

Business Insurance

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PENSION FUNDING LAW LOWERS CONTRIBUTIONS, BUT HIKES PREMIUMS / PAGE 3

STATES STILL RELUCTANT TO JOIN TAX COMPACTS FOR SURPLUS LINES / PAGE 4

inBrief

Federal Insurance Office asked to review NAIC

A longtime congressional critic of the National Assn. of Insurance Commissioners has asked the director of the Federal Insurance Office to review the group's operations. In a letter sent to FIO Director Michael McRaith, Rep. Edward Royce, R-Calif., asked him to examine whether the NAIC is engaging in regulatory activity, whether certain activities it undertakes are consistent with the McCarran-Ferguson Act, and whether reforms need to be made to improve the transparency and oversight of the NAIC's budget and open meetings policy.

Revised flood program extended to 2017

President Barack Obama has signed a five-year extension of the National Flood Insurance Program into law. The Biggert-Waters Flood Insurance Reform and Modernization Act of 2012 extends NFIP funding to September 2017 and makes substantial changes to the program.

P/C results to be strong in second quarter: KBW

The U.S. property/casualty insurance industry likely will post strong second-quarter earnings, Keefe, Bruyette & Woods Inc. said in a report. The report credits negligible losses and rising prices across most lines of business for the

See **IN BRIEF** page 31

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HEALTH CARE REFORM

Health exchange cover quandary

Wording confusion could limit penalties for employers

By **JERRY GEISEL**

WASHINGTON—Only weeks after the Supreme Court upheld the constitutionality of the health care reform law's individual mandate, a new Patient Protection and Affordable Care Act controversy is brewing, and it has high stakes for millions of uninsured U.S. residents and employers.

The controversy, which already spilled into Congress and could move to the courts, involves a crucial part of the law aimed at extending health care coverage to the nation's uninsured.

Under the law, federal premium subsidies will be available to the lower-income uninsured—those making up to 400% of the federal poverty level—to purchase coverage in state insurance exchanges starting in 2014.

If certain conditions are met, when eligible lower-income indi-

viduals use premium subsidies to purchase exchange coverage, their employers can be hit with big financial penalties.

In the case of employers with at least 50 employees that do not offer qualified coverage, if just one full-time employee is eligible for a premium subsidy and uses it to purchase coverage offered through an exchange, the employer would pay a \$2,000 penalty for each of its full-time employees, excluding its first 30 employees.

And in the case of coverage that fails a health care law "affordability" test—in which premiums are determined to be unaffordable if the premium for single coverage exceeds 9.5% of an employee's wages—an employer would be liable for a \$3,000 penalty for each affected employee who uses federal premium subsidies to purchase coverage.

The latest controversy involves a divergence between the actual legislative language involving premium subsidies and subsequent

See **EXCHANGES** page 27

DIRECTORS & OFFICERS LIABILITY



BLOOMBERG

Now-former Barclay's P.L.C. Chairman Marcus Agius testified before the U.K. Parliament this month that low-level executives were involved in setting the London interbank offered rate.

D&O, E&O suits expected in growing Libor scandal

By **JUDY GREENWALD**

As dozens of lawsuits alleging banks manipulated a key lending rate emerge, many experts expect a wave of additional litigation against directors and officers, as well as errors and omissions claims.

Last week, London-based Barclays P.L.C. said it agreed to pay about \$450 million in fines to settle investigations by the U.K. Financial Services Authority, the

U.S. Commodity Futures Trading Commission and the U.S. Department of Justice that it and other banks manipulated the London interbank offered rate before and during the 2008 financial crisis, keeping it artificially low to make the banks' bottom line appear stronger.

Libor is the primary benchmark for short-term interest rates and is a factor in setting

See **LIBOR** page 27

REINSURANCE

Bermuda reinsurer opens with private equity cash

By **BILL KENEALY**

The ranks of Class 4 reinsurers in Bermuda grew by one last week as SAC Re Ltd. started operations in Hamilton.

SAC Re Ltd. was funded with \$500 million in seed capital from investors, including Steven A. Cohen, chairman and CEO of Stamford, Conn.-based hedge fund SAC Capital Advisors L.P., and New York-based Capital Z Partners III L.P.

SAC Re CEO Simon Burton said the firm intends to target a mix of property catastrophe and low-severity casualty reinsurance business. Mr. Burton said the company's business model will fuse a balanced reinsurance underwrit-



Mr. Burton

ing approach with SAC Capital's asset management acumen.

"We've taken a great deal of

time to deliberately construct an underwriting plan that is highly complementary to the asset strategy," Mr. Burton said. "Casualty and property catastrophe are highly accretive, but in different ways."

Mr. Burton added that while the company didn't engineer its debut to coincide with any particular market timing, he is pleased with the way rates are moving on the property cat side.

"It's a conducive environment to be entering that class of business," he said.

Conversely, he acknowledges that the casualty business is less rate-dependent as the longer time horizon for the products reconcile with the firm's investment

prosess.

"Casualty has, we hope, hit rock bottom, and there are some signs of recovery in isolated areas," he said. "Having said that, our niche casualty product is not predicated on a real swing in casualty rates. It's largely about float generation."

SAC Re continues a trend of reinsurance startups with substantial backing from private equity firms. Bermuda-based Third Point Reinsurance Ltd., founded with backing from New York-based hedge fund Third Point L.L.C., began operations in January. In 2004, Cayman Islands-based Greenlight Capital Re Ltd. was

See **SAC RE** page 27

Business Insurance

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WOMEN TO WATCH

nominate

DEADLINE EXTENDED: Nominations for *Business Insurance's* annual Women to Watch award will be taken through July 31. The award recognizes women who are doing superb work in risk and benefits management, insurance and related fields. www.BusinessInsurance.com/Women2012Nominate

LAST WEEK'S TOP FEATURES

www.BusinessInsurance.com/BI10Top

1. Lawyers say health care law will spur suits over technical issues
2. P/C rates increase 4% in June: MarketScout
3. Texas will not set up health exchange or expand Medicaid
4. House votes to repeal health care reform law
5. P/C rates predicted to rise 3% at midyear: Buyer survey
6. NFIP revised and extended until 2017
7. No risk management review by Penn State to stop Sandusky
8. Private equity-backed reinsurer launches in Bermuda
9. Vincent Tizzio named president, CEO of Navigators Management
10. FDA approves plan to fight growing opioid abuse

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WHITE PAPER: Baby boomers are entering their 50s and 60s in ever-greater numbers, affecting everything from pensions to Medicare. But if they want to continue working, employers will need to accommodate an aging workforce, and this new white paper shows how. www.BusinessInsurance.com/whitepapers



SOLUTION ARC: Learn how to balance risk with opportunity. www.BusinessInsurance.com/SRM



TECH LEADERS: Monthly newsletter about industry IT. www.BusinessInsurance.com/TechInsights



GALLERY: Supreme Court benefit management decisions slide show. www.BusinessInsurance.com/photos

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RISK MANAGEMENT

Report bolsters claims against Penn State

By MIKE TSIKOUKAKIS

STATE COLLEGE, Pa.—An independent investigation concluding top officials at Pennsylvania State University did nothing to investigate child sexual abuse allegations for 14 years is likely to make it more difficult and costly to reach settlements of the cases, experts say.

According to the report issued last week, Penn State did not have a process or structure to regularly receive reports on potential risks and failed in its duty to make inquiries into allegations of sexual abuse by former assistant football coach Gerald A. Sandusky.

A special investigations task force of Penn State's board of trustees in November commissioned Louis Freeh, a former federal judge and former FBI director, and his law firm to conduct the investigation.

Mr. Freeh's investigation found that former Penn State President Graham Spanier, former Athletic Director Tim Curly, former Vp of Finance and Business Gary Schultz and the late Joe Paterno, Penn State's former football coach, failed to conduct any investiga-

tion of the allegations against Mr. Sandusky.

"Our most saddening and sobering finding is the total disregard for the safety and welfare of Sandusky's child victims by the

'Our most saddening and sobering finding is the total disregard for the safety and welfare of Sandusky's child victims by the most senior leaders at Penn State.'

Louis Freeh, a former federal judge and former FBI director

most senior leaders at Penn State," Mr. Freeh said in a statement. "The most powerful men at Penn State failed to take any steps for 14 years to protect the children who Sandusky victimized."

Thomas D. Russell, professor of law at the University of Denver

Sturm College of Law, said potential liabilities for covering up the abuse may be seen as being an intentional act rather than just negligence and could be characterized as a civil conspiracy, which can result in higher claim amounts and even punitive claims.

"The price of the settlement has gone up," Mr. Russell said. "Having a former director of the FBI lay out evidence of the complicity of university officials from the president on down in the scandal certainly makes the claims of those injured more valuable."

Larry Jackson, partner in the complex liability practice group at Nelson Levine de Luca & Hamilton L.L.C. in Blue Bell, Pa., said Mr. Freeh's report could embolden plaintiffs' attorneys.

"The report only supports what people in the public were thinking may have been the case," he said. "In addition to emboldening the plaintiffs' attorney, it could make it more difficult to resolve cases with the family members of the children involved."

"In the context of civil litigation, I would certainly believe that it couldn't be positive for the uni-



AP PHOTO

An independent report concludes that Penn State officials did nothing to investigate child-abuse allegations against Gerald Sandusky.

versity in terms of how they would fare in connection to these lawsuits," Mr. Jackson said.

The 267-page report suggests that if emails sent and received among senior officials regarding Mr. Sandusky's conduct were reviewed by Penn State's risk management department, it may have taken steps to mitigate Mr. Sandusky's conduct.

"A risk management review might have resulted in the university providing contractual notice to its insurers about the incident, imposition of a general ban on the presence of children in the Lasch Building or other limitations on Sandusky's activities," investigators wrote in the report.

In addition, the scandal at Penn State has put tremendous pressure

on risk managers at other colleges and universities, said Bill Waldorf, president of the Huntington, N.Y.-based insurance brokerage Waldorf & Associates.

"Pressures are being put on these risk managers or controllers, whether it be by the board of trustees or just simply by the public, to try to implement certain procedures and policies to ensure the safety of the children and populations that they're serving," Mr. Waldorf said.

Those could include a greater focus on employee screening, background checks, advanced training sessions on reporting abuse, and a centralized risk management department to which various departments report regularly, he said.

RISK MANAGEMENT



AP PHOTO

Thousands of British military troops have been added to beef up security during the 2012 Olympic Games in London.

London prepares for Olympics

Security measures include troops, surface missiles

By **RODD ZOLKOS**

As the July 27 opening of the London 2012 Olympic Games nears, organizers and others with involvement in the games are attending to final details of managing the myriad risks surrounding such an event.

Some 10,500 athletes from 204

countries will compete in 26 sports at this year's games, which run through Aug. 12. Estimates of visitors traveling to London for the games range from 500,000 into the millions.

"As you approach game time, of course, there are security needs, as we're all well aware, and clearly in London the major security measures are being put in place," said Ron Holton, chief risk officer at the University of British Columbia in Vancouver and vp of risk management and assurance services at the Vancou-

ver Organizing Committee for the 2010 Olympic and Paralympic Winter Games.

Last week, officials asked Britain's military to provide 3,500 troops in addition to the 13,000 already planned to join private security in providing security for the London Olympics, and are employing surface-to-air missiles to address possible terrorist threats from the air.

"Security is a big risk area around any modern Olympics," Mr. Holton said. "Aside from that, we paid a lot of attention to the

potential for spectator mishaps."

"At VANOC we put a lot of emphasis on doing loss prevention work prior to the games," he said. Venues were closely inspected for potential hazards, said Mr. Holton. "Each morning before the venue opened for business we would have a team go through and inspect," he said.

