purchase of wholesale brokerage CRC and the 2003 acquisition of Birmingham, Ala.-based McGriff, Seibels & Williams Inc.—the purchase that put BB&T among the 10 largest insurance brokerages in the world—have gone extremely well, Mr. Reece said.

"At this point, it doesn't feel like fragmented pieces anymore," Mr. Reece said. "It feels like one cohesive company working together very fluidly."

McGriff and CRC have been key contributors to BB&T's earnings growth in recent years, analysts say. Commission income from CRC

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contributed about $39 million, while McGriff contributed $30 million toward last year's profit gains, according to a filing with the U.S. Securities & Exchange Commission.

The McGriff acquisition established a stronger presence in the large-account market, complementing BB&T's presence in the small to midsize customer base. "We never de-emphasized small commercial accounts," Mr. Reece said. "We have always done that very well and we continue to do that well. What you've found is that McGriff has brought a new dynamic to us."

In recent years, BB&T also has had to contend with the ramifications of government investigations of insurance brokerage practices, emphasizing training and enhancing disclosure. "I think we've taken constructive action with client advocacy at heart and I think all that has paid dividends for us," Mr. Reece said.

"I think they have historically navigated through some of that stuff very well," Reagan Consulting's Mr. Campbell said. "I think they did a very good job of addressing the issue and made good decisions on how they would handle it."

While BB&T continues to receive inquiries from various states, the impact of regulatory investigations is largely behind the company, Mr. Reece said.

"There's still noise, but not as much, which is a good thing," Mr. Reece said. "It was a tremendous, unproductive distraction."

BB&T Insurance Services will continue its emphasis on organic growth and retaining clients, he said. It also will pay more attention to profitability, particularly with the influx of private equity firms that are shifting the brokerage industry toward a permanent focus on profit margins, he said.

"Clearly, they're going to be focused on the profit margins and we, too, need to be focused on profit margins," Mr. Reece said.

In the first quarter of this year, BB&T said its insurance commissions increased 11.9% compared with the year-earlier period.

BB&T will take a long-term view that concentrates on innovation and tweaking its business model to make the company more profitable, Mr. Reece said. Private equity firms, which tend to have a short-term focus on profitability, will have a long-term impact on the industry as companies either take their aggregated brokerage units public or sell them to other brokers, Mr. Reece said.

"It's creating an interesting phenomenon in watching how this evolves and figuring out how to continue to play in that scenario over the long term," Mr. Reece said.

On July 6, BB&T Corp.'s stock closed at $41.17 per share. Its 52-week high was $44.63 and its 52-week low was $39.60.

—By Gloria Gonzalez

9 HRH

Hilb Rogal & Hobbs Co.

Hilb Rogal & Hobbs Co. is back on track in terms of growth on the acquisition front.

The Glen Allen, Va.-based brokerage, which is known for growth through acquisitions, completed acquisitions worth more than $35 million in annual revenues in 2006, noted Chairman and Chief Executive Officer Martin L. Vaughan III. The pace thus far in 2007 has been even swifter, with acquisitions worth about $75 million in annual revenue coming into the HRH fold, he said.

"The past 16 to 18 months have been excellent for us," Mr. Vaughan said.

"We're clearly looking for firms that are willing to share our strategies and values—that's paramount for us," he said. "Equal to that is our ability to add to our talent pool. We have to be sure that the companies that join us match our financial goals."

Last year's notable acquisitions included Chicago-based insurance agency and brokerage Thilman & Filippini L.L.C., which generated annual revenues of about $27.2 million; and Zutz Associates Inc., which was the largest independently owned insurance agency in Delaware, with annual revenues of about $9 million.

Perhaps the most notable acquisition thus far this year has been London-based Glencairn Group Ltd., which strengthened HRH's international capabilities in areas such as Australia, Russia and South Africa. "We hope that Glencairn acquisi-

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tion will become a springboard for additional opportunities in the U.K. and other parts of Europe and Asia," Mr. Vaughan said.

"At the moment, there are plenty of opportunities," he said. "We're closing a lot of deals. We have a full pipeline, probably a more robust pipeline than we've had in a long time. As we go along and refine our operations and become better in all the things we need to do to keep our clients happy, we obviously become more selective about who can join us."

An analyst who tracks HRH agrees.

"Over the course of 2006, where they've been strong is on the acquisition front," said Mark Dwelle, an equity analyst with Ferris, Baker Watts Inc. in Richmond, Va. "They've done a very good job of identifying and completing attractive acquisitions. Where they've been challenged in some places is in integrating deals, more a function of getting expense structures and staffing rationalized to the right place."

"So far this year, they've been doing a very strong job of identifying targets—it's too soon to tell how the integration will go in most cases," said Mr. Dwelle. "As a result, their top-line growth that's aided by acquisitions has been good. Their organic growth—or non-acquisition growth—has been soft, as consistent with the overall market."

Premium volume increased to about $7.5 billion in 2006, a rise of about 5.6%. Brokerage revenues, which account for most of HRH's total gross revenues, rose about 5.8% to slightly more than $696 million.

That put HRH in ninth place in the *Business Insurance* 2007 ranking, up one spot from the 2006 list of the world's largest brokerages.

HRH's profits rose nearly 55% to $87 million in 2006 from $56.2 million in 2005. The previous year's profits, however, were depressed by sparse acquisition activity and the company's creation of a $30 million national fund to settle accusations by Connecticut Attorney General Richard Blumenthal that HRH steered clients to insurers paying the highest contingent commissions.

"We're pretty pleased with '06 and our performance" compared with the challenges of the two previous years, said Mr. Vaughan. "We wrote record new business and gained a lot of clients and increased our market share. If there was one down spot, it simply would have been that the premiums continue to be soft."

By the end of last year, HRH had "completed our last five-year plan and the results were excellent," said Mr. Vaughan. "We doubled the size of the company, we doubled the cash earnings of the company and we did that even though some of the external factors" were challenging, such as rate declines and "considerable turmoil in the industry," he said. "We are awfully proud that we were able to stay with our plan" by expanding HRH's employee benefits business, managing general agency business, reinsurance business, and excess and surplus lines business, he said.

"Those businesses continue to grow and be an important part of our company," he said, noting that HRH has also "continued to support and expand our national practice groups," such as its new power and utility practice.

"We've continued to try to grow particularly our employee benefits business," said Mr. Vaughan, noting that HRH has added retirement consulting to its offerings.

"We're awfully proud that we service a broad range of clients," he said. "We don't think about our clients in strict terms of large accounts or middle-market accounts. We have the ability to serve all clients and move up and down the ladder and have a broad market presence in that regard."

One of HRH's advantages for middle-market clients is "the ability to bring sophisticated risk management abilities to the middle market because of the investments we've made in very high-end talent. We also have an advantage with the larger risk management clients because we have the nimbleness of middle-market brokers—you kind of get the best of both worlds with us."

Turning to the question of compensation and disclosure, Mr. Vaughan said, "We feel like we have the fairest and most workable solution to the compensation issue—and we also feel like it's simple to understand.

"We simply define our customers as either broker clients—those are clients that are paying us a fee—and agency clients—those are clients where we are paid by the underwriter," he said. "We make disclosure to all clients. We disclose all forms of compensation proactively to the broker clients and the agency clients. We also have an agency customer bill of rights that outlines how we get paid and invites the client to ask anything they would like to know about our compensation."

"We do not accept contingents on broker business; we do accept contingents on agency business where we are being paid by the underwriter.

"That system is working very well for us, the clients understand it and there's full disclosure on how we get paid and we think it's a great model," Mr. Vaughan said.

HRH's net income for the first quarter of this year decreased 2.7% to $25.2 million from the $25.9 million posted in the same period of 2006. Although total revenues for the first quarter grew 7.8% to $198.2 million from the $183.8 million of the first quarter of 2006, the growth "primarily reflected the effects of acquisitions and new business, partially offset by accelerated declines in property and casualty rates, the effect of divested businesses and reduced contingent commissions," HRH said in a statement announcing the results.

On July 6, HRH's stock closed at $43.47 a share, with a 52-week high of $50.84 and a 52-week low of $36.06.

—By Mark A. Hofmann

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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT • SOUTHERN DISTRICT OF NEW YORK

In re: Petition of CLIVE PAUL THOMAS, as foreign representative of COMPAGNIE EUROPÉENNE d'ASSURANCES INDUSTRIELLES S.A., Debtor in a Foreign Proceeding.	In a Case Under Chapter 15 of the Bankruptcy Code Case No. 07-B-12009 (MG)

NOTICE OF FILING AND HEARING ON PETITION
UNDER CHAPTER 15 OF THE UNITED STATES BANKRUPTCY CODE

PLEASE TAKE NOTICE that on June 28, 2007 Clive Paul Thomas (the "Petitioner"), in his capacity as the duly authorized foreign representative, as defined in section 101(24) of title 11 of the United States Code (the "Bankruptcy Code"), of Compagnie Européenne d'Assurances Industrielles s.a. (the "Company") commenced a case by filing a Petition (the "Petition"), pursuant to Chapter 15 of the Bankruptcy Code, with the United States Bankruptcy Court for the Southern District of New York (the "Court");

PLEASE TAKE FURTHER NOTICE that the Petitioner seeks, among other things, entry of an order granting recognition of a foreign nonmain proceeding and giving full force and effect in the United States to the Schemes of Arrangement, pursuant to section 425 of the Companies Act 1985 of Great Britain, of the Company (the "Arrangement"), as well as a permanent injunction, and related relief;

PLEASE TAKE FURTHER NOTICE that the Official Form Chapter 15 Petition, along with: (i) the list required to be filed with the Petition pursuant to Bankruptcy Rule 1007(a)(4); (ii) the Statement of Foreign Representative as required by 11 U.S.C. section 1515(c); (iii) the Verified Petition under Chapter 15 of the Bankruptcy Code for Recognition of a Foreign Proceeding, For a Permanent Injunction, and Related Relief (the "Verified Petition") and (iv) the Declaration of Juliette Stevens, UK Counsel (collectively the "Supporting Documents"), were filed in support of the Petition.

PLEASE TAKE FURTHER NOTICE that pursuant to the Order Scheduling Hearing and Specifying the Form and Manner of Service of Notice, dated July 5, 2007 (the "Scheduling Order"), a copy of which is also attached hereto, the Court has scheduled a hearing for August 10, 2007, at 10:00 a.m., or such other time as counsel may be heard (the "Hearing") before the Honorable Martin Glenn in Room 701 of the Bankruptcy Court, One Bowling Green, New York, New York, to consider the Petition and the Petitioner's request for an order (the "Permanent Injunction") granting recognition to the Arrangement as a foreign nonmain proceeding and providing for a permanent injunction and related relief.

PLEASE TAKE FURTHER NOTICE that any party in interest wishing to submit a response or objection to the Petition or the relief requested by the Petitioner must do so pursuant to the Bankruptcy Code and the Local and Federal Rules of Bankruptcy Procedure, including, without limitation, Federal Rules of Bankruptcy Procedure Interim Rule 1011 in writing and setting forth the bases therefore, which response or objection must be filed with the Office of the Clerk of the Court, Room 534, One Bowling Green, New York, New York 10004-1408, and served on the attorneys for the Petitioner, (Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, NY 10112, Attn: Howard Seife, Esq.), so as to be received by them all no later than 4:00 p.m. Eastern Time, August 6, 2007;

PLEASE TAKE FURTHER NOTICE that the response or objection to be filed with the Office of the Clerk of the Court must be filed; (i) electronically by registered users of the Court's electronic case filing system in accordance with General Order M-242 of the Bankruptcy Court for the Southern District of New York, a copy of which may be viewed on the Court's website, www.nysb.uscourts.gov; and (ii) by all other parties in interest on a 3.5 inch disc, with hard copy provided to the Chambers of the Honorable Martin Glenn at the address specified in the paragraph above;

PLEASE TAKE FURTHER NOTICE that all parties-in-interest opposed to the Petition or the Petitioner's request for relief must appear at the Hearing at the time and place set forth above.

PLEASE TAKE FURTHER NOTICE that the Hearing may be adjourned from time to time without further notice other than an announcement in open court at the Hearing of the adjourned date or dates of any further adjourned hearing.

PLEASE TAKE FURTHER NOTICE that if no response or objection is timely filed and served as provided above, the Court may grant the recognition and relief requested by the Petition without further notice. Copies of the Arrangement, Petition, and the Supporting Documents will be made available upon request at the office of the Petitioner's United States Counsel at the address below:

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International
NEWS

FERMA opposes project to create risk standard

Generic guidelines preferable for buyers, association contends

By SARAH VEYSEY

BRUSSELS, Belgium—The Federation of European Risk Management Assns. said it does not see a need for the international standard for risk management that is currently under development.

In a position paper, which FERMA said is intended to help its member associations develop a common stance on the standard proposals, the risk manager organization said it believed a standard would not benefit European companies.

FERMA'S VIEW

ISO's risk management standard would require 'substantial internal and external resources' to implement and maintain, 'which may have a serious effect on competitiveness, and considerable additional paperwork, without commensurate benefits.'

The risk manager group said it feared that an international standard would be too inflexible, and it rejected the idea of a certification process for risk management.

But a leading risk management standards expert said that many of the group's concerns about the standard are unfounded.

And the International Organization for Standardization stressed that the proposed standard—slated for introduction in 2009—is not expected to be a certifiable blueprint and is intended as a management tool, rather than a system that must be followed.

FERMA said it believed an ISO standard "would be too inflexible for such a broad discipline as risk management, which is extremely complex and varied in its application."

The Brussels, Belgium-based association urged caution about the term "standard" and said it would prefer the use of a term such as "reference guide, framework, general principles or list of best practice," to describe the ISO document under development.

It said it would support a generic guide on the essentials, principles and terminology of a risk management system.

FERMA said in a statement that an ISO standard may encumber companies with a need to devote substantial resources to complying with the standard, which may have "a serious effect on competitiveness, and considerable additional paperwork, without commensurate benefits."

In the position paper, FERMA also notes that industries already have to comply with many varied standards in areas such as quality control, environment and safety.

"However, experience has shown that compliance with a standard has never guaranteed totally satisfactory performance," it noted.

"Accidents continue to happen, and product liability claims continue to occur. Compliance with an ISO standard can, therefore, give a false sense of security to regulators, clients, shareholders and third parties. This is often aggravated by a certification process which is not always objective and varies greatly from one country to another," it added.

A spokesman for Geneva, Switzerland-based ISO said the organization did not wish to comment directly on FERMA's position paper, but said that ISO's current work on

See **FERMA** next page

E.U. embraces Solvency II regime

Deadline of 2012 set for directive; rules would apply to captives

By RICK MITCHELL

STRASBOURG, France—The European Commission last week formally adopted the proposed Solvency II framework directive, with a 2012 implementation deadline that is two years later than previously planned.

The biggest overhaul of European regulation for insurers and reinsurers in more than three decades, Solvency II aims to modernize the way regulators evaluate insurers' financial soundness and make these companies more competitive abroad.

And some risk managers with captive operations could be directly affected by the framework. As drafted, Solvency II would apply to captive insurers with more than €5 million ($6.8 million) in annual premiums.

Annette Olesen, director of PricewaterhouseCoopers L.L.P. in London, said: "At the moment, there is no distinction made for captives (in Solvency II), so these should be affected in similar fashion to other insurers, depending on their size."

Current pan-European solvency rules stipulate minimum amounts of financial resources that insurers and reinsurers must have. However, many member states have determined those requirements are not sufficient and have implemented their own, creating a patchwork of regulatory requirements, the European Commission said in a statement.

The proposed Solvency II regime will introduce economic risk-based solvency requirements across all E.U. member states for the first time.

"The new requirements move away from a crude 'one-model-fits-all' way of estimating capital requirements to more entity-specific requirements," the European Commission said.

EUROPA

The European Commission has agreed to implement Solvency II.

While existing E.U. solvency requirements focus "mainly on the liabilities side (i.e. insurance risks), Solvency II will also take account of the asset-side risks." In addition, entities now will also have to hold sufficient capital for "market risk," including investment losses, credit risk and operational risks.

Experts said the proposal, which must be approved by European Parliament and Council, would likely benefit large groups. Very small insurers, with less than €5 million in annual premiums, would be exempt.

The directive could mean that insurers are required to hold less capital for certain lines, sources said. And this could translate into lower premiums charged to buyers, they contend.

Jacques Aigrain, chief executive of Zurich-based Swiss Reinsurance Co., said in a panel discussion at the International Insurance Society Inc.'s annual conference in Berlin last week that by providing insurers and reinsurers with potentially lower capital requirements, Solvency II should translate into benefits for policyholders, in the form of lower prices.

Also speaking at the IIS event, Karel Van Hulle, head of the insurance and pensions unit at the European Commission's internal market and services directorate-general, noted the proposal's objective of increasing European insurers' competitiveness. Better capital allocation by insurers may ultimately benefit policyholders in the form of lower premiums, he said.

But the directive could also lead to consolidation among smaller players, resulting in reduced choice for European insurance buyers, sources said.

"Medium-size groups with less diversification will face more of a challenge," Ms. Olesen said. "I think (they) will actively be looking at their structures and considering the possibility" of mergers and acquisitions.

Speaking in Brussels before the proposal was passed, Mr.Van Hulle said: "Monoliners that have some small specialty fill an important role. However, undercapitalized companies will probably want to consider joining another company or leaving the business altogether."

The Comité Européen des Assurances, which represents European insurers and reinsurers, welcomed the proposed regime.

Michaela Koller, director general of the Brussels, Belgium-based CEA, said Solvency II "provides the most transparent and effective framework and is fair to all forms of insurance undertakings, big and small, mutual and shareholder owned."

The implementation date for the directive has been set back two years to 2012, noted Mr. McCreevy.

U.K. regulator appoints new chief

By ETTIE SCHMITT

LONDON—Hector Sants has been named chief executive of the Financial Services Authority, the U.K. body that regulates insurance and other financial services.

Mr. Sants will take up his new post on July 20. He succeeds John Tiner, who has headed the Financial Services Authority since September 2003 and who is leaving to join the public sector, the FSA said in a statement.

Mr. Sants, who is currently managing director of wholesale and institutional markets at the FSA, joined the regulatory body from Credit Suisse First Boston in May 2004, where he was chief executive of Europe, Middle East and Africa.

Mr. Sants

In a statement, Mr. Sants said: "I firmly believe in the risk-based and more principles-based approach the FSA has pioneered, and I will work with the industry to ensure that market solutions deliver the best outcomes for all stakeholders, with a particular focus on consumers."