"From a risk management and insurance standpoint, most people tend to look at potential risks of the Olympics with an eye

See **OLYMPICS** page 30

WORKERS COMPENSATION

Premium calculations set to change

Modified ex-mods penalize poor risks

By **ROBERTO CENICEROS**

Employers with poor loss histories will pay even more for their workers comp coverage starting next year as most states change the way premiums are calculated.

But policyholders with proven risk management practices and safety programs that reduce workplace injuries will benefit from NCCI Holdings Inc.'s change in the methodology determining an individual employer's experience modification factor, experts say.

The Boca Raton, Fla.-based National Council on Compensation Insurance helps 38 states set their workers comp rates. The ex-mod changes begin with Jan. 1, 2013, policy purchases or renewals.

It marks the first time in two decades that the rating organization has updated the "split point" used in its experience rating plan to more accurately reflect individual employer loss frequency and severity. An employer's ex-mod factor has a significant affect on employer expenses because underwriters rely on them to adjust premiums with credits or debits. (see box, page 31).

Every NCCI state has approved the split-point adjustment, said Peter Burton, NCCI's senior division executive for state relations.

NCCI's change could have a

See **EX-MODS** page 31

PENSION BENEFITS

Pension funding relief law saves some employers millions

But measure includes staggered increase in PBGC premiums

By **JERRY GEISEL**

WASHINGTON—Employers will be able to slash required pension plan contributions under long-sought funding relief legislation signed into law this month by President Barack Obama.

But employers, including those with well-funded plans, also will face steep increases in the premiums they will pay the Pension Benefit Guaranty Corp., a rising financial burden that will accelerate employer interest in shifting participants out of their pension plans, experts say.

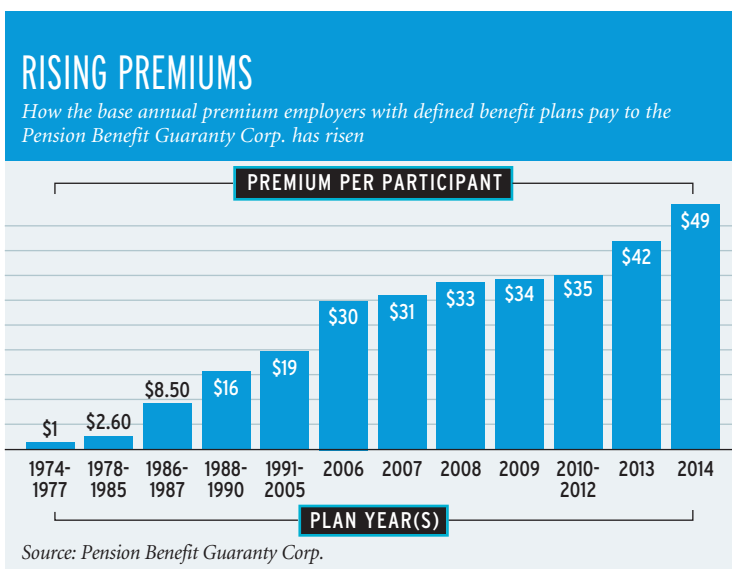
The new law "is very much of a

mixed bag," said Jack Abraham, a principal in the Chicago office of PricewaterhouseCoopers L.L.P.

"In the short term, there certainly is good news. For some companies, there will be significant reductions in contributions," said Eric Keener, a partner with Aon Hewitt in Norwalk, Conn.

"There is a potential reduction of 40% to 50% in required contributions" during the next couple of years, said Bruce Cadenhead, a partner and chief retirement actuary with Mercer L.L.C. in New York.

Just days after the legislation was signed into law, AK Steel Holding Corp. reported to investors that the measure will enable the West Chester, Ohio-based steel producer to reduce pension plan contributions next year by \$100 million to \$200



million.

"This is big money. We are talking about tens of millions of dol-

lars in reduced contributions.

"This will give plan sponsors some breathing room," said Alan Glick-

stein, a senior retirement consultant with Towers Watson & Co. in Dallas.

On the other hand, employers will see their premium payments to the PBGC increase. The annual base or flat-rate premium of \$35 per plan participant will increase to \$42 in 2013 and \$49 in 2014. Increases after that will be linked to wage inflation.

Employers with underfunded plans will be hit with a second premium increase. Such employers now pay a variable rate premium of \$9 per \$1,000 of plan underfunding.

The new law, as already is the case with the base premium, will automatically boost the variable rate premium to match increases in wages, starting in 2013.

See **PENSIONS** page 30

SURPLUS LINES

States still leery of surplus lines tax compacts

NIMA loses Nevada, SLIMPACT remains short of members

By MIKE TSIKOUidakis

Another state has withdrawn from a compact designed to share surplus lines taxes among states where the insurance was in effect. But the Nonadmitted Insurance Multi-State Agreement has gone into effect with the remaining six states.

Meanwhile, a competing arrangement, the Surplus Lines Insurance Multi-State Compliance Compact, has more members than NIMA but remains one short of meeting its self-imposed

requirement that 10 states sign on before the tax-sharing operation goes into effect.

The rival clearinghouse plans have been developed in response to the Nonadmitted and Reinsurance Reform Act, which is part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The law, which took effect one year ago, stipulates that only the home state of a policyholder can collect premium taxes and requires state legislatures to approve a way to allocate the taxes among all states where the surplus lines coverage was in effect.

But in late June, Nevada became the sixth state to withdraw from NIMA, which is backed by the National Assn. of Insurance Com-

missioners. NIMA still launched July 1 with only six of the original 12 states participating.

"We just took a look at the financial impact to the state and, based on that, made our decision to withdraw from NIMA," said Scott J. Kipper, commissioner of the Nevada division of insurance in Carson City, Nev.

Nevada collects more than \$7 million in surplus lines premium taxes a year, a spokesman said.

"The premium tax differentiation between if we participated or not was going to be pretty close to the same," Mr. Kipper said. "At this point, we're pretty comfortable with the 100% home state setup. If the situation changes, we would reconsider participation in a compact."

Nevada's withdrawal, as well as the earlier withdrawal of Alaska, Connecticut, Hawaii, Mississippi, and Nebraska, from NIMA have raised the question of whether there will be a clearinghouse arrangement to collect and distribute surplus lines premium taxes, industry experts say.

But the state of Utah, which joined NIMA last year, has remained a member of the clearinghouse. At first, the state wanted to make sure that its premium revenue would not decrease as a result of the federal law, said Utah Insurance Commissioner Neal Gooch.

Utah collects \$6 million to \$7 million in surplus lines premium taxes annually, said Mr. Gooch, who is based in Salt Lake City.

Since NIMA's approach closely matched the international fuel tax clearinghouse the state was involved with, it was easier to adopt, he said.

"That appears to be the only working model out there right now," Mr. Gooch said of NIMA. "It appears to be doing what it was supposed to do, and I would hope that as other states see what happens, that we may recoup some of those states that have opted out or we may get other states that might want to opt in."

A spokeswoman for the Florida Surplus Lines Service Office, which is the clearinghouse for NIMA, said the system is operating smoothly and without incident. The office

See NIMA page 31

CATASTROPHES



AP PHOTO

Tropical Storm Debby dumped torrential rains on downtown Live Oak, Fla., late last month.

Severe weather in U.S. adds up to \$2B losses

By BILL KENEALY

Insured losses due to severe weather in the United States topped \$2 billion in June, according to reinsurance intermediary Aon Benfield.

"The United States endured a highly active month, with multiple natural disaster perils occurring from coast to coast," according to a report last week by Aon Benfield's catastrophe modeling unit, Impact Forecasting.

Wildfires, thunderstorms with hail and torrential rains, and flooding caused by Tropical Storm Debby contributed to the tally, the unit of London-based Aon P.L.C. noted.

According to the report, the most costly event for insurers occurred when thunderstorms pelted areas of Texas and New Mexico with hail as large as baseballs. Citing figures from the Insurance Council of Texas, the Aon Benfield report noted that insured losses in the state are

expected to exceed \$1 billion.

Other big losses included hail in Colorado and Wyoming, which caused more than \$700 million in insured losses.

Dual blazes in Colorado—the Waldo Canyon Fire in the Colorado Springs region and the High Park Fire outside Fort Collins—also caused major economic damage. The Waldo Canyon Fire destroyed 347 homes valued at \$110.2 million and killed two people, while the High Park Fire consumed 259 homes with a value of \$39.2 million and killed one person.

"The Colorado wildfires proved to be the two most damaging fires in state history, and also two of the costliest," Steve Jakubowski, president of Impact Forecasting, said in a statement accompanying the report.

In Florida, Tropical Storm Debby contributed to the deaths of at least seven people and flooded more than 7,500 homes and businesses.

BI adds new editorial staff members

Business Insurance has added to its editorial staff in Chicago.

Paul Bomberger has joined the publication as managing editor and Aranya Tomseth has joined as assistant managing editor.

Mr. Bomberger most recently was editor-in-chief of Risk & Insurance magazine in Philadelphia. Previously, he was deputy business editor at the Sun Sentinel in Fort Lauderdale, Fla., and prior to that he was assistant business editor at the Palm Beach Post in West Palm Beach, Fla. He began his journalism career as a business reporter for Lancaster Newspapers Inc. in Lancaster, Pa.

He has a bachelor's degree in journalism from Temple University in Philadelphia.

At *Business Insurance*, Mr.



Mr. Bomberger



Ms. Tomseth

Bomberger will manage the newsroom and oversee day-to-day operations of *Business Insurance's* print and online editorial

products. He succeeds Matt Scroggins, who left to take a

See STAFF page 30

Women to Watch deadline extended

Business Insurance has extended its nomination deadline for the 2012 Women to Watch program to July 31.

The program was created by the magazine in 2006 to recognize women doing exceptional work in risk management, benefits management, commercial insurance and reinsurance, and related fields such as law and consulting. To date, 230 women have joined this elite group.

A panel of *Business Insurance* senior editors selects the honorees based on notable personal and professional achievements, their influence on the industry and marketplace, and their own contributions to the advancement of women in business.

Profiles of the 2012 Women to Watch honorees will be published in the Dec. 3 issue of *Business Insurance* and on www.BusinessInsurance.com. Awards will be presented at an awards luncheon Dec. 4 in New York. The event will feature "10-10-10: A Life Transforming Idea," author Suzy Welch as the keynote speaker, along with leadership workshops highlighting topics facing the insurance industry.

To nominate a woman in your organization for a Women to Watch award, go to www.BusinessInsurance.com/Women2012Nominate.

For more information about the awards luncheon and leadership workshops, go to www.BusinessInsurance.com/Women2012.





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CUSTOMER:
LUMBER AND BUILDING
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CASE OBJECTIVE:
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CASE SPECIFICS:

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Waiting out health care reform

Employers spurred to action by health care ruling; others take chance on repeal

By JOANNE WOJCIK

Many middle-market employers that waited for the U.S. Supreme Court to rule on the constitutionality of the health care reform law now are scrambling to enact employee health plan provisions effective in 2013 and 2014, benefits experts say.

And some are still waiting, hoping the law will be repealed if GOP presidential candidate Mitt Romney wins the White House and Republicans gain control of the Senate and retain control of the House, according to a survey of 4,000 employers conducted by Mercer Inc. immediately after the Supreme Court's recent ruling upholding the bulk of the Patient Protection and Affordable Care Act.

Playing the waiting game could be dangerous for these employers, experts warn, because of the potential for regulatory fines and litigation filed by employees alleging violations of the new law. (see story, page 7).

The vast majority—56%—of employers surveyed by Mercer said they were awaiting a ruling by the nation's highest court before developing a strategy to respond to the law's provisions slated to go into effect in 2014 and beyond. While 40% said they will begin taking action now that the court has ruled, another 16% said they will continue to wait until after the November elections.

"There was that period of time where people were...just burying their heads in the sand. Now, all of a sudden, people are starting to stick their necks up and take notice," said David Levitz, president of employee benefits at GCG Financial Inc., a Bannockburn, Ill.-based broker specializing in middle-market employers.

"There is still a cadre of companies out there that just aren't doing anything. If they had followed the sage advice of their advisers, they should at least have done actuarial modeling by now. For those that haven't, they're like deer in the headlights," said Mark Holloway, vp and director of compliance services for Kansas City, Mo.-based Lockton Cos. Inc.'s health reform advisory practice.

"There is a group, especially in the middle-market environment, who want to put their heads in the sand and not do anything until forced to," said Jay M. Kirschbaum, practice leader in Willis Group Holdings P.L.C.'s human capital practice in St. Louis. "I tell them 'a man should look for what is and not what should be.'"

Karen Vines, vp-benefits for IMA Inc.'s Wichita, Kan.-based brokerage operations, said one reason many middle-market employers have been reluctant to act is they still do not have clear guidance on many provisions of new statute from the government agencies responsible for implementing the law.



56%

The vast majority—56%—of employers surveyed by Mercer said they were awaiting a ruling by the nation's highest court before developing a strategy to respond to the law's provisions slated to go into effect in 2014 and beyond.

"The challenge is that we don't have the clarity from regulators on some provisions. You have to make a plan based on what you know. Business owners tend not to make plans without having all of the information they need," she said.

For example, employers are awaiting guidance on the definition of full-time employee. Under the new law, employees who work 30 or more hours each week must be allowed to enroll in their employer's health benefit plan, but it is unclear how many months of a year that employee must work to be considered fulltime, said J.D. Piro, national practice leader in the health law group at Aon Hewitt in Norwalk, Conn.

"We have been focused on the definition of what a full-time faculty member looks like from the very beginning," said Paul Meese, executive director of organizational development and human resources at the Longmont, Colo.-based Front Range Community College. "In education, it is not uncommon for part-time instructors to

work at multiple colleges."

Some employers with health plans that renew midyear were caught off guard when the IRS announced last month that the annual \$2,500 Flexible Spending Account contribution cap set by the new law will not apply for plan years that begin before Jan. 1, 2013.

"I know a client that changed their plan year to a calendar year just because of that confusion," said Joy Sellstrom, senior counsel at Seyfarth Shaw L.L.P. in Chicago.

"Some of the off-calendar year plans already reduced the FSA contribution to \$2,500. Afterwards, the guidance came out and said they didn't have to unless their plan started after Jan. 1, 2013. But that was too late" for that employer because the benefit plan had already been changed, said Patrick J. Haraden, principal at Longfellow Benefits, a middle-market broker in Boston.

While middle-market employers appear to be on track in preparing summaries of benefits and coverage and including the cost of coverage on employee W-2 wage

COMPLIANCE TIMELINE

A look at key fees and requirements employers will need to address under PPACA:

2012

- Distribution of uniform summary of benefits and coverage to plan participants
- 60-day notice of material changes to SBC content
- Additional requirements for women's preventative care services for plans beginning on or after July 1, 2012

2013

- W-2 reporting for health care coverage
- FSA contributions capped at \$2,500 for plans beginning on or after Jan. 1, 2013
- Comparative effectiveness group plan fees assessed
- Minimum allowable annual dollar limits on essential health benefits set at \$2 million
- Notification of exchange options provided to employees

2014

- Health Insurance Portability and Accountability Act limit on wellness incentives increases from 20% to 30% of the cost of coverage
- Financial penalty on employers not offering qualified health care plan coverage takes effect
- Limits imposed on coinsurance payments and deductibles
- Requirement to cover routine medical costs of clinical trial participants
- Bans on annual dollar limits, pre-existing condition exclusions and waiting periods applied to all covered employees for plans beginning after Jan. 1, 2014, regardless of grandfathered status
- Limitations on cost-sharing, deductibles and additional standards begin
- Health insurance industry fees and temporary reinsurance fees assessed

2018

- 40% excise tax on very costly or "Cadillac" health care plans begins

and income statements—two provisions that took effect this year—some other provisions continue to perplex many employ-

Continued on next page

Noncompliance of health provisions could lead to litigation

Noncompliance of any provisions of this landmark health care reform, whether inadvertent or intentional, could be costly for employers, legal experts warn.

"One thing that the regulatory agencies have said is they're not looking to penalize employers that are making a good-faith effort to implement the law. That being said, if your strategy is to not consciously implement on the hopes that this act is overturned or repealed, that is not acting in good faith," said James Napoli, senior counsel at Proskauer Rose

L.L.P. in Washington.

"What that means is, they would be subject to potential civil penalties through the Department of Labor. Second, they could be subject to the risk of litigation if a participant sues the employer for those coverages," he said.

"What makes it a little more scary is...under the act, there is a whistle-blower provision, which gives employees the opportunity to file a complaint with (the Occupational Safety and Health Administration) citing their employer, or plan

fiduciaries' unwillingness to provide mandated benefits," Mr. Napoli said. "If there is a claim to be made there, the whistle-blower statute permits an award of special damages" which would be "in addition to the benefit that should have been provided under the plan."

This contrasts with penalties for violations of the Employee Retirement Income Security Act, which are limited to just the benefits owed, he said.

Employers that attempt "workforce realignment," such as cutting back on the

hours worked by part-time employees to less than 30 so they are not subject to the requirement also could face litigation, Mr. Napoli said.

"Say an employee who works 30 to 40 hours drops to 29 hours. That could be problematic unless there are other legitimate business reasons for making that move. ERISA prohibits employers from interfering with an individual's right to a benefit. There's a potential for whistle-blower claims, too," he said.

—By Joanne Wojcik

CONTINUED FROM PREVIOUS PAGE

ers, benefit experts say. Among them are:

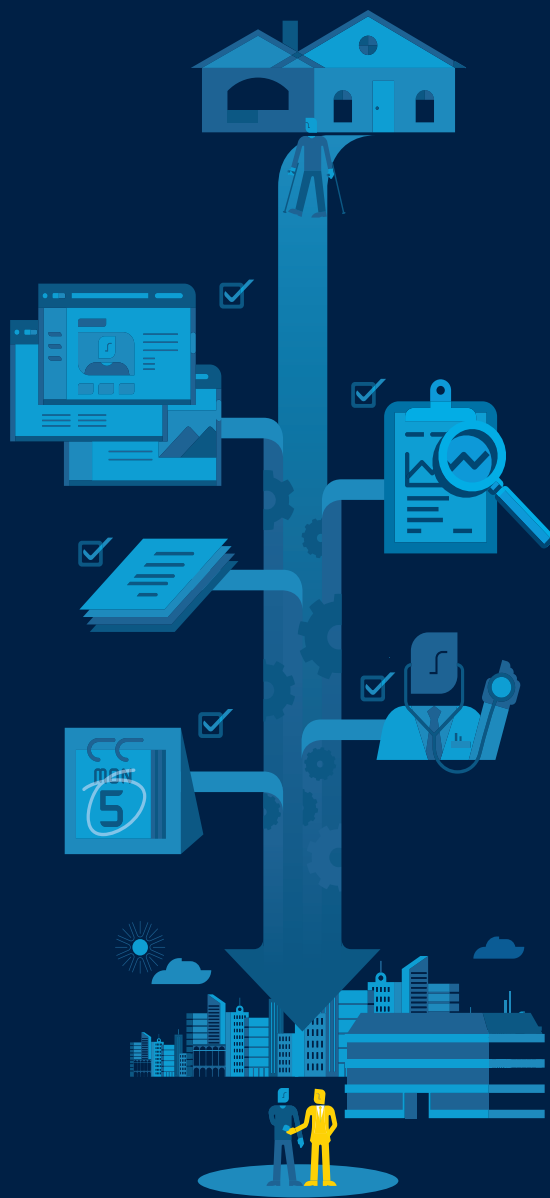
- 105(h) nondiscrimination rules. This section of the IRS code formerly affected mostly self-funded plans, if the plan structure and access discriminated in favor of highly compensated employees. However, under the new law, "the IRS wants to apply this to fully insured plans and make it a corporate penalty of \$100 a day per non-highly compensated employee for every day of discrimination," Ms. Vines said. "Envision a restaurant that doesn't offer group coverage to the wait staff. They could face a huge discrimination fine, potentially putting them out of business."

- Definition of minimum essential benefits. "One of the things that employers would like to better understand is essential health benefits. That has implications if you buy coverage on a fully insured basis vs. self-fund. Non-essential benefits can be capped, though essential benefits cannot be. It could get messy," said Scott Wetz, consulting actuary at Milliman Inc. in Brookfield, Wis.

- Women's contraceptive coverage. "It's not resolved because regulators took comment up until the middle of June asking payers to cover but not allowing them to recover their costs," Ms. Vines said.

- Auto enrollment for employer groups of 200 or more. "It is one of the requirements of grave concern to employers," said Tracy Watts, a Washington-based senior consultant at Mercer. "If a lot of people truly come back into the plan, that's a huge cost. The current average opt-out rate is 18%. Just say half of them come back in, that grows your cost by 9%."

- Notification requirement for employers to advise employees on the availability of the insurance exchanges. "We don't know for sure that the public exchanges are going to be ready, what they're going to look like, or how they are going to interact with employers," Ms. Watts said. "Even if you meet all of the plan design requirements (under the law), should one of your employees wander into an exchange...the exchanges are likely to reach out to the employer to find out whether the employee's coverage is qualifying. But we don't know how they are going to reach out to the employer."



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Opinions

EDITORIAL

Now's the time for FIO report

LAST WEEK, Rep. Ed Royce, R-Calif., sent a letter to Michael McRaith, the director of the Federal Insurance Office, asking him to review certain activities of the National Assn. of Insurance Commissioners. In his letter, Rep. Royce noted the existence of "pending" FIO insurance regulatory modernization.

We're glad he mentioned that report. After all, we've been waiting for it for nearly six months now.

Those with long memories will recall that the report was supposed to be presented to Congress by the end of January. And those with an understanding of how Washington too often works know that such deadlines often aren't met. We said in March that we weren't "troubled" that the report was a little late.

Well, now it's more than a little late. The insurance industry and its customers—including risk managers—ought to know what the FIO has in mind for improving the regulation of insurance.

We've got our opinions on that issue. Allowing insurers and producers to choose to be regulated by a single federal authority rather than a patchwork of state regulators tops that list.

At the same time, we have no reason to believe the FIO report will go that far. Mr. McRaith has said FIO isn't a regulator, and we believe him. The Dodd-Frank Wall Street Reform and Consumer Protection Act sharply limits the FIO's regulatory powers.

Still, the FIO can greatly influence how insurance is regulated. It can prod states to reform and modernize regulatory practices. As the first-ever federal-level insurance authority, the FIO also should play a critical role in presenting U.S. views in international insurance regulatory forums.

The report will give a clear indication of how the FIO plans to approach its job. With elections looming, we hope the report is issued soon, and the sooner the better.

The FIO already has embarked on crafting another report—this one on reinsurance. That report is due no later than Sept. 30. We certainly hope that the belated report on insurance regulatory modernization appears long before that deadline.

LETTERS

Business Insurance welcomes letters to the editor.