Commentary

Torture, kidnapping bad business strategy

In the spirit of the Fourth of July and Bastille Day, I'd like to suggest that corporate ethics policies include warnings against getting involved in kidnapping, unlawful imprisonment and torture.

Surely, you're probably thinking, such warnings aren't necessary and in most cases you'd be right. But ethics policies are driven by transgressions, as The Boeing Co. has demonstrated.

The American Civil Liberties Union sued a Boeing subsidiary a couple of months ago on behalf of three men who were allegedly detained as terrorism suspects, turned over to CIA operatives and secretly flown to prisons in Morocco, Afghanistan and Egypt as part of the U.S. "extraordinary rendition" program. The three were held for months in those prisons and interrogated under torture, the suit charges.

The role played by the Boeing unit, Jeppesen International Trip Planning, was as "the CIA's travel agent," according to a story in The New Yorker magazine that triggered the ACLU suit. Jeppesen arranged flight plans, clearances, ground crews and crewmember accommodation for two CIA planes used in the renditions, the report said.

"We do all of the extraordinary rendition flights—you know, the torture flights. Let's face it, some of these flights end up that way," a top Jeppesen executive said at a company meeting, according to an unnamed former Jeppesen employee quoted in the story. The same executive also said that the business "certainly pays well," according to the story.

Most corporate ethics policies deal with the mundane moral hazards, like hiding billions of dollars of debt from investors (Enron), anticompetitive behavior (Marsh & McLennan), insider trading (Joseph Nacchio of Qwest Communications) and conflicts of interest (um, Boeing).

Boeing has had more than its share of ethical lapses. Last year, it agreed to pay $615 million to end a federal investigation into two scandals: its alleged theft of proprietary documents from Lockheed Martin Corp. that Boeing used to compete for rocket contracts; and its offer to hire a Pentagon procurement official while the official was negotiating a multibillion dollar leasing deal with Boeing. As part of the settlement, Boeing agreed to tighten its ethics and compliance program.

So where in that program do you look for guidance on whether to steer clear of the U.S. government's secret detention and torture of terrorism suspects?

Well, Boeing's ethics manual requires that employees will "without exception...comply with all applicable laws, rules and regulations." (The ACLU suit charges Jeppesen with participating in violations of several United Nations and international conventions against "forced disappearances" and torture.)

Then there are the questions that the Boeing manual advises employees to ask themselves in the course of their work: "Would I be uncomfortable describing my decision at an all-hands meeting? How will I feel about myself afterwards? How would it look if it made the headlines? Will I be able to sleep soundly?"

Most of the manual, though, is aimed at employee relations with suppliers, customers, fellow workers and competitors; only very general provisions could apply to situations like extraordinary rendition. Apparently, then, Boeing needs something more specific, like, say, "Employees without exception will refrain from violating the International Convention on Civil and Political Rights."

The last item in the Boeing manual's list of corporate values is "enhancing shareholder value."

It isn't clear whether the profits from Jeppesen's CIA business proved irresistible, or whether the company was pressured by the U.S. government, a major customer, or whether it had some other reason.

Whatever the reason, nothing in Boeing's improved ethics manual put a stop to it.

The case goes beyond the normal kind of reputational risk that risk managers confront. No one really needs to ask, "How would it look if it made the headlines?"

It looks bad. It is bad.

DOUGLAS McLEOD

Senior Editor Douglas McLeod can be reached at: dmcleod@businessinsurance.com

Most corporate ethics policies deal with the mundane moral hazards.

FERMA: Risk management standard

CONTINUED FROM PREVIOUS PAGE

a risk management standard was an attempt to harmonize various blueprints in use around the world. It is unlikely that ISO will produce a certifiable standard, the spokesman added.

Kevin Knight, who headed the Australian and New Zealand effort to produce the world's first-ever risk management standard in 1995, and convenor of the working group on the ISO standard, said he had been trying to involve FERMA and the International Federation of Risk & Insurance Management Assns. in discussions on the proposed standard.

He said that the proposed standard would not be prescriptive.

"What we are producing is a process" that companies can weave into their risk management systems, he said.

The Australian and New Zealand standard does not dictate how companies should manage their risk, he said.

In response to FERMA's fears about certification, Mr. Knight said the ISO group is "purposefully" drafting its standard not to be for certification.

It appears that FERMA fears that ISO is attempting to define what is acceptable risk, said Mr. Knight, but this is not the organization's intention.

ISO is not seeking to make people risk-averse, but rather to manage their risks and take appropriate decisions, he said.

"We are not prescribing tools," he said. "But instead seeking to encourage an environment where risk is managed and understood from the top down and people are empowered to manage risks to help the company achieve its objectives," he said.

Collapse: Adhesive cause of fatal accident

CONTINUED FROM PAGE 3

Following the accident, the Big Dig—widely regarded as the largest, most complex highway and tunnel project ever undertaken in the United States—underwent a complete safety review. The tunnel's last remaining section, which had been closed to the public, finally reopened last month.

According to the NTSB, blame for the accident rests with companies involved in the tunnel construction, including: Bechtel/Parsons Brinckerhoff, Gannett Fleming Inc., Modern Continental Construction Co. and Powers Fasteners Inc.

"The Massachusetts Turnpike Authority also contributed to the accident by failing to implement a timely tunnel inspection program that would likely have revealed the ongoing anchor creep in time to correct the deficiencies before an accident occurred," the NTSB said in a statement. The accident further stemmed from "a general lack of understanding and knowledge in the construction community about creep in adhesive anchoring systems."

The NTSB said Bechtel, Modern Continental and the Massachusetts Highway Department should have monitored performance of the anchors given that the "anchor creep" was noticed as early as 1999.

In a statement, San Francisco-based Bechtel said: "NTSB has performed a thorough and objective investigation of this tragic accident. We look forward to reviewing its final report."

However, Brewster, N.Y.-based Powers Fasteners said in a statement that while the ceiling panel collapse and death of Milena Del Valle "cry out for explanation and accountability," "it would be an untenable conclusion if the federal investigators were to consider Powers Fasteners in any way responsible, since there is overwhelming evidence that fault lies elsewhere."

NTSB LAYS BLAME

According to the NTSB, blame for the accident rests with companies involved in the tunnel construction, including:

- **Bechtel/Parsons Brinckerhoff**
- **Gannett Fleming Inc.**
- **Modern Continental Construction Co.**
- **Powers Fasteners Inc.**

Source: National Transportation Safety Board

Cambridge, Mass.-based Modern Continental declined comment, and Harrisburg, Pa.-based Gannett Fleming could not be reached.

The potential liability in the tunnel collapse and whether related losses will be covered by the parties' insurance coverage remain to be seen.

Shortly after the accident, the MTA said it had an all-risk property program with a $550 million limit over a $10.5 million retention that would cover a tunnel ceiling collapse (*BI*, Aug. 7, 2006). That program also covered lost toll revenue stemming from roadway closures. The MTA said it also had liability coverage with a $50 million per occurrence and policy-aggregate limit, along with a separate program with a $200 million limit covering construction that insures the MTA and several Big Dig contractors.

Last November, then-Massachusetts Attorney General Thomas F. Reilly filed a civil lawsuit against 15 companies involved in the management, design, oversight and construction of the tunnel. That suit names Bechtel/Parsons Brinckerhoff, Modern Continental, Gannett Fleming, Powers Fasteners and several epoxy distributors.

The suit also names Modern Continental's surety coverage providers: Fireman's Fund Insurance Co., United States Fidelity & Guaranty Co. and National Surety Corp.

Additionally, current Attorney General Martha Coakley is considering pursuing criminal charges, a spokesman said.

Furthermore, a wrongful death lawsuit on behalf of Ms. Del Valle's family is pending against companies involved in the tunnel construction.

Jeffrey A. Denner, an attorney with the Boston-based law firm of Denner Pellegrino L.L.P. and who represents the family, declined to comment on the status of the suit and whether a settlement is in the works.

Accommodate: Employer faulted by court

CONTINUED FROM PAGE 4

employee," including its failure to make a parking space available for him or give him an assigned work space, said Paul Mollica, a plaintiff attorney with Meites, Mulder, Mollica & Glink in Chicago. "You have to invest a little bit of time and effort and money into accommodating" the disabled and the record indicates Convergys did not, said Mr. Mollica, who was not involved in the case.

"I think the court took the employer to task for essentially requiring the employee to come up with the reasonable accommodation when quite frankly, it's the employer that best knows its business and is in the best position to design an accommodation that both suits the needs of the employee, yet does not impose an undue hardship on the other employees or the company as a whole," said Jeremy Glenn, a defense attorney with Meckler Bulger & Tilson L.L.P. in Chicago.

Brian Ashe, an attorney with Seyfarth Shaw L.L.P. in San Francisco said the interactive process called for the Americans with Disabilities Act "is a lot like a tango." Two parties are needed to make it work right, he said. But in this case, "the employer wasn't dancing at all."

And attorney for Convergys declined to comment on the decision.

Equal Employment Opportunity Commission, appellee, Ahmet Yigit Demirelli, intervenor-appellee, vs. Convergys Customer Management Group Inc., appellant, 8th U.S. Circuit Court of Appeals, No. 06-2874

Broker: Veteran executives to focus new brokerage on middle market

CONTINUED FROM PAGE 1

month, they reached agreement to acquire San Mateo, Calif.-based Calco Insurance Agents & Brokers Inc., a $13 million California retail brokerage that will serve as Edgewood's initial platform.