The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

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Letters to the Editor, *Business Insurance*,
150 N. Michigan Ave., Chicago, Ill. 60601-7524

Fax: 312-280-3174; email: gsouter@businessinsurance.com

SCHILLERSTROM



COMMENTARY

Nominate a 2012 Woman to Watch

I have a 22-year-old niece who is smart, ambitious and hard-working. She's a senior at the University of Colorado in Boulder with a double major in fine arts and psychology, maintaining a 3.8 grade point average while also holding down two part-time jobs. She is so remarkable, in fact, that I expect one day she'll be elected president, or at the very least become the CEO of a Fortune 500 company.

But the odds are stacked against her, based on the lack of progress women have made in climbing the corporate ladder since the 1964 passage of Title VII of the Civil Rights Act, which banned sex discrimination at work. Although women land 53% of the entry-level jobs in business, female presence diminishes to 35% at the director level and to 24% at the senior vp level, according to business consulting firm McKinsey & Co. Only 19% of C-suite executives are women, and fewer than 3% of Fortune 500 CEOs are women.

Moreover, women still earn less than men holding the same jobs. New York-based marketing agency Catalyst Inc. has tracked the career progress of 4,100 "high-potential" employees with master's degrees in business administration since 2007 and found that men started with higher average annual salaries—about \$4,600 more—and enjoyed bigger raises throughout the years. To dispel the myth that women lose ground by dropping out of the workforce to start families, Catalyst tracked only women and men who had no children.

Recognizing that high-ranking female role models are scarce, *Business Insurance* in 2006 introduced its "Women to Watch" award in an attempt to identify the women who are breaking through the glass ceil-

ing in commercial insurance, risk management, employee benefits and related fields. Since its inception, we have recognized 230 women who have made great strides professionally.

For many, the award has served as a springboard to further advance their careers. For example, Tina Mallie, a 2011 honoree, recently was promoted to president of programs and direct markets at Zurich Insurance Co. Ltd., while Mary Jane Fortin, also honored in 2011, was named chief financial officer of American International Group Inc.'s SunAmerica Financial Group unit in April.

These women are leaders, but they are not the only women worthy of acknowledgement. I have been surprised that many of the outstanding women I have met in our industry either never were nominated or didn't consider themselves worthy.

At a session on women's leadership during this year's Risk & Insurance Management Society Inc. conference in Philadelphia, one of the participants noted that there is no "good old girls' club" in our industry. To that end, I've also been asking the women who have been named Women to Watch to "pay it forward" and help create a support network for women in the industry by nominating a female colleague to be initiated into this elite club.

You, too, can nominate a woman for the 2012 Women to Watch award by downloading a form at www.BusinessInsurance.com/Women2012Nominate. Nominations are due July 31.

Contact: jwojcik@businessinsurance.com



**JOANNE
WOJCIC**
SENIOR EDITOR

REVENUE GROWTH firesUP

BROKER TRENDS & PROFILES

Economic, market changes help fuel growth for brokers

Nine of 10 world's largest brokers see increased revenues for 2011

By **RODD ZOLKOS**

All but one of the brokers among the top 10 in *Business Insurance's* latest ranking of the world's largest brokers showed growth in brokerage revenue in 2011 amid signs that improved economic and market conditions are having an impact on broker results.

Among the 10 largest brokers, Arthur J. Gallagher & Co. posted the largest brokerage revenue growth on a percentage basis in 2011 with a nearly 16.9% increase over 2010. Others enjoying double-digit brokerage revenue growth in 2010 were Hub International Ltd. at 15.3% growth, Brown & Brown Inc. at 15.0%, and Jardine Lloyd Thompson Group P.L.C. at 11.3%.

The remainder of the top 10 ranked by 2011 brokerage revenue percentage growth were Lockton Cos.

L.L.C. at 9.4%, Marsh & McLennan Cos. Inc. at 8.7%, Aon P.L.C. at 5.9%, Willis Group Holdings P.L.C. at 3.5%, BB&T Insurance Services Inc. at 2.3% and Wells Fargo Insurance Services USA Inc., where brokerage revenue dropped 1.4% in 2011 from its 2010 level.

Wells officials attributed the decline in brokerage revenues there to the sale of their wholesale operations and the ongoing effects of a soft insurance market.

As for the growth at other brokers, many broker industry analysts and experts cited the impact of the economy and a firming insurance market.

"Overall...we're sort of seeing the unwinding of the perfect storm," said Timothy J. Cunningham, principal at OPTIS Partners L.L.C. in Chicago, referring to the combined effects of the economic collapse and the prolonged soft market.

"Having a more stable economy is helpful," said Meyer Shields, managing director-equity research, property/casualty insurance at Stifel Nicolaus & Co.

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INSIDE BROKER TRENDS

Ranking of 10 largest brokers worldwide
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Top 100 agents, brokers of U.S. business
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M&A activity up, focus on middle-market firms
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Brokers cautiously return to contingents
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Brokers see growth prospects
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TOP10 BROKER PROFILES

1

MARSH & MCLENNAN COS. INC.
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2

AON CORP.
Page 21

3

WILLIS GROUP HOLDINGS P.L.C.
Page 22

4

ARTHUR J. GALLAGHER & CO.
Page 22

5

WELLS FARGO INSURANCE SERVICES USA INC.
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6

JARDINE LLOYD THOMPSON GROUP P.L.C.
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7

BROWN & BROWN INC.
Page 24

8

BB&T INSURANCE SERVICES INC.
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9

LOCKTON COS. L.L.C.
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10

HUB INTERNATIONAL LTD.
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DATA snapshot

TOP WORLD BROKERS

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A DECADE OF GROWTH

As a group, the 10 largest brokers' revenues have risen in most years in the past decade, in billions of dollars.



WORLD'S 10 LARGEST INSURANCE BROKERS

Ranked by 2011 brokerage revenues

RANK	Company/address	Phone/website	Chief executive	2011 brokerage revenues	% change	2011 employees	2011 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 www.mmc.com	Brian Duperreault, president/CEO	\$11,519,000,000	8.7%	52,000	N/A	45.1%	N/M	9.0%	32.7%	N/M	12.8%	0.7%	(0.3%)
2	Aon P.L.C. 8 Devonshire Square London, EC2M 4PL England	44-207-623-5500 www.aon.com	Gregory C. Case, president/CEO	\$11,228,000,000	5.9%	62,000	500	47.0%	N/M	13.0%	20.0%	N/M	19.7%	0.5%	N/M
3	Willis Group Holdings P.L.C. 51 Lime St., London, EC3M 7DQ England	44-203-124-6000 www.willis.com	Joe Plumeri, chairman/CEO	\$3,414,000,000	3.5%	17,000	400	54.2%	4.3%	22.1%	13.9%	2.3%	2.3%	0.9%	0.1%
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/president/CEO	\$2,091,700,000	16.9%	12,383	300	38.4%	13.0%	N/M	18.9%	2.2%	25.6%	2.0%	N/M
5	Wells Fargo Insurance Services USA Inc. 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 wfis.wellsfargo.com	Neal R. Aton, president/CEO	\$1,626,869,000	(1.4%)	7,525	160	60.4%	0.3%	N/M	14.2%	10.7%	2.2%	1.7%	10.5%
6	Jardine Lloyd Thompson Group P.L.C. ¹ 6 Crutched Friars, London, EC3N 2PH England	44-207-528-4444 www.jltgroup.com	Dominic Burke, group chief executive	\$1,266,671,620	11.3%	6,722	78	52.1%	8.1%	12.4%	16.7%	1.0%	8.0%	1.2%	0.6%
7	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 www.bbinsurance.com	J. Powell Brown, president/CEO	\$1,112,104,659	15.0%	6,061	145	51.9%	13.9%	1.6%	17.2%	6.6%	8.3%	0.1%	0.6%
8	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 www.bbt.com	H. Wade Reece, chairman/CEO	\$1,104,126,900	2.4%	4,565	118	48.9%	26.3%	N/M	10.9%	8.5%	N/M	0.7%	4.6%
9	Lockton Cos. L.L.C. ⁴ 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 www.lockton.com	John M. Lumelleau, president/CEO	\$904,403,000	9.4%	4,450	60	65.7%	5.0%	2.1%	25.7%	0.4%	N/M	1.1%	N/M
10	Hub International Ltd. 55 E. Jackson Blvd., Floor 14A, Chicago, Ill. 60604-4187	312-279-4882 www.hubinternational.com	Martin P. Hughes, chairman/CEO	\$878,321,552,00	15.3%	5,678	275	56.9%	5.5%	0.3%	15%	21.4%	0.9%	0.1%	N/M

*Percentage of revenue may not total 100% due to rounding. N/M=Not meaningful. N/A=Not available. 1 British pound=\$1.5698. 4 Fiscal year ending April 30.

Source: BI Survey
Researched by Angelina Villarreal



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100 LARGEST BROKERS OF U.S. BUSINESS*

Ranked by 2011 brokerage revenues generated by U.S.-based clients

2012 rank	2011 rank	Company	2011 U.S. revenue	% change
1	1	Marsh & McLennan Cos. Inc.	\$5,068,360,000	8.7%
2	2	Aon P.L.C.	\$5,052,600,000	19.1%
3	5	Arthur J. Gallagher & Co.	\$1,694,277,000	8.8%
4	4	Wells Fargo Insurance Services USA Inc.	\$1,626,869,000	(1.4%)
5	3	Willis Group Holdings P.L.C.	\$1,604,580,000	(2.8%)
6	7	Brown & Brown Inc.	\$1,107,656,240	14.9%
7	6	BB&T Insurance Services Inc.	\$1,104,126,900	2.4%
8	NEW	National Financial Partners Corp.	\$692,986,754	(2.2%)
9	8	USI Holdings Corp.	\$659,276,000	4.3%
10	9	Lockton Cos. L.L.C. ¹	\$633,082,100	9.4%
11	10	Hub International Ltd.	\$570,909,001	11.9%
12	11	Alliant Insurance Services Inc.	\$460,193,546	28.8%
13	NEW	Towers Watson & Co. ²	\$360,238,608	2.1%
14	12	Leavitt Group	\$188,245,000	2.5%
15	NEW	AssuredPartners Inc.	\$172,316,140	5.9%
16	13	Jardine Lloyd Thompson Group P.L.C. ³	\$164,667,311	3.4%
17	14	CBIZ Benefits & Insurance Services Inc.	\$159,900,000	1.3%
18	NEW	Keenan & Associates	\$144,148,000	3.5%
19	NEW	Meadowbrook Insurance Group Inc.	\$134,552,000	0.0%
20	15	Frank Crystal & Co. Inc.	\$131,740,000	0.0%
21	16	Hays Group Inc., dba Hays Cos.	\$127,800,000	9.0%
22	17	Bollinger Inc.	\$117,791,000	1.2%
23	18	J. Smith Lanier & Co.	\$107,929,729	2.8%
24	19	Regions Insurance Group Inc.	\$101,892,006	2.4%
25	20	John L. Wortham & Son L.P.	\$99,976,140	3.5%
26	22	Holmes Murphy & Associates Inc.	\$97,450,857	5.4%
27	21	Beecher Carlson Holdings Inc.	\$94,981,468	2.4%
28	30	Paychex Insurance Agency Inc. ⁴	\$92,300,000	24.1%
29	23	Mesirow Insurance Services Inc. ⁵	\$91,741,286	4.9%
30	25	Hylant Group Inc.	\$91,109,789	6.5%
31	27	Insurance Office of America Inc.	\$89,685,193	11.0%
32	26	BancorpSouth Insurance Services Inc.	\$89,046,870	9.1%
33	28	The IMA Financial Group Inc.	\$85,690,829	9.6%
34	29	Barney & Barney L.L.C.	\$85,166,548	11.8%
35	31	Integro USA Inc.	\$84,066,700	15.8%
36	37	Higginbotham & Associates	\$79,659,000	30.4%
37	34	Ascension Insurance Inc.	\$75,430,000	9.9%
38	32	Heffernan Group	\$74,282,000	3.9%
39	33	Conner Strong & Buckelew Cos. Inc.	\$71,520,400	2.9%
40	36	Cottingham & Butler Inc.	\$69,767,000	11.0%
41	35	Woodruff-Sawyer & Co.	\$69,498,000	7.6%
42	38	Capacity Group of Cos.	\$65,594,355	9.0%
43	47	First Niagara Risk Management Inc.	\$63,691,259	40.0%
44	53	INSURICA Insurance Management Network	\$61,758,630	49.2%
45	NEW	TD Insurance Inc. ⁶	\$59,667,211	11.4%
46	41	Frenkel & Co.	\$58,461,915	6.7%
47	42	Edgewood Partners Insurance Center	\$58,271,780	10.8%
48	39	Huntington Insurance Inc.	\$57,145,770	(2.6%)
49	40	Eastern Insurance Group L.L.C.	\$56,745,763	1.7%
50	43	Associated Financial Group L.L.C.	\$54,132,824	5.6%

2012 rank	2011 rank	Company	2011 U.S. revenue	% change
51	48	Assurance Agency Ltd.	\$52,104,078	16.3%
52	44	Western States Insurance	\$51,662,209	2.1%
53	45	Marshall & Sterling Enterprises Inc.	\$49,243,812	4.1%
54	49	Propel Insurance	\$46,400,000	5.0%
55	54	Oswald Cos.	\$46,317,150	12.0%
56	46	Horton Group Inc.	\$45,921,534	(0.6%)
57	50	Lawley Service Inc.	\$45,904,375	5.8%
58	51	McQueary Henry Bowles Troy L.L.P.	\$44,725,000	4.4%
59	52	William Gallagher Associates Insurance Brokers Inc.	\$44,153,733	5.1%
60	56	InterWest Insurance Services Inc.	\$41,271,510	0.5%
61	62	Risk Strategies Co.	\$40,859,000	14.2%
62	61	Bowen, Miclette & Britt Inc.	\$39,957,368	11.6%
63	57	Riggs, Counselman, Michaels & Downes Inc.	\$39,065,500	(3.0%)
64	55	Mahoney Group	\$38,087,811	(7.4%)
65	NEW	M&T Insurance Agency	\$37,666,000	5.7%
66	60	Corporate Synergies Group L.L.C.	\$37,000,000	2.8%
67	63	Old National Insurance	\$36,199,157	1.3%
68	70	Frost Insurance Agency Inc.	\$35,999,250	4.1%
69	65	Moreton & Co.	\$35,718,000	1.8%
70	66	Andreini & Co.	\$35,600,000	1.7%
71	71	Scott Insurance	\$35,239,000	2.9%
72	74	M3 Insurance Solutions Inc.	\$35,215,200	11.0%
73	73	SilverStone Group Inc.	\$34,581,000	6.9%
74	69	Payne Financial Group Inc.	\$33,984,497	(2.4%)
75	75	Starkweather & Shepley Insurance Brokerage Inc.	\$32,990,000	4.1%
76	64	The Loomis Co.	\$32,046,000	(9.0%)
77	80	Robertson Ryan & Associates Inc.	\$30,090,494	9.8%
78	77	People's United Insurance Agency Inc.	\$29,648,000	(3.4%)
79	NEW	LMC Insurance & Risk Management Inc.	\$29,279,779	24.2%
80	76	SullivanCurtisMonroe Insurance Services L.L.C.	\$28,515,000	(8.3%)
81	79	Roger Bouchard Insurance Inc.	\$27,741,884	0.1%
82	NEW	Charles L. Crane Agency Co.	\$27,000,000	0.0%
83	81	Haylor, Freyer & Coon Inc. ⁷	\$26,629,716	1.6%
84	82	Cobbs, Allen & Hall Inc.	\$26,429,841	5.5%
85	90	Bankers Insurance L.L.C.	\$25,895,357	12.5%
86	83	Lovitt & Touche Inc.	\$25,844,739	4.8%
87	86	J.W. Terrill Inc.	\$24,700,406	2.0%
88	NEW	The Underwriters Group	\$24,255,000	5.0%
89	89	Brower Insurance Agency L.L.C.	\$23,352,000	0.5%
90	91	The Daniel & Henry Co.	\$21,982,000	(2.3%)
91	99	AH&T Insurance	\$21,779,038	14.5%
92	93	PSA Insurance & Financial Services ³	\$21,410,100	0.2%
93	97	Bolton & Co. Insurance Brokers	\$20,856,691	3.2%
94	96	Van Gilder Insurance Corp.	\$20,421,263	(2.8%)
95	100	Benefit Controls Cos.	\$20,050,000	6.4%
96	NEW	Ansary & Associates L.L.C.	\$19,754,000	14.0%
97	98	FBMC Benefits Management	\$19,286,340	(4.2%)
98	NEW	Rich & Cartmill Inc.	\$19,145,478	5.2%
99	NEW	Kapnick Insurance Group	\$19,074,330	11.3%
100	NEW	Cook, Hall & Hyde Inc.	\$17,858,000	0.5%

*Companies that derive more than 49% of their gross revenue from personal lines business are not ranked. 1 Fiscal year ending April 30. 2 Fiscal year ending June 30. 3 British pound=\$1.5698 in 2011, \$1.5452 in 2010. 4 Fiscal year ending May 31. 5 Fiscal year ending March 31. 6 Fiscal year ending Oct. 31. 7 Fiscal year ending Aug. 31.

Source: BI Survey
Researched by Angelina Villarreal

Numbers: Changes help fuel broker growth

CONTINUED FROM PAGE 9

Inc. in Baltimore, adding, "There's certainly more trepidation on the global economic front than there was six months ago."

"We're looking for gradual improvement in U.S. market conditions from slightly better exposure," said Adam Klauber, co-group head-financial services and technology sector at William Blair & Co. L.L.C. in Chicago. "I think you'll see more each quarter because it takes a while for the rate increases to roll into the results of brokers."

Mr. Shields noted that an ongoing low-interest-rate environment continues to put negative pressure on brokers' results, hitting them both in terms of the fiduciary invested income they'd earn in the time between collecting premiums and passing them along to insurers and in their own pension liabilities.

John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco, said 2% or 3% of brokers' growth likely can be attributable to the impact of economic growth. Insurance rate increases could be responsible for another 1% or 2% of growth of middle-market brokers who tend to have fewer clients involved in alternative risk transfer or self-insuring programs.

Another factor differentiating 2011 growth and its sources between the

very largest brokers and others is the prevalence of fee-based business among the largest brokers vs. commission-based business for others.

While some brokers benefit from rate growth, "that only goes so far, particularly for a Marsh or an Aon," said Mark Dwelle, insurance analyst at RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va. "Those businesses are basically fee-driven."

"What's been driving organic growth from the middle-market brokers is they remain ostensibly commission-based," Mr. Wicher said. "For the larger brokers, in that they're providing a constant level of service, it tends to immunize their revenues from market cycles," he said. But, while the commission-based middle-market brokers tend to experience more volatility in their results as cycles shift, now they've been able to enjoy the benefit of the economic uptick in 2011 and some firming of rates.

"I think when you start looking at companies like Aon and Marsh, most of the growth they've seen has been outside of the U.S.," said Mr. Dwelle, noting that those brokers are seeing particular growth in emerging market countries that are enjoying faster economic growth and where insurance penetration is increasing.

"In mature markets, obviously there's not the kind of economic

growth that stirs a lot of fresh demand," he said.

Another factor driving revenue growth is acquisitions, said Mr. Wicher. "Gallagher was very active last year, as was Brown & Brown," he said.

The 10 largest brokers all derive significant amounts of revenue from benefits business, and they're likely to see growth opportunities for those services as employers looking to address health care reform requirements seek their consulting services, some suggest.

Ranking the 10 largest brokers by their percentage of 2011 employee benefits revenue, Marsh was first at 32.7% followed by Lockton at 25.7%, Gallagher at 18.8%, Brown & Brown at 17.2%, JLT at 16.7%, Hub & Brown at 14.2%, Willis at 13.9%, Wells Fargo at 14.2%, Willis at 13.9%, Aon at 13.6% and BB&T at 10.9%.

While there are concerns about the impact health care reform regulations that would include broker commissions in health insurers' minimum medical-loss ratio calculations, several analysts see an opportunity for brokers in employers' need for expert advice as they look to comply with the measure's requirements.

"I think there's a real opportunity for the consultative broker...because employers are going to need a lot of help weaving these their way through the morass," Mr. Cunningham said.

Methodology behind BI broker rankings

For the past four decades, *Business Insurance* has published extensive rankings of the world's largest brokerages. Over the years, as industry dynamics have changed, we have periodically updated our ranking methodology to provide a better reflection of the standing of insurance brokers serving commercial policyholders.

In this year's ranking of the 100 largest brokers of U.S. business, we've made another slight change to our eligibility for inclusion.

To be eligible for inclusion, brokers must derive no more than 49% of their gross revenues from personal lines business, focusing on ranking companies that derive a majority of business from serving our commercial lines readers. Previously, to be eligible for the top 100, a broker was required to generate at least 50% of its revenues specifically from commercial retail brokerage and employee benefits business combined.

The subtle change was made to reflect the reality of today's business, where brokers may be significant players in the commercial market but—because of other services that they offer commercial clients—a significant part of their business is not related to the placement of traditional property/casualty commercial insurance.

As a result of the change, you will see several brokerages, including some familiar names, ranked highly in the Top 100 that previously were not part of the *BI* ranking.

We think the change better reflects the current U.S. commercial insurance brokerage landscape.



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M&A activity up, focused on middle-market firms

By JOANNE WOJCIK

Insurance broker merger and acquisition activity reached a record level in 2011, with most of the deals involving middle-market firms in surplus lines or employee benefits.

And while experts predict that deals involving wholesalers could continue in 2012 if the commercial property casualty insurance market hardens, they expect acquisitions of benefits brokers to taper in response to uncertainty over the effect of health care reform on commission income.

Acquisitions of insurance agents and brokers reached an all-time high in 2011, with 351 transactions occurring, compared with 243 in 2010, a more than 40% increase, according to Hartford, Conn.-based Conning Research & Consulting. The overall announced value of those transactions also rose to \$2.6 billion in 2011 from \$1.7 billion in 2010.

The only other year in which Conning's database showed more than 300 transactions was 2007. The previous high transaction value also was in 2007 at \$15.2 billion, driven by some significantly large transactions. That year the following billion dollar-plus deals were announced: Wachovia Insurance Services, bought A.G. Edwards; Apex Partners & Morgan Stanley, acquired Hub International; Goldman Sachs acquired USI Holdings; Citigroup bought BISYS; and Blackstone Group

Retirement-driven deals require transition

Some insurance brokers' recent divestitures have been attributable to the desire of aging agency owners to retire.

But in many of those scenarios, the acquiring brokers have been reluctant to let the former business owners walk away after closing the deal.

"Most independent agencies are owned by baby boomers" looking to either "cash out or do succession planning," said William F. Ziebell, executive vp, north central region at Gallagher Benefit Services in Itasca, Ill., a division of Arthur J. Gallagher & Co.

AJG made 24 acquisitions in 2011. "They anticipate an increase in capital gains taxes and want to do it now before that happens," Mr. Ziebell said.

But when GBS or its parent company acquires a smaller, regional broker, it requires the management or owner of the acquisition target to stick around.

"We value experience and tenure, but also the people who are going to be around for a while" because "we get so many good ideas from our merger partners," Mr. Ziebell said. "We are a bottom-up innovator."