Messrs. Francis and Hahn hope to build a $100 million to $150 million revenue brokerage in California within the next three to four years through a combination of acquisitions and new hires, which Edgewood hopes to lure away from competitors by offering an equity stake in the brokerage.

The launch of Edgewood comes shortly after the two men left their respective brokerages, which announced within days of each other acquisitions that would result in merging the firms into larger competitors.

In May, Mr. Francis resigned from Redwood City, Calif.-based ABD just days after Wells Fargo & Co. announced it was acquiring Greater Bay Bancorp and would merge Greater Bay's ABD brokerage operation into Chicago-based Wells Fargo Insurance Services Inc. (*BI*, May 14).

Mr. Hahn left San Francisco-based wholesaler BISYS Commercial Insurance in late June, after the May announcement that New York-based private equity firm J.C. Flowers & Co. would acquire BISYS' wholesale operations and merge them into the larger Crump Insurance Services Inc. (*BI*, May 7).

Messrs. Francis and Hahn, who have been friends for years, said they opted to build something new rather than sticking around through the acquisitions.

"We had amazing serendipity in what was going on in parallel," Mr. Hahn said. "And we ended up saying 'Why don't we try something fresh, different and new.'"

'We ended up saying "Why don't we try something fresh, different and new."'

John G. Hahn, Edgewood Partners Insurance Center

"We thought that by doing something independent and not public, and by having a real mechanism where we can create equity opportunities for key talent we bring in," the brokerage could be successful, he said.

While Mr. Francis said it was a "difficult" decision to leave ABD, he "couldn't be happier" with the response he's received about Edgewood. And "being in business with my best friend is just a bonus."

First order of business

A few weeks after securing capital, Edgewood reached a deal with Calco's owner, Distribution Partners Investment Capital L.P., to acquire the 70-year-old retail property/casualty and benefits brokerage for an undisclosed amount.

While Calco instantly gives Edgewood $13 million in revenues, 68 employees and three California offices in San Mateo, Orange and Sacramento, its business has shrunk tremendously in recent years.

In 2002, the last time Calco appeared in *Business Insurance's* annual rankings, it was the 51st-largest broker of U.S. business with 140 employees and $31.3 million in 2001 brokerage revenues.

Mr. Francis acknowledges that Calco has "clearly lost some business" over the last few years and that it will take a "lot of hard work" to get the firm back to where it was six to seven years ago. Nevertheless, it is a "compelling" deal for Edgewood, given its geographic footprint in California and business platform, he said.

In addition to general property/casualty business, Calco brings an employee benefits practice, a personal lines practice and a number of specialty niches including high-tech, biotech and construction, which Edgewood plans to further build out, Mr. Hahn said.

Once the deal closes, Messrs. Francis and Hahn will turn their focus toward building the operation, they said.

"We have three acquisitions in the pipeline" and there "are 20 to 25 major producers that we're looking at right now," Mr. Hahn said.

One of the ways Edgewood will entice producers to join the firm is by offering an equity stake in the company tied to production levels.

"This will be an opportunity for people who want to step up to earn real equity"—not stock options or phantom stock, but real equity, Mr. Francis said.

And if all goes well, said Mr. Hahn, sometime "down the road, whenever it is right, there will be some kind of wealth creation event and there will be a lot of people celebrating."

While Edgewood has plans to build its operations throughout California, it has no plans to expand outside the state.

"We don't need to go anywhere else," Mr. Hahn said. "It's where we have the most credibility and I think we can execute best in this spot."

Industry consultants say the nascent broker has the right formula.

"When you stand back and look at the package of California, which is in itself the 11th-largest economy in the world, talented people (in Messrs. Francis and Hahn), who have proven themselves time and time again to be successful, and Calco, which is a good platform, I think you have a formula for some success," said John Wicher, principal of John Wicher & Associates in San Francisco.

"I don't mean to be bubbly about this, but this is one of those things where you certainly don't stand back and shake your head and say 'My goodness, another roll-up, big snooze.' This is not a big snooze," Mr. Wicher said.

Thomas Linn, senior vp at Marsh, Berry & Co., who heads the West Coast mergers and acquisitions practice in Dana Point, Calif., noted that he is particularly impressed with Edgewood's focus on putting equity ownership in the hands of producers.

"Organizations that are producer-driven in my view are more likely to have success than those that are, say profit-driven or service-driven," Mr. Linn said.

Market Moves

HRH completes purchase of Kansas agency

RICHMOND, Va.—Hilb Rogal & Hobbs Co. said it has completed the previously announced purchase of substantially all of the assets of Charlton Manley Inc., a Kansas-based independent agency.

Charlton Manley's 70-member staff in the offices in Lawrence, Overland Park and Topeka, Kan., will continue under the leadership of Chairman Gary L. Sollars and President Duane Becker and become part of Richmond, Va.-based HRH's central region, brokerage HRH said in a statement.

The purchase price was not disclosed.

Hanover to purchase professional liability insurer

GRAND RAPIDS, Mich.—Hanover Insurance Group Inc. said it has agreed to acquire Professional Direct Inc., a Grand Rapids, Mich.-based professional liability insurer for small and midsize law firms, for $23.2 million.

Worcester, Mass.-based Hanover said the purchase, which is subject to regulatory and Professional Direct shareholder approvals, is expected to close in the fourth quarter. Boards of both companies have already approved the acquisition, Hanover said in a statement.

UnitedHealth rebrands specialty division

MINNETONKA, Minn.—UnitedHealth Group Inc. has rebranded Specialized Care Services, its specialty and wellness division, as OptumHealth.

Dr. William Gillespie remains CEO of the renamed unit that includes specialty health and benefits companies United Behavioral Health, Optum, ACN Group, United Resource Networks, Spectera, Dental Benefit Providers, Unimerica Workplace Benefits and National Benefit Resources.

Rockhill acquires specialty insurer

KANSAS CITY, Mo.—Kansas City, Mo.-based Rockhill Holding Co. said it has acquired Plaza Insurance Co., which formerly was known as National Alliance Insurance Co.

PIC is domiciled in Missouri and writes specialty surety and specialty property/casualty coverage. The purchase price was not disclosed.

Kansas City, Mo.-based Rockhill also owns Rockhill Insurance Co.

AmWINS wraps acquisition; rebrands benefits unit

CHARLOTTE, N.C.—Wholesale brokerage AmWINS Group Inc. has completed the acquisition of Mobile, Ala.-based American Equity Underwriters Inc., an underwriter of U.S. maritime employer coverage.

The purchase was completed with a $432.5 million credit facility that also refinanced AmWINS' existing credit facilities, funded a $100 million dividend to shareholders and added "capacity and flexibility to fund new strategic acquisitions," Charlotte, N.C.-based AmWINS said in a statement.

Separately, AmWINS changed the name of its National Employee Benefit Cos. Inc. division to AmWINS Group Benefits. Warwick, R.I.-based AmWINS Group Benefits will roll out advertising and related marketing later this year under the tagline "There's a better way."

Tri-City Brokerage adds environmental unit

NEW YORK—Tri-City Brokerage has launched Tri-City Environmental, a wholesale brokerage focusing on liabilities of known and unknown environmental contamination affecting a variety of industries.

The team at New York-based Tri-City Environmental, also a division of BISYS Commercial Insurance Services Inc., includes insurers, attorneys, geologists and engineers, a spokeswoman said.

The environmental unit is led by Executive Vp Ken Cornell, who also is president of the Chicago-based National Brownfield Assn.

Willis puts new name on Singapore captive unit

SINGAPORE—London-based Willis Group Holdings Ltd. has renamed its Singapore captive management company.

Richard Oliver International Pte. Ltd has been renamed Willis Management (Singapore) Pte. Ltd., which Willis said is consistent with branding of its captive business worldwide under the Willis Group Captive Practice.

XL Insurance opens Houston regional office

HOUSTON—XL Capital Ltd.'s XL Insurance has opened a regional office in Houston focusing on marine and offshore energy businesses in the region. Regional Marine Manager Diana Gladwell is directing the office at 5847 San Felipe Plaza, 17th Floor, Houston, Texas, 77057. The phone is: 713-821-1400.

Anderson Kill & Olick moves Chicago office

CHICAGO—Anderson Kill & Olick P.C., a national law firm specializing in insurance disputes, has moved its Chicago office to a larger location.

The Chicago office of Anderson Kill & Olick (Illinois) P.C. now is at 190 S. LaSalle St., Suite 560, Chicago, Ill. 60603. Its main phone number is still 312-201-9516, the law firm said in a statement.

Best affirms ratings of Hawaii insurer

HONOLULU—A.M. Best Co. Inc. has affirmed the A- financial strength rating of Honolulu-based DTRIC Insurance Co. Ltd.

The Oldwick, N.J.-based rating agency said the ratings reflect DTRIC's stable capitalization, improved operating performance and conservative investment performance.

DTRIC, which specializes in personal lines and workers compensation insurance, said it plans to begin writing commercial lines coverage for midsize businesses later this year.

Joint venture targets sports, motorsports

SCOTTSDALE, Ariz.—Scottsdale Insurance Co. and K&K Insurance Group Inc. have formed a joint venture to write property and casualty business relating to sports and motorsports risks under National Casualty Co., Scottsdale's admitted insurer, starting Aug. 1. Scottsdale Insurance is owned by Nationwide Mutual Insurance Co. and K&K is a unit of Aon Corp.