Marsh & McLennan Agency L.L.C., a division of Marsh Inc. formed in 2008 to serve the middle market, has a similar philosophy about ensuring the acquired broker's key talent comes along with the deal.

"We're not looking for people to join us and then retire. We want to make sure they are actively involved," said David Eslick, president and CEO of MMA, which completed 10 acquisitions in 2011. "If you're just buying a book of business and don't have the continual new production, you're buying a depreciating asset. We want a growth engine, so we partner with people who have developed those relationships."

In addition, "we want a responsible transition to make sure we don't confuse the clients of an organization about who they're doing business with," which is why MMA allows acquired agencies to retain their original name for an extended period of time after an acquisition, he said.

"The aging ownership base of agencies without clear perpetuation plans will always open doors" to mergers and acquisitions, said Bill Pridgeon, executive vp and CFO of the Hylant Group Inc., a middle-market broker in Toledo, Ohio, that recently acquired AGIS L.L.C., an independent, full-service employee benefits agency with offices in Birmingham, Mich., and Orlando and Jacksonville, Fla.

However, "we're really not looking for someone looking to sell, and ride off into the sunset and take that institutional knowledge away. We're looking for those we can partner with for a while," he said.

—By Joanne Wojcik

acquired Alliant Insurance Services.

The two most prominent lines of insurance these acquisition targets placed were surplus lines and

employee benefits brokers, according to Conning.

Meanwhile, bank-owned insurance merger and acquisition activity also was strong with 37 acqui-

sitions in 2011 and appears to be continuing this year with Winston-Salem, N.C.-based BB&T Insurance Services Inc.'s February acquisition of Roseland, N.J.-based The Crump Group, industry sources say.

Chicago-based OPTIS Partners L.L.C., a financial and managing consulting firm serving the insurance distribution industry, showed similarly high broker merger and activity statistics for 2011, counting 285 transactions, compared with 175 in 2010.

OPTIS also noted stepped-up activity involving private equity firms throughout 2011, recording a total of 77 acquisitions, 32 of which were completed by private equity-owned Hub International Ltd. of Chicago.

Among public brokers, Itasca, Ill.-based Arthur J. Gallagher & Co. was the most active buyer in

2011, acquiring 24 agencies, followed by Daytona Beach, Fla.-based Brown & Brown Inc., which made 17 acquisitions last year, and New York-based Marsh & McLennan Agency L.L.C., a division of Marsh Inc., which acquired 10 brokers last year.

While some brokers' recent divestitures have been due to aging agency owners' desire to retire, buyers often have been reluctant to let the former business owners leave (see related story).

While the volume of mergers and acquisitions in 2011 was unprecedented, the types of mergers were in keeping with historic patterns, said Timothy J. Cunningham, managing director of OPTIS Partners.

Historically, the trend of merger and acquisition activity in insurance has been among middle-market brokers buying or consolidating with other middle-market or smaller brokers in order to grow, Mr. Cunningham said.

Jerry Theodoreau, vp and author of Conning's "Global Insurance Mergers & Acquisitions in 2011," said "activity is following the overall economic and insurance market. If you look at the environment in 2011, there was more optimism of both a push in organic growth—the GDP (gross domestic product) was forecast to grow 3.5%—and people were thinking the cycle was bottoming out and you'd have a firming of rates.

"Having both organic growth and rate growth, it was a double boost for brokers," making it "a hot sector," he said.

Mr. Theodoreau also saw acquisitions of wholesale operations through acquisitions of managing general agents and program administrators, perhaps in anticipation of an imminent market turn.

"It's a higher-margin business; there is some profit-sharing, higher commissions. And some of the buyers were not just brokers, but insurers buying brokers to achieve vertical integration," he said.

Meanwhile, John Wicher, principal of Wicher & Associates in

Continued on next page

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LEADING U.S. RETAIL BROKERS

Ranked by 2011 commercial retail brokerage revenues from U.S. offices*

COMPANY	2011 REVENUE	% CHANGE
Marsh & McLennan Cos. Inc.	\$2,471,000,000	8.9%
Aon P.L.C.	\$2,383,000,000	37.3%
Wells Fargo Insurance Services USA Inc.	\$1,119,180,000	(2.7%)
Willis Group Holdings P.L.C.	\$1,029,000,000	(1.7%)
Arthur J. Gallagher & Co.	\$698,403,000	4.9%
Brown & Brown Inc.	\$580,749,657	10.8%
BB&T Insurance Services Inc.	\$570,826,300	2.4%
Lockton Cos. L.L.C.	\$439,565,000	6.9%
Hub International Ltd.	\$338,633,963	9.3%
Alliant Insurance Services Inc.	\$297,591,500	26.8%

*Excludes revenue from placement of employee benefits.

Source: BI Survey

CONTINUED FROM PREVIOUS PAGE

San Francisco, said “private equity is a meaningful and growing factor behind what has become a mini surge in mid-market transactions. Smart money still believes there is money to be made in mid-market brokerage.”

Health care reform was a driving force behind the surge in benefits broker deals during 2011, industry experts agreed.

Benefits brokers “are being forced to deliver more value-added service, and you need scale to do that,” Mr. Cunningham said. “The smaller employer-size books of business don’t have a lot of value because of concerns about health care reform,” he said. In particular, brokers serving employer groups with 50 or fewer lives could face competition from state insurance exchanges after 2014, he said.

“But some buyers think they can aggregate enough to get scale” and are actually looking to acquire brokers with large books of 50 to 100 life accounts, he said. But “the revenue associated with those are being discounted by buyers significantly,” Mr. Cunningham said.

Due to the health care reform law, “there seems to be a lot of interest among sellers,” said James Blaney, Philadelphia-based CEO of Willis North America Inc.’s human capital practice. “The locals and regionals are facing the potential of being disintermediated by carriers,” he said, because “the carriers want to do more business with fewer brokers to consolidate their distribution chain.”

At the same time, “the locals and regionals are looking to monetize their business and provide their clients with more resources” that they may not have the wherewithal to provide, Mr. Blaney said. “In the post-health-care-reform economy, that has the cards stacked against you.”

Briarcliff Manor, N.Y.-based USI Holdings Corp., which made eight acquisitions in 2011, also is looking to acquire boutique benefits operations that serve the lower middle market, defined as employers with 100 to 200 covered lives, said Mike Turpin, executive vp of subsidiary USI Insurance Services L.L.C. “Seventy percent of brokers that represent middle-market employers have books of business less than \$5 million. They can’t possibly afford the resources necessary to address the changes coming from (the Patient Protection and Affordable Care Act) and other regulations.”

However, Samiye Yildirim, a partner specializing in financial services merger and acquisition activity at PricewaterhouseCoopers L.L.P. in New York, predicts that dealmakers will become more cautious before buying too many more benefits brokers this year, until there is more certainty around their future income potential.

“How do you acquire a business when you don’t know what the future revenues are going to be? With elections coming up, I don’t think anyone has been able to guess where we may end up,” Mr. Yildirim said.

“The transactional brokers in the small-group market are going to

have a hard time of it. With the (medical-loss ratios), there’s a disincentive for insurers to pay strong commissions,” Mr. Wicher said, referring to a provision in the reform law requiring insurers to allocate 80% of premiums collected in the individual and small-group markets and 85% of premiums in the large-group market to paying medical expenses. In response, many health insurers have reduced broker commissions.

But “buyers are interested in sellers who have established consultative relationships with their clients. There are significant opportunities in fee-based, employee-benefits consulting, 401(k) administration, executive benefits, the list goes on,” Mr. Wicher said.

LARGEST U.S. BENEFITS SPECIALISTS*

2011 employee benefits revenue of companies that derive 50% or more of gross revenue from benefits business

COMPANY	2011 EMPLOYEE BENEFITS REVENUES	% CHANGE IN BENEFITS REVENUES	% OF 2011 REVENUES FROM BENEFITS
USI Holdings Corp.	\$352,494,000	5.3%	53.4%
CBIZ Benefits & Insurance Services Inc.	\$105,500,000	0.2%	61.1%
Paychex Insurance Agency Inc.	\$51,300,000	23.9%	55.6%
Corporate Synergies Group L.L.C.	\$37,000,000	2.8%	91.8%
Associated Financial Group L.L.C.	\$34,119,016	8.2%	63.0%
Oswald Cos.	\$25,805,000	18.3%	52.6%
SilverStone Group Inc.	\$21,189,000	4.2%	60.7%
Benefit Controls Cos.	\$20,050,000	6.4%	100%
FBMC Benefits Management	\$19,286,340	(4.2%)	100%
M3 Insurance Solutions Inc.	\$18,799,700	13.0%	52.6%

*Includes commissions and fees from brokering group benefit coverage, benefit consulting and benefit plan administration. Source: BI Survey

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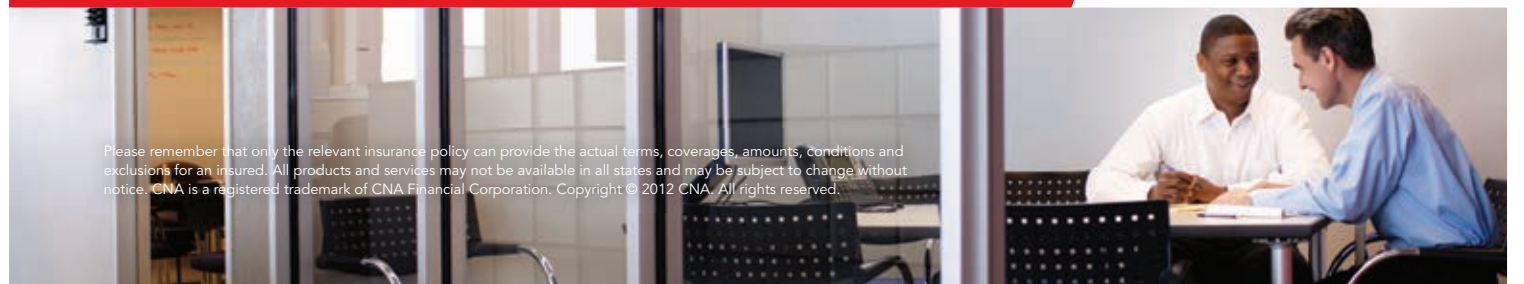
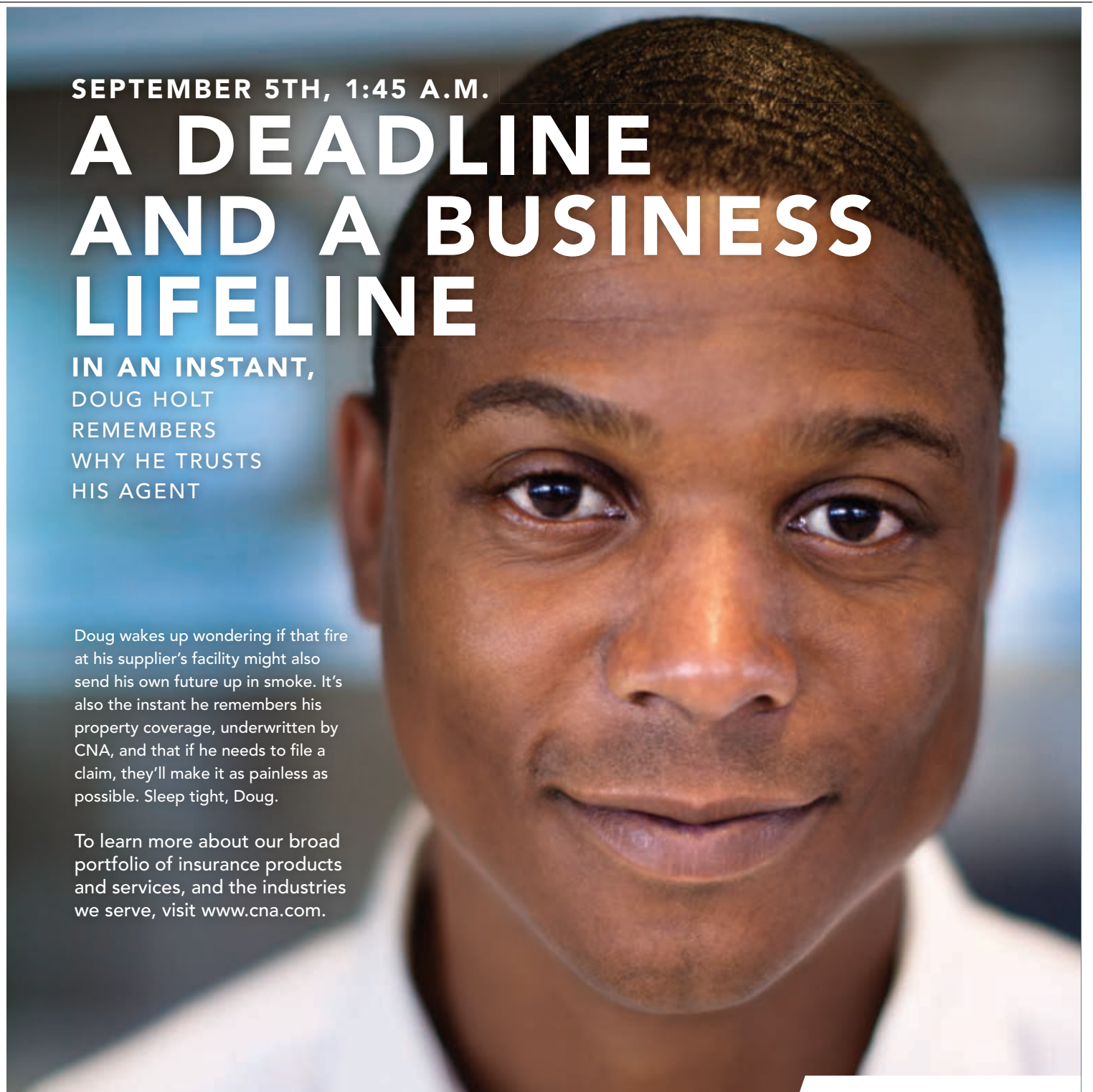
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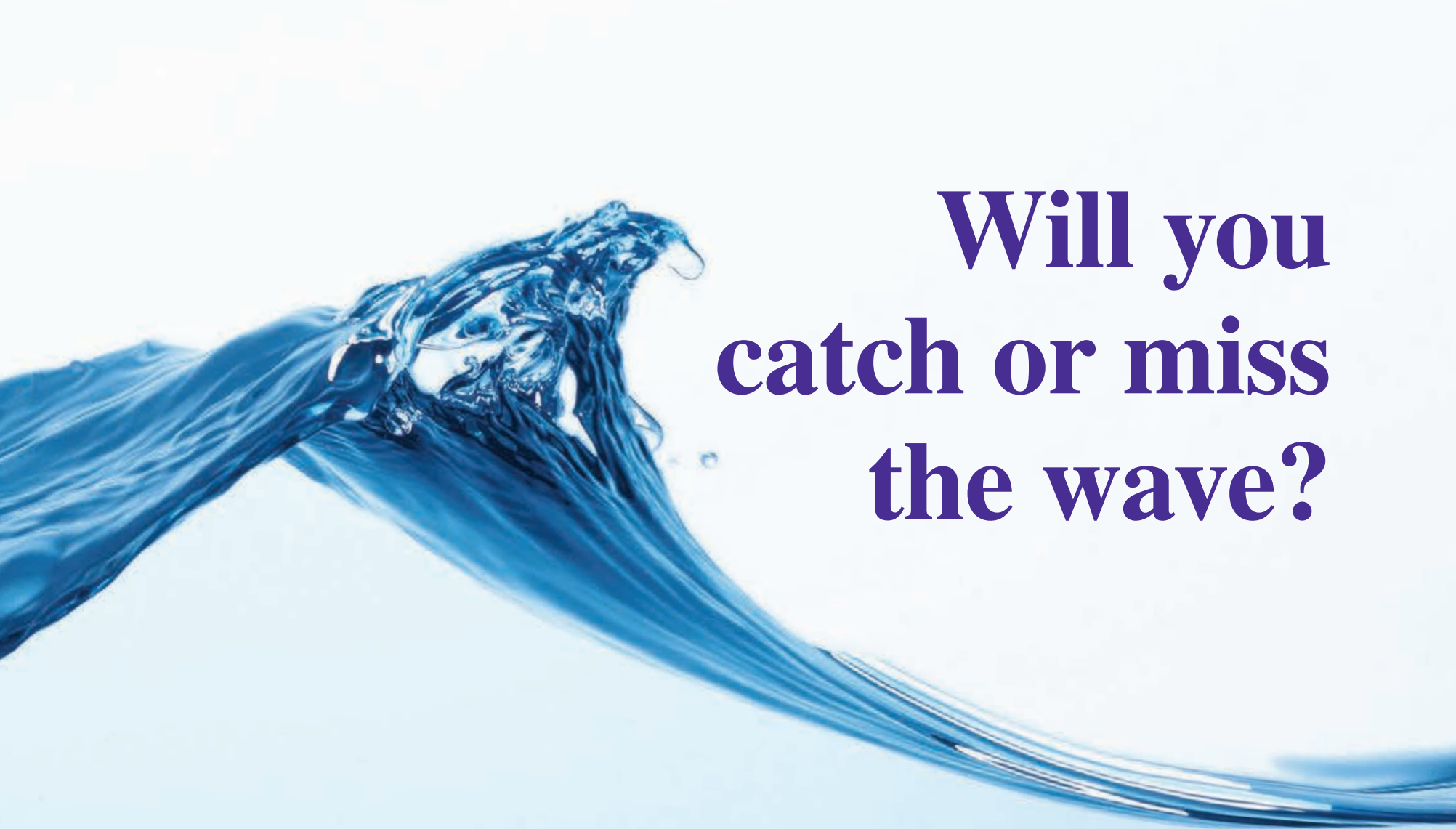
SNL FINANCIAL • ADVISOR RANKINGS

MERGER & ACQUISITION TRANSACTIONS IN INSURANCE BROKERAGE 1999-2011

Rank	Firm	1999-2011 # of Deals	2011 # of Deals
1	MarshBerry*	347	36
2	Dowling Hales	176	27
3	Reagan Consulting, Inc.	138	12
4	Mystic Capital Adv. Grp., LLC	125	13
5	Macquarie Capital Adv. Grp., LLC	43	4
6	B.H. Burke & Company, Inc.	24	4
7	Sica Consultants, Inc.	20	-
8	Bank of America Merrill Lynch	19	1
9	Keefe Bruyette & Woods, Inc.	17	1
9	Philo Smith & Company	17	3
11	Harbor Capital Advisors, Inc.	15	1
12	North Bridge Advisors, Inc.	16	-
13	Sandler O'Neill & Partners, L.P.	14	2
14	Optis Partners, LLC	11	5
15	Business Management Grp., Inc.	9	-
16	Curtis Financial Group, LLC	8	-
16	Gill and Roeser Holdings, Inc.	8	-
16	Nexus Group, Inc.	8	-
19	Manhattan Group	6	4
19	Merger & Acquisition Svcs, Inc.	6	1

Completed Transactions in the United States
Whole Deals as reported by SNL Financial, January 15, 2012

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Brokers cautiously return to contingent commissions

With end of ban, major brokerages focus on disclosure

By MARK A. HOFMANN

The investigation launched eight years ago by then-New York Attorney General Eliot Spitzer into brokers' acceptance of contingent fees from insurers certainly led to greater transparency in the marketplace, according to many market observers.

But they disagree on whether it will have any lasting impact beyond that.

The 2005 settlement with the three biggest brokers—Marsh & McLennan Cos. Inc., Aon P.L.C. and Willis Group Holdings P.L.C.—banned them from accepting contingent fees until 2010. Since then, brokers have begun accepting them to varying degrees again under certain circumstances.

Among the top brokers, Marsh refuses to take contingent commissions for clients in its core U.S. brokerage business but does accept them in its agency and consumer business. Aon, after the ban was lifted in 2010, said it would accept contingent commissions where

“appropriate and legally permissible.” Willis does not accept contingent commissions on its retail property/casualty business but began accepting them on employee benefit business as of April 1. Gallagher automatically discloses any supplemental income paid by underwriters.

‘The only positive that came out of it—and I do think it was a positive—is that all of us were forced to embrace 100% transparency.’

J. Patrick Gallagher Jr.,
Arthur J. Gallagher & Co.

The Risk & Insurance Management Society Inc. continues to view contingent fees—under which brokers receive additional commissions from insurers based on the volume or profitability of business placed—as an inherent conflict of interest (see related story). But brokers say they’ve always

been willing to disclose such arrangements if clients ask.

For large brokers, the investigation and its aftermath were extremely painful.

“It was very damaging to a very few players in the industry—Marsh, Aon, Willis and us,” said Arthur J. Gallagher & Co. President, Chairman and CEO J. Patrick Gallagher Jr.

Gallagher entered into its own contingent commission settlement with the state of Illinois in 2005.

“It was significant in the damage it did to employee morale and customer relationships, and incredibly costly in that we were already disclosing the information to our clients,” said Mr. Gallagher. He said it cost the brokerage more than \$200 million—including legal fees—to deal with the situation, and “we never found we did one thing wrong.”

“The only positive that came out of it—and I do think it was a positive—is that all of us were forced to embrace 100% transparency,” he said. He said that before the controversy, “we were always happy to disclose commissions when asked, and we were always happy to work out a fee.”

An outside industry observer took a drastically different view.

RIMS seeks transparency, still opposes contingents

NEW YORK—The Risk & Insurance Management Society Inc.’s position on brokers’ acceptance of contingent commissions from insurers is simple and straightforward: The practice presents an inherent conflict of interest. In fact, RIMS spelled it out in a position statement issued in October 2009.

“RIMS continues to call for complete transparency and full disclosure by the broker of all revenue streams associated with the placement of insurance products when they are acting on behalf of the buyer,” said RIMS in the position statement. “To do otherwise runs counter to the relationship of trust between brokers and consumers. It has always been RIMS’ position that there is an inherent conflict of interest when a broker receives payment from both buyer and seller in a transaction made purportedly on behalf of the buyer.”

That position still applies, said RIMS President Deborah Luthi.

“It has always been our position and continues to be our position that there’s a conflict of interest,” said Ms. Luthi, who is also enterprise risk manager for the City and County of San Francisco. “We continue to call for complete transparency and full disclosure by the broker for all revenue streams that are associated with the place-

ment of insurance.”

Ms. Luthi noted that Willis Group Holdings P.L.C. recently announced that it would begin accepting contingent commissions on its benefit business. She said that RIMS was “encouraged” by Willis Chairman and CEO Joe Plumeri’s statement that the broker will not accept contingent commissions on property/casualty business, which is of key concern to RIMS members.

“It appears that they are going to take the same stance to continue to not take contingents, so we are encouraged by that,” she said.

“I have taken the position that is consistent with RIMS’ position, which is the same as it has been for many years when this issue first arose,” said John Phelps, director-business solutions at Blue Cross and Blue Shield of Florida Inc. in Jacksonville, Fla., and vp of RIMS.

“Brokers taking contingent fees from companies creates an inherent conflict of interest,” he said. “It’s important that risk managers fully understand in a transparent way exactly what revenues a broker is accepting based upon their account.”