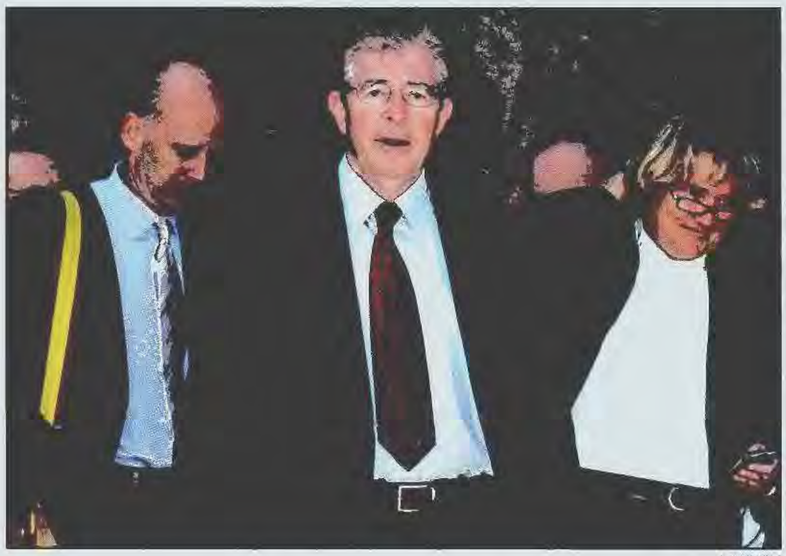
TO SUBMIT ITEMS

_BI_'s new Market Moves column reports on activities by insurance industry companies and related entities. Personnel changes appear in Comings & Goings, while new product offerings appear in Products & Services. Please send Market Moves news to: Charmain Benton, _Business Insurance_, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; _cbenton@businessinsurance.com_. P&S and C&G items should be mailed to Joe Walker at the above address or e-mailed to _jwalker@businessinsurance.com_.

Suits: No lasting effects seen from probe

CONTINUED FROM PAGE 3

At least temporarily, a 50% reduction in plaintiffs law firms engaged in filing a high volume of securities class action lawsuits is a major factor in the recent drop in claim frequency, asserted insurer attorney Dan A. Bailey, a partner with Bailey Cavalieri L.L.C. of Columbus, Ohio.



LANDOV

Last week, David Bershad, former named partner of Milberg Weiss L.L.P., pleaded guilty to a charge related to a scheme to pay illegal kickbacks to plaintiffs in securities lawsuits filed by his firm. He is pictured with his legal team.

Claim frequency began dropping in 2005, according to research by the Stanford Law School Securities Class Action Clearinghouse of Palo Alto, Calif., in cooperation with Cornerstone Research of Boston. That decline continued in the first half of this year (see related story).

Although attorneys who have left Milberg Weiss could help other firms build their securities class action practices, those firms would have to face "the enormous amount of time and money" that lead counsels must commit up front in securities cases, he said.

So far, other plaintiffs firms have not created high-volume practices, so fewer cases are being filed, he said.

Policyholder attorney Mark L. Weyman said that "there's something to that notion" about limited resources.

But in the past, firms have overcome their limited resources by pooling them for a case, said Mr. Weyman, a partner at Anderson Kill & Olick P.C. of New York.

Mr. Bailey said he has not seen that happen recently because lead counsels, who have a fiduciary duty to plaintiffs, want to tightly control cases.

Claims frequency down

Directors and officers liability insurance executive Carl Pursiano agreed that the Milberg Weiss situation has held down claim frequency but predicted that the case's influence would be "short- to mid-term."

The arrival of a bear stock market would drive up claim frequency again, said Mr. Pursiano, a New York-based senior vp with Liberty International Underwriters, a unit of Liberty Mutual Group Inc.

Other observers, though, said the Milberg Weiss case has not been a factor in reducing claim frequency.

Stanford Clearinghouse and Cornerstone study co-author Joseph Grundfest, a law professor at Stanford University Law School, suggests in the study that there may have been a "permanent shift" in claim frequency because tougher enforcement has led to a reduction in fraudulent activity.

Therefore, the diminishment of Milberg Weiss' high-volume filings practice has played no role in the reduction of claim frequency, and no one has demonstrated that a legitimate claim has gone unfiled over the last two years, he concludes.

Study co-author John Gould, a vp with Cornerstone, said that the stable stock market likely has driven down claim frequency but only until a bear market returns.

Many plaintiffs attorneys attributed the decline in claim frequency to fraud deterrence created by recent large settlements and the Sarbanes-Oxley Act.

Those attorneys say that the Milberg Weiss case—or the fortunes of any plaintiffs firm—has not and would not affect claim frequency.

They said their firms have shunned high volume business in favor of fewer but stronger cases—a trend they attribute to the Private Securities Litigation Reform Act of 1995.

"It's my belief the PSLRA has worked," said plaintiffs attorney Stuart Grant, a partner at Grant & Eisenhofer P.A. of Wilmington, Del. "That's OK. The more marginal cases disappear, and the recoveries are greater" in those cases that survive, he said. "So, the system is working."

Indeed, claim severity spiked during the first half of 2007, according to the Stanford Clearinghouse and Cornerstone.

"The Milberg model doesn't work," Mr. Grant asserted. Because of the upfront costs, "you don't want to be there in 100 cases," he said. "We'd rather have the 10 or 11 best cases" every year.

Plaintiffs law firm Labaton Sucharow & Rudoff L.L.P. of New York, takes a similar approach, said Joel H. Bernstein, managing partner.

As for strong cases, if one plaintiffs law firm leaves the class action field, several other firms would be vying for the lead counsel designation, as has been the case in the past, said plaintiffs attorney Salvatore J. Graziano, a partner at Bernstein Litowitz Berger & Grossman L.L.P. of New York.

Other plaintiffs attorneys agreed. "I believe the meritorious cases have been filed and continued to be filed, with or without Milberg Weiss," Mr. Bernstein said.

Securities class action suits fall further in 2007: Study

Securities class action lawsuit frequency and severity continue to remain well below average, though first-half 2007 figures indicate the number and severity of claims for the year might increase from last year's totals, according to a report.

For the first six months of 2007, 59 securities class action lawsuits were filed, a slight decrease from the 63 lawsuits that were filed during the first half of 2006, according to the Stanford Law School Securities Class Action Clearinghouse of Palo Alto, Calif., in cooperation with Cornerstone Research of Boston.

The first half of 2007 marked the fourth consecutive six-month period of below-average frequency, the report found.

On an annualized basis, however, the number of filings in 2007 would total 124, vs. 116 last year, the report said. The 2007 annualized estimate is based on a June 22 cutoff for evaluating claims, a Cornerstone spokeswoman said.

But even considering the higher estimated 2007 claim frequency, the total would be the second-lowest since 1996, when the Private Securities Litigation Reform Act—designed in part to prevent frivolous securities claims—went into effect, according to the report.

From midyear 1996 through midyear 2005, when claim frequency began dropping significantly, 202 securities class actions were filed annually on average, the report noted.

Claim severity, meanwhile, rose during the first half of 2007 compared with the same period last year, according to the report. For example, on a disclosure-dollar loss basis—or market capitalization losses that investors sustained the day after a company announced it had misrepresented its financial reports—first-half 2007 losses totaled $33 million. That figure was 50% greater than the $22 million loss reported during the first half of 2006, but it was only slightly more than the $31 million loss calculated for the second half of 2006, the report noted.

On an annualized basis, the 2007 disclosure-dollar loss would total $69 billion, which would be $2 billion greater than the annual average for the 1996-2005 period, the report noted. But the 2007 annualized figure would be far lower than the $197 million to $242 million annual losses associated with claims from 2000 through 2002, when frequency and severity peaked after passage of the PSLRA, the report said.

—By Dave Lenckus

CAPTIVE INCENTIVES

*How states are sweetening their captive insurance company laws**

State	Legislative action	Year
Arizona	Allows branch captives for employee benefit risks; lowers capital and surplus requirements for cell captives	2007
Delaware	Lowers premium taxes; places $125,000 tax cap on direct premiums, $75,000 cap on reinsurance premiums; allows sponsored or cell captive arrangements	2005
Hawaii	Premium tax capped at $200,000, allows captives to be formed as limited liability companies, elevates top captive regulatory position to deputy insurance commissioner status	2007
Montana	Maximum annual premium tax paid by a captive capped at $100,000	2005
Nevada	Slashes registration fees and premium taxes paid by state risk retention groups doing business in Nevada; annual premium tax paid by a captive capped at $175,000	2005
Utah	Premium taxes no longer imposed on business funded through captives	2005

**Legislative changes since 2005*

Captive: Hawaii caps taxes

CONTINUED FROM PAGE 3

stiff competition from fast-growing and relatively new Southwest domiciles such as Arizona and Nevada that offer greater geographic proximity to West Coast businesses, which sponsor the overwhelming majority of Hawaii's 163 captives entities.

Last year, for example, Hawaii added only three captives to its roster compared with 37 new captives in Nevada and 23 in Arizona (see chart).

By the end of this year, captive regulators in South Carolina, another rapidly growing domicile, with 153 captives, expect to overtake Hawaii as the No. 2 U.S. domicile. Vermont is the nation's largest domicile, with 563 captives.

While acknowledging the competition, Hawaii captive managers say the state remains an appealing domicile.

Because it has been regulating captives for so long, Hawaii has long-established regulatory procedures and a well-developed network of captive service providers, said Mr. Coulter of Aon, which manages 21 Hawaii captives.

Hawaii also has made a point of marketing to foreign corporations, especially Japanese companies. "Hawaii really has reached out to the Japanese market," Mr. Coulter said. Ten Hawaii captives have foreign parents.

While the number of U.S. captive domiciles and the competition among them have increased, "We remain very much of a player," Mr. Yoshida said.

Incentives: Healthy workers rewarded

CONTINUED FROM PAGE 1

partner in the White Plains, N.Y., office of Jackson Lewis L.L.P. who specializes in employee benefits legal issues.

"In order for them to comply with the regulations, the premium would have to be $20,000," Mr. Lazzarotti said.

But UnitedHealth asserts that incentive payments under its Vital Measures program meet the threshold, because if a plan member's penalties could exceed 20% of the cost of coverage, "they're given an alternative offering to earn credit, such as participating in certain activities, like telephonic health coaching," said John Micale, regional vp of UnitedHealth's southwest region in Houston.

Mr. Micale likened Vital Measures to automobile insurance, which offers discounts to those with good driving records.

But Ray Brusca, vp-benefits at Towson, Md.-based Black & Decker Corp., took exception to the analogy.

"This too heavily undermines the concept of group insurance. In essence, it takes group health plans down to the level of auto insurance, where the bad drivers (in this case ill health members) pay the most. Sort of like a death spiral—those who need it the most due to their health, and in most cases lower economic plight, will not take any action to address their problems since they now have this huge deductible. I actually see this backfiring on United. It will result in the ill getting worse faster than before," Mr. Brusca said in an e-mail. "This is one of the most ill-conceived benefit design ideas I have encountered in my 27 years in this business."

Barry Barnett, a principal with PricewaterhouseCoopers L.L.P. in New York, also questioned whether the program will ultimately lead to better health outcomes.

"Punishing people because of lifestyle has never proven effective," Mr. Barnett said. "It's only been around promotion and rewards, and even at the end of the day, you're not going to get everyone" to comply. "If we got everyone, there'd be no smokers in the United States."

Other critics of UnitedHealth's Vital Measures program suggested the way plan members are forced to comply may be too stringent.

For example, although HIPAA rules only require that the wellness program give eligible individuals the opportunity to qualify for the reward at least once per year, they also require employers that offer wellness programs to provide a "reasonable alternative" standard, or waiver of the initial standard, to any individual for whom it would be unreasonably difficult due to a medical condition, or medically inadvisable, to satisfy the initial standard.

Under the Vital Measures program, screenings are conducted annually, usually around open enrollment, and individuals are given one opportunity to appeal and be retested if they fail the first round.

So, for example, if a pregnant woman fails to meet the maximum body mass index, she may obtain a waiver with a doctor's note saying it would be medically inadvisable for her to diet until after the baby is born, said Doug Short, president of BeniComp Health Plans. However, if another individual's BMI initially exceeds the standard and they meet it later in the year, they still must wait until the following year to qualify for the credit, he said.

BeniComp developed the program, called BeniComp Advantage, three years ago. The BeniComp offering charges a separate premium, which was not disclosed, in conjunction with a high-deductible UnitedHealth plan that is 12% to 20% cheaper than a standard preferred provider organization plan with a $500 deductible. Today, 40 employers offer it across the country.

Andrew Webber, president of the Washington-based National Business Coalition on Health, said the program "fits with what we've been doing with providers through programs like Bridges to Excellence. We're rewarding doctors to achieve better outcomes and better health results. If their patients meet the numbers, they are economically rewarded. Alignment of incentives on both the supply and the demand side is what we need."

"It's a very attractive concept, particularly with the way employers have been talking lately about adopting wellness as a strategy" to lessen costs, said Paul Ginsberg, director of the Center for Studying Health System Change in Washington.

But J.D. Piro, an attorney at Hewitt Associates Inc. in Norwalk, Conn., said he would advise against employers implementing such a plan without first obtaining legal review.

"The question is, does the program comply with HIPAA, or is the program exempt from HIPAA" because the BeniComp policy is considered "supplemental"? he asked. "I've looked at their Web site and I can't figure out which it is."

"It will be interesting to see what the Department of Labor says once they find out about it," concurred Bruce Kelley, leader of evidence-based consulting with Watson Wyatt Worldwide in Minneapolis.

"I applaud conceptually what's happening here," said Seth Serxner, a Los Angeles-based principal at Mercer Human Resource Consulting. "They're doing a service. Whether right or wrong, it at least engages a full debate around the issue" of how wellness programs can operate within the confines of HIPAA. Still, he said he expects the program will be challenged.

UnitedHealth did not say whether the company sought DOL approval of the Vital Measures program. However, Mr. Short said BeniComp Advantage has been approved by insurance departments in 37 states.

The program is being marketed to employers with 100 to 1,000 employees on a pilot basis in Colorado, Ohio, Pennsylvania and Rhode Island as a fully insured and self-insured product, with individual deductibles from $1,200 to $2,500. The product can be combined with a health savings account. A national launch is slated for 2008.

VITAL MEASURES PROGRAMS

UnitedHealth and BeniComp have created two, separately priced options for the Vital Measures program. With the exception of tobacco use, both use biometric measures that are less stringent than National Institutes of Health ideal goals. The benchmarks are:

	NIH goal	Vital Measures standard plan	Vital Measures generous plan
Body Mass Index	25	27.5	29.9
Blood Pressure	120/80	130/85	140/90
LDL Cholesterol	100	130	160
Tobacco/Nicotine Use	None	None	None

Wellness plan cuts one employer's costs

Swiss Village Retirement Center in Berne, Ind., has seen its health care costs decline since implementing the BeniComp Advantage program in October 2004.

The plan, which offers credits totaling $2,000 to offset a $2,500 deductible for individuals, or $4,000 to offset a $5,000 deductible for families, replaced a standard preferred provider network plan with a $500 deductible, according to Daryl Martin, Swiss Village's executive director.

Because the bulk of overhead goes to wages and benefits, Mr. Martin used that cost as a gauge to determine savings from BeniComp Advantage. He said he reviewed the cost of benefits over 10 years and found that they had climbed from 3% of payroll to 11.5%. But, after the wellness incentive program was implemented, costs dropped to 9.1% of payroll in 2005, then increased fractionally to 9.2% in 2006 and fell to 7.5% this year, he said.

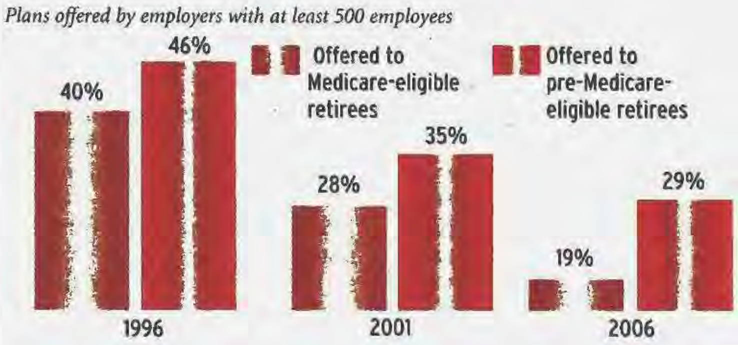
Currently, 73% of Swiss Village's 120 plan participants are eligible for three or more credits.

"We were looking for something to encourage our employees to take wellness seriously," Mr. Martin said. At the same time, "employees really appreciated the fact that they could earn credit for their own responsible behaviors."

—By Joanne Wojcik

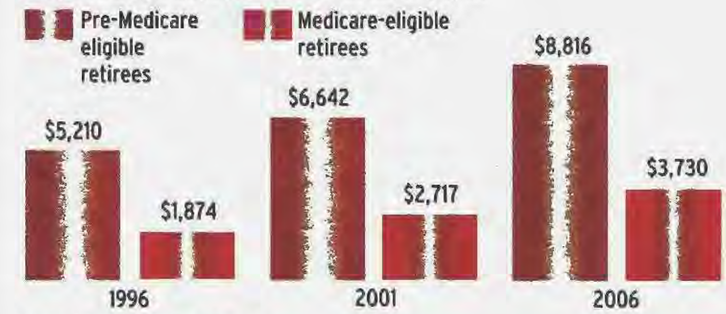
HOW RETIREE HEALTH CARE PLANS ARE DECLINING

Plans offered by employers with at least 500 employees



HOW RETIREE HEALTH CARE PLAN COSTS ARE RISING

Cost per retiree for employers with at least 500 employees



Source: Mercer Health & Benefits

VEBAs: Retiree health deal could be start of trend

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billion to a retiree health care VEBA administered by USW-appointed trustees. Goodyear says the arrangement will improve its cash flow by $145 million a year, removing a projected $1.3 billion liability for USW retiree health care benefits from its financial statements.

Benefit experts say the Goodyear and Dana agreements likely will serve as models for similar, larger retiree health care transfer deals between employers and unions.

"There is a huge amount of interest in these deals. You have big liabilities and unions willing to negotiate," said Dave Osterndorf, chief health care actuary in the Milwaukee office of Towers Perrin.

"My educated guess is we will see more in the future," said Russell Greenblatt, a partner with the law firm Katten Muchin Rosenman L.L.P. in Chicago. "In some industries, these arrangements make sense for both sides."

For employers, the advantages of such arrangements are obvious: They can remove a huge unfunded liability from their financial statements. With that liability eliminated, employers' credit ratings likely will improve, making future borrowing both easier and cheaper.

Union members, in turn, also benefit. Through the employer contributions to the VEBAs, what had been an unfunded promise to provide retiree health care benefits would be backed by hard dollars that can't be used for any purpose other than to pay for benefits.

"The promise was rich, but the delivery could be zero" if a company later went bankrupt and liquidated, said Steve Ferruggia, a principal with Buck Consultants L.L.C.. in Secaucus, N.J.

In recent years, tens of thousands of union-represented retirees—especially those in the steel industry—lost rich health care benefits when their former employers collapsed and went out of business.

Through the VEBA liability transfer deals, unions are trading off what could be a future benefit reduction in exchange for financial security for the benefits, Mr. Ferruggia said.

In fact, at the time the Goodyear-USW VEBA deal was ratified, a USW spokesman said providing financial security for retiree health benefits was vital. "It is important to protect current and future retirees," he said.

Benefit observers say far bigger VEBA deals could be in the offing when the Big 3 automakers, which have enormous unfunded retiree health care liabilities, begin contract negotiations with the UAW. While neither side has stated their interest in a VEBA deal, observers say it likely will be on the negotiating table.

An auto industry VEBA would dwarf the Goodyear and Dana VEBAs. At the end of last year, General Motors Corp. alone had $47 billion in unfunded retiree health care liabilities.

While a VEBA for any of the Big 3 automakers would be gigantic, putting together a VEBA of such size would have certain advantages, Mr. Ferruggia said. Large VEBAs, for example, would be able to weather investment performance fluctuations better than smaller VEBAs, he said.

Securing the capital to fund such huge VEBAs, observers agree, would be challenging but by no means insurmountable.

Rather than contribute a lump sum amount to the VEBA, contributions possibly could be made over several years, Mr. Ferruggia said.

Still, noting the huge size of such VEBAs, "Until it is done, it is an open issue. We have never seen a 10-figure VEBA," Towers Perrin's Mr. Osterndorf said.

News In Brief

CONTINUED FROM PAGE 1

for the Middle District of Tennessee has granted class action status to a lawsuit filed against Caterpillar Inc. by retirees and surviving spouses of retirees who say the manufacturing giant reneged on its promise of free lifetime retiree health insurance benefits. The plaintiffs allege Caterpillar promised lifetime, no-cost health benefits under union contracts but began charging them for a portion of their medical care in 2004 without their consent in violation of the Labor Management Relations Act and the Employee Retirement Income Security Act. The plaintiffs sued on behalf of a class of all retirees and surviving spouses of retirees who were represented by the union and who retired on or after Jan. 1, 1992, and before March 16, 1998.

Hurricane center head reassigned amid protests

The head of the National Hurricane Center has been reassigned in the wake of employee protests. Bill Proenza, who had served as NHC director in Miami for less than a year, had held that if an aging weather satellite was not replaced, NHC employees would face serious difficulties forecasting hurricanes. A group of NHC employees disagreed and called for his resignation, saying that he overstated the problem. Mr. Proenza was reassigned to unspecified other duties last week, and Deputy Director Ed Rappaport assumed the director's duties on a temporary basis.

Farmers arranges notes for future cat losses

An affiliate of Farmers Insurance Group has the right to issue $500 million in subordinated notes to cover U.S. catastrophe losses over the next five years, under a facility arranged by Swiss Re Capital Markets involving international banks. Under the transaction, completed last week after its syndication to international banks, if the Farmers Insurance Group suffers windstorm losses in excess of $1.5 billion, it has the right to issue 10-year subordinated loan notes to major institutions to restore its capital base, according to a statement issued by Farmers, a subsidiary of Zurich Financial Services Group. The subordinated loan notes would be issued by Farmers Insurance Exchange.

N.Y. orders 20.5% cut in workers comp rates

New York employers will save about $1 billion in workers compensation insurance premiums during the upcoming fiscal year as a result of reforms to the workers comp statute enacted earlier this year, according to the New York State Department of Insurance. Based on an analysis of the reforms and market trends, New York State Insurance Superintendent Eric Dinallo ordered a 20.5% rate decrease for the fiscal year beginning July 15. The lower rate is possible due mainly to the passage of the 2007 Workers' Compensation Reform Act, New York officials said. The legislation included a number of changes, including setting a limit on the number of years that permanent partial disability claimants could receive benefits and eliminating the state's Second Injury Fund, which was financed through assessments insurers passed on to employers.

Investment bank Hales buys WFG Capital

Hales & Co. Inc., an investment banking firm that specializes in the insurance industry, has acquired WFG Capital Advisors L.P., a financial advisory firm that specializes in mergers and acquisitions and strategic consulting services for middle-market clients in the insurance industry. Terms of the deal were not disclosed. New York-based Hales provides M&A and corporate finance advice to insurance agents, brokers, insurance companies and related financial services businesses. The firm has completed more than $1 billion of transactions in the insurance industry since 2005.

Hawaii lawmakers fail to override comp vetoes

The Hawaii Legislature last week failed to override vetoes by Gov. Linda Lingle of two workers compensation bills that would have guaranteed uninterrupted medical treatment for injured workers and restricted the rulemaking authority of Hawaii's director of labor and industrial relations. Among other things, Senate Bill 1060 would have limited an employer's power to terminate benefits and authorized the recovery of attorney's fees and costs by the injured worker. House Bill 855 would have required uninterrupted medical care for injured employees even if the worker's employer denied further treatment. A decision by the state's director of labor and industrial relations would have been required to settle disputes.

Job-based health cover declining in Calif.: Study

Although the overall percentage of uninsured California adults and children dropped slightly from 21.9% in 2001 to 20.2% in 2005, the proportion with employment-based coverage dropped from 57% to 56.2%, a UCLA study found. The improvement in the state's uninsured rate was attributed to expanded enrollment of children in public insurance programs, according to a report issued by the University of California at Los Angeles Center for Health Policy Research.

DB pension plans losing ground: Survey

More than a quarter of employers have frozen their largest pension plan during the previous two years, according to survey. The survey of 162 employers conducted by the Employee Benefit Research Institute and Mercer Human Resource Consulting found that 27.7% of respondents either have closed off their largest defined benefit plan to new employees or have completely frozen the plan during the last two years. The survey notes that pension phaseouts are likely to continue, with just over 16% of respondents expecting to freeze a plan within the next two years.

Noted

Standard & Poor's Corp. has removed energy industry mutual Oil Insurance Ltd. from review and affirmed its A- financial strength rating. The outlook on OIL continues to be negative, though, New York-based S&P said in a statement, due to uncertainty surrounding its long-term strategy and the stability of its membership base, among other factors....Standard & Poor's Corp. has raised its insurer financial strength ratings on Munich, Germany-based Allianz S.E. and various core operating entities to AA from AA-.

Egan: Former exec sues

CONTINUED FROM PAGE 3

provisions for, among other things, a cash severance package, treatment of equity awards and pension plan benefits, court papers say.

In early December, MMC then asked Mr. Egan to vacate MMC's premises. He was given approximately six hours to pack his belongings, after which he was denied access to MMC's offices and to his MMC e-mail and personal files, his suit claims.

Despite statements that MMC would negotiate a separation agreement, Mr. Cherkasky informed Mr. Egan in February 2005 that MMC could no longer talk to him about the agreement, the complaint says.

In April 2005, Mr. Egan submitted his resignation letter to Mr. Cherkasky and shortly thereafter launched brokerage Integro with Robert Clements and Peter Garvey, both former Marsh executives.

According to the complaint, MMC has provided other of its former executives who were "similarly situated" to Mr. Egan at MMC and who left MMC at or about the same time, with "generous settlement packages."

Mr. Egan alleges he is entitled to his own settlement package and is seeking unspecified damages.

An MMC spokesman declined to comment, citing corporate policy not to discuss litigation matters.

Court OKs dismissal of WTC subrogation suit

By GLORIA GONZALEZ

NEW YORK—A federal appeals court has affirmed a decision to dismiss Industrial Risk Insurers' subrogation lawsuit against Citigroup Inc. over property losses caused by the collapse of 7 World Trade Center.

The 2nd U.S. Circuit Court of Appeals upheld a district court's decision to dismiss IRI's claim of gross negligence against Citigroup, the largest tenant in 7 WTC.

The lawsuit alleged that the New York-based financial services company chose to design, construct and install a diesel fuel powered generator that aggravated the fire damage caused by the terrorist attacks on the nearby Twin Towers on Sept. 11, 2001, and the ultimate collapse of the building.

IRI provided property insurance to Silverstein Properties Inc. for 7 WTC and paid more than $400 million in property losses. The insurer became a unit of Zurich, Switzerland-based Swiss Reinsurance Co.

IRI sued Citigroup as a subrogee of Silverstein Properties, but a judge in the U.S. District Court for the Southern District of New York dismissed the lawsuit in 2005, finding that New York's "subrogation waiver" doctrine precluded IRI from asserting a claim of gross negligence against Citigroup. The appeals court remanded IRI's motion to vacate part of the district court's decision in relation to IRI's charge that the district judge erred in applying the doctrine of assumption of risk to bar IRI's gross negligence claim. The district judge found Silverstein Properties expressly assumed the risk of the emergency power system in its lease with a unit of Citigroup.

IRI moved to vacate that part of the decision because it feared that the district court's holding on assumption of risk might have "collateral estoppel" effects in other litigation arising out of the Sept. 11 attacks. The collateral estoppel doctrine refers to situations in which a judgment in one case prevents a party to that suit from trying to litigate the issue in another legal action.

"Since we are affirming the district court's decision solely on the 'subrogation waiver' holding and refusing to consider its assumption of risk ruling, it would seem that IRI has not had the opportunity to contest fully the merits of the assumption of risk issue," the appeals court said in its decision.

Spokespeople and lawyers for the parties involved in the litigation could not be reached for comment.

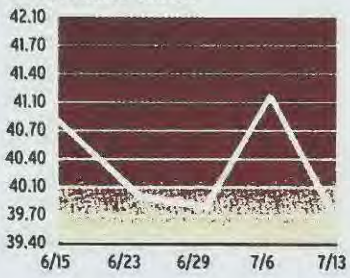
Stock Index

[7/6 - 7/13]

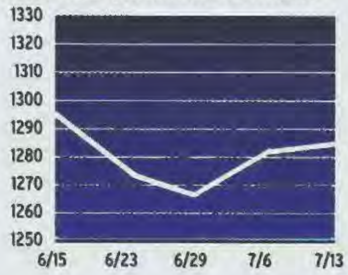
Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.BusinessInsurance.com.

BI STOCK INDEX

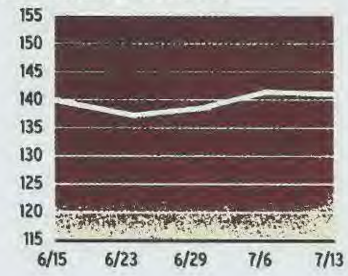
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	▼
3412.41	-0.32%
DOW JONES	▲
13907.25	2.17%
S&P 500	▲
1552.50	1.44%

LARGEST GAINS

Fairfax Financial Holdings	4.83%
SCOR S.A.	3.83%
American Safety Insurance	3.21%
Everest Re Group	2.44%
Navigators Group Inc.	2.05%

LARGEST LOSSES

Meadowbrook Insurance	-10.86%
Gainsco Inc.	-10.77%
CNA Surety Corp.	-4.46%
Argonaut Group Inc.	-3.90%
SAFECO Corp.	-3.81%

Source: Financial Content Inc. http://financialcontent.com

Business Insurance END PAGE

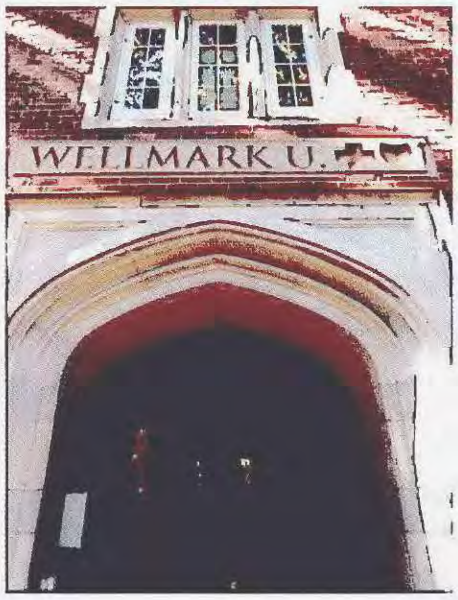
Wellmark drops out of college donation

Wellmark Blue Cross & Blue Shield's foray into higher education seems to be a short-lived one.

The health plan, which pledged $15 million to the University of Iowa's College of Public Health, hoped to brand the college with the Wellmark name.

But after school faculty reportedly refused to rename the school after the insurer, citing a conflict of interest—Wellmark Blues reportedly administers insurance plans for all the state's public universities—the insurer rescinded its offer and withdrew the $15 million gift.

Wellmark Blues is a unit of Des Moines, Iowa-based Wellmark Inc.



Contributing: Mark A. Hofmann, Beth Murtagh, Rupal Parekh, Joanne Wojcik

Musician Kanye West, as "Evel Kanyevel" in his video for "Touch the Sky," is in a feud with Evel Knievel, who says the video infringes on his trademarked name and likeness. Mr. West says the video is protected under the First Amendment.

Knievel and Kanye jump into mediation

There's hope for peace yet between Evel Knievel and Kanye West.

The legendary daredevil and controversial hip hop star have agreed to go to mediation to settle their feud over one of Mr. West's music videos, which Mr. Knievel claims steals his trademarked image and damages his reputation, the Associated Press reported.

In Mr. West's 2006 video for "Touch the Sky," the 29-year-old rapper presents himself as "Evel Kanyevel," dons a star-studded jumpsuit and attempts to clear a canyon with a rocket-powered vehicle.

Mr. Knievel, 68, claims the vehicle in the video is "visually indistinguishable" from the one he used in his highly publicized attempt to jump the Snake River Canyon in Idaho in 1974. During the jump, one of Mr. Knievel's parachutes opened accidentally, causing too much drag for the vehicle to make it to the other side. Mr. Knievel escaped the incident with only minor injuries. In Mr. West's video, he crashes to the canyon's bottom in a fiery blaze.

Mr. Knievel charges infringement on his trademarked name and likeness. He also thinks the video's "vulgar and offensive" images tarnish his reputation, the AP reported.

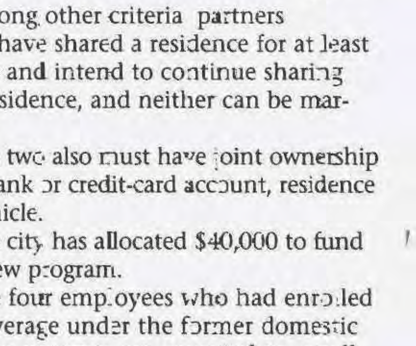
Mr. West claims the video is satire and thus protected by First Amendment rights.

Perhaps the two took inspiration from another song of Mr. West's—"Work it Out."

Kalamazoo dodges same-sex partner benefit ban

When a court ruled that same-sex partner benefits may not be offered by public employers in Michigan because of the state's constitutional ban on gay marriage, the city of Kalamazoo had two options: either discontinue the benefits or find a way around the law.

The Kalamazoo City Commission chose option No. 2 and voted late last month to change the name of its domestic partner benefits to "other qualified adult" program. Now, city-sponsored medical and dental insurance is available to any cohabitating city employee whose significant other is financially dependent on him or her.



Among other criteria partners must have shared a residence for at least a year and intend to continue sharing the residence, and neither can be married.

The two also must have joint ownership of a bank or credit-card account, residence or vehicle.

The city has allocated $40,000 to fund the new program.

The four employees who had enrolled in coverage under the former domestic partner program are expected to enroll in the new program during a special enrollment period later this month.

Real-life litigation enters virtual world

The virtual reality world of Second Life just got a whole lot more realistic—with litigation and all.

Second Life is an online universe where real people adopt personas called avatars and engage in a variety of activities, including making money by creating and selling digital products and services.

A Lutz, Fla.-based company, Eros L.L.C., created several of what court papers call "adult-themed virtual objects" for use in Second Life. One of these—a sort of virtual bed—goes for $45 in real-life money.

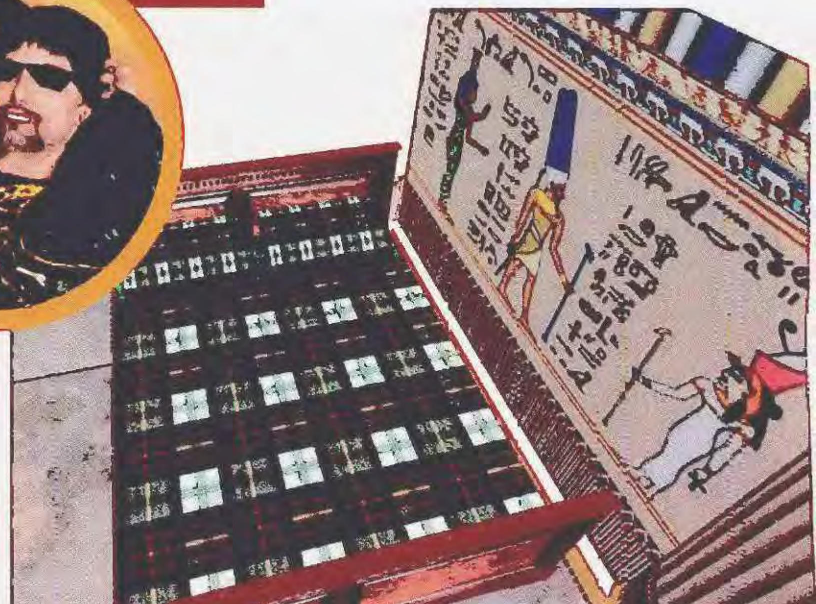
But Eros CEO Kevin Alderman, who's known as Stroker Serpentine in Second Life, was not happy when a denizen of Second Life began selling unauthorized copies of the object for $15. Mr. Alderman claims that the culprit is a real-life person who exists as the avatar Volkov Catteneo in Second Life, and he wants to know who this real-life person is.

So Eros filed a copyright infringement suit in U.S. district court on July 3 against whoever is the real-life Volkov Catteneo.

He also wants Linden Labs, which owns Second Life, to provide him with information about the person who is Volkov Catteneo.

The court will have to determine where the protections of anonymity afforded virtual inhabitants of Second Life are trumped by the legal protections afforded inhabitants of the real world.

No matter how the case is resolved, the matter appears almost guaranteed to open up a whole new—and not necessarily final—frontier of litigation.



SECOND LIFE HERALD

Kevin Alderman, chief executive officer of Eros L.L.C., has filed suit after someone in Second Life began selling knockoffs of a bed he created to sell to denizens of the online world.