Mr. Phelps said he believes in encouraging risk managers to “eliminate perceptions of conflict of interest with all of their dealings with brokers.”

—By Mark A. Hofmann



‘We continue to call for complete transparency and full disclosure by the broker for all revenue streams that are associated with the placement of insurance.’

Deborah Luthi,
Risk & Insurance
Management
Society Inc.

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“Eliot Spitzer is the best thing that happened to the insurance brokerage industry,” said Keith Walsh, director of insurance research at Citi Investment Research in New York. “Essentially, these companies had to learn how to make money without overly relying on the crack cocaine of contingent commission subsidies.”

He said the companies that accepted contingent commissions have had “significant upgrades in their management talent because they’ve had to adapt to the new normal, which is: How do we run this business without contingent commissions?”

“The insurance brokers are in a

much better place than they were six years ago,” said Mr. Walsh. “Now these companies fully disclose what they do. There’s full price disclosure for the customer. Once you have full disclosure, even though the rules have been somewhat reversed, I think the full disclosure component will remain with the brokers because I think they recognize the importance of that to their customers.”

“The marketplace has redeveloped and continues to embrace various compensation schemes that work,” said Ken Crerar, president of the Washington-based Council of Insurance Agents &

Continued on next page

CONTINUED FROM PREVIOUS PAGE

Brokers, in an email. "The critical component of all of these has been the continued dialogue and transparency between brokers and their clients, which has made their relationships stronger and more secure. Important discussions have transpired. Regulators have also looked at this and have universally concluded that it should be transparency coupled with what the client wants, which is what we have promoted for 15 years."

"We have had 0% pushback on our commissions," said Mr. Gallagher. "I don't know of one account in our entire corporation that fired us over it."

"In my heart of hearts, I do not believe there is a conflict of interests in receiving contingent commissions when fully disclosed, and the overwhelming majority of my clients agree," he said.

The head of a brokerage that didn't exist when Mr. Spitzer launched his investigation agreed that the biggest impact on the market is enhanced transparency.

"Transparency—I think that's the lasting impact," said Peter Garvey, president and CEO of Integro Ltd., which was formed by former Marsh executives in 2005. "The real shift has been how do brokers—and the biggest ones—make their money? We'll see whether it's lasting or not."

In a highly competitive market with low barriers to entry like the insurance brokerage business, complete transparency drives profit margins to zero, Mr. Garvey said.

"This has been a problem, particularly for the biggest brokers who were directly impacted by the Spitzer settlements," said Mr. Garvey. "The trick for them was to either find a way to shift to some of the areas that have less transparency, or raise the barriers to entry."

"Obviously, buying up your competitors is one way to reduce the level of competition," he said. "The other is to make it all about being big. Shift your revenue that will be not be subject to this increased transparency—move it away from client-specific revenue to market-based revenue." For example, he said, the business of selling client data has taken hold at some big brokerages.

A former state regulator credited consumers with driving change in the marketplace.

"It's forced more transparency than existed before, although critics would say that there should be more transparency," said Tom Sullivan, a former Connecticut insurance commissioner who is now a principal in PricewaterhouseCoopers L.L.P.'s financial services regulatory practice in Hartford, Conn. "I'm a believer in...more transparency."

The consumer has more impact on market behavior than any policy change," he said. "They ask more questions. Those questions and demands from the consumer side are a good thing....That consumers have forced behavior change is a good thing."

Brokers see growth prospects as market firms

By **BILL KENEALY**

As the pricing for commercial property/casualty has moved to firmer territory, insurance brokers are finding challenges and opportunities.

Generally, rising property/casualty prices are a boon to the brokerage industry, said Bruce Ballentine, New York-based vp and senior credit officer at Moody's Investors Service Inc.

"Firming prices are a good thing for brokers as their revenues are largely commission-

based and driven by premium volumes," he said. "However, we think the impact of P/C pricing swings on brokers is somewhat muted by offsetting changes in the amounts of insurance that people buy."

Moreover, brokers that earn more from fees than commissions will feel less of an impact from rate changes. That is the case at Kansas City, Mo.-based Lockton Cos. L.L.C., said President and CEO John L. Lumelleau.

"The change in market isn't something we look to balance

our budget on," Mr. Lumelleau said.

Nonetheless, the firming insurance market has provided opportunities for the broker to assist clients in other ways, such as helping them with restructuring their workers compensation programs and dealing with issues surrounding global expansion, he said.

Offering clients a broader array of services in addition to traditional brokerage services is wise in light of uncertainty about implementation of the federal

health care reform law, said Adam Klauber, an analyst at Chicago-based William Blair & Co. L.L.C., noting that brokers with more diversified services are well-positioned in the face of regulatory upheaval.

"As the health care landscape gets more complex, that could shift the advantage to the larger brokers," Mr. Klauber said.

Stephen P. McGill, group president of Aon P.L.C. and chairman and CEO of Aon Risk Solutions,

See **POSITIONING** next page



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Ingo Zimmermann, Head of EADS Corporate Insurance Risk Management

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Positioning: Prospects for growth

CONTINUED FROM PREVIOUS PAGE

said the company is striving to offer clients unified solutions that draw on the strengths from the company's separate business units. "Not only do we provide brokerage service to our clients, but we are increasingly providing data, analytics and consulting advice to them," he said.

Rising revenues also are affording brokers a chance to make investments in technology.

Joe Plumeri, president and CEO of London-based Willis Group Holdings P.L.C., said using technology is key to improving client relations in light of the changing dynamics in the insurance market and broader economy. He noted that Willis rolled out Sales 2.0, a suite of industry-based risk advisory models, analytics and training programs to provide clients with a greater understanding of their company's exposures and risk mitigation options.

"Simply talking to our clients about insurance and purchasing coverage is yesterday's newspaper," Mr. Plumeri said. "You have to talk to them about their industry, and you have to do that against the backdrop of the way the world is."

Likewise, Laura Schupbach,

Denver-based executive vp and head of Wells Fargo Insurance Services USA Inc., said the brokerage is shifting its investments and resources to business segments that the broker expects to grow in the next several years, as well as investing an undisclosed amount to upgrade its technology.

"We're trying to find those places where we think we can streamline and get some noise out of the system and make things easier for customers and the team members that work for the company," she said.

'Most of the brokers got where they are through a combination of organic growth and acquisition.'

Bruce Ballentine,
Moody's Investors Service Inc.

In addition to helping their client-facing operations, investment in analytic technology also pays dividends in brokerages' interactions with insurers, since brokers armed with information are harder to push back against when insurers are looking for an exception or for a better price.

As prices firm, brokers also will benefit from better analytic tools when dealing with clients accustomed to low prices.

"Clients have been used to discounts for the past five to eight

years," Mr. Klauber said. "It's a matter of trying to gradually get the programs to where they need to be to make the insurance companies whole."

Another potential implication of a firming market is increased potential for mergers and acquisitions, Mr. Ballentine said, noting an analysis by Atlanta-based Reagan Consulting that an estimated 4,000 regional and local brokerage firms with yearly revenues combined annual revenue of \$23 billion were potential acquisition targets. What's more, the stable cash flows generated by their business models make brokers prime candidates for leveraged buyouts, he added.

"There's tremendous potential for M&A," Mr. Ballentine said. "Most of the brokers got where they are through a combination of organic growth and acquisition."




Mr. Lumelleau agreed that organic and acquisitive growth can coexist.

"Acquiring businesses is not the only way of growing your company," he said.

Assessing the overall health of the sector, Mr. Ballentine cited the brokerage industry's variable cost structure, lack of investment and underwriting risk, and low capital requirements as positives.

"Brokers provide an increasingly valuable service as risk management has become increasingly complex," he said. "The stable outlook we have on the sector reflects the steady performance of the brokers through shifting economic and market conditions."

BROKER PROFILES

TOP BROKERS	
RANK 1	 Brian Duperrault, president and CEO
MARSH & McLENNAN COS. INC.	
2011 GROSS REVENUE \$11.55 billion	 8.9%
2011 BROKERAGE REVENUE \$11.52	 8.7%

Growth, particularly organic growth, made 2011 a memorable year for Marsh & McLennan Cos. Inc.

In fact, organic growth reached 5% in 2011 and has continued into this year.

But organic growth was only part of the story. Acquisitions both domestic and international also spurred the brokerage's expansion as it added to its Marsh & McLennan Agency L.L.C. operation and acquired South African brokerage Alexander Forbes Ltd.

"We're very proud of the progress we've made," said Peter Zaffino, who became Marsh Inc.'s president and CEO last year after serving as president and CEO of Marsh & McLennan's Guy Carpenter L.L.C. unit.

"We're very optimistic about the prospects for Marsh to grow," he said, adding that Marsh has enjoyed "very strong client retention and strong new business" during the past year.

Marsh & McLennan's gross revenues surged 8.9% to an estimated \$11.55 billion in 2011. That was enough to regain the No. 1 spot on *Business Insurance's* 2012 rankings of the world's largest brokers. It had lost that position to rival Aon P.L.C. last year.

Commercial retail brokerage revenue grew 8.9% to \$5.21 billion. The percentage of revenue generated by U.S. vs. non-U.S. sources remained the same as it had been in 2010 and 2009 at 44% vs. 56%. Commercial retail brokerage income from U.S. offices grew 8.9% to \$2.47 billion, while that from non-U.S. offices grew 9.0% to \$2.74 billion.

Growth continued in the first quarter of 2012, with Marsh & McLennan's first-quarter 2012 revenues rising 5.5% compared with the prior-year period to \$3.05 billion. Revenues for the company's Marsh Inc. brokerage and risk management unit rose 7.8% to \$1.38 billion. Marsh & McLennan's net income for the quarter grew 6.8% from the same quarter in 2011 to \$347 million.

Marsh has had an "incredible focus" on growth, said Mr. Zaffino. "We've seen very strong organic growth" in 2011 and 2012 to date, he said. Overall growth has been very strong in Latin America and Asia as well as the United States, Mr. Zaffino said.

The acquisition of Alexander Forbes was a "tremendous strategic acquisition," said Mr. Zaffino. "It's a great asset" that fits well with Marsh's culture, he said. He noted that there is lot of outside investment flowing into Africa.

On the domestic side, the Marsh Agency segment continues to grow, he noted. Marsh is "trying to purchase very-high-quality agencies" as it seeks to strengthen its position in the small to midsize business market, he said.

"We're very happy how we've increased market share in the middle market," he said. Despite heated competition for high-quality agencies, Marsh has acquired 19 agencies since launching Marsh Agency in 2009.

Mr. Zaffino said Marsh is positioned for growth, adding that the broker has been "very innovative" over the past year. Among the products and services introduced since the middle of 2011 are the Foreign Corrupt Practices Act Corporate Response product, which provides individual and organization cover for the cost of investigations launched under the FCPA in the United States, as well as those initiated under United Kingdom's Bribery Act and other foreign regulations to the extent they parallel the FCPA's anti-bribery provisions. Marsh also introduced its CloudProtect endorsement to protect companies against first-party losses stemming from a cloud service provider's failure, and late last month unveiled its new Marsh Risk Management Global Insurance Index, which is made up of client renewal data on specific lines of coverage in 20 large countries.

Analysts who follow Marsh are impressed with the company's performance.

Marsh is "extremely solid," said Meyer Shields, director at Stifel Nicolaus & Co. Inc. in Baltimore. "Two issues investors look at that we look at would be organic growth and margin expansion. On the organic growth, their insurance brokerage segment is growing between 4% and almost 7%. Margins continue to drift upward as well."

"It's continued along the track" Marsh was on last year of being "best in class," said Keith Walsh, director-insurance research at Citi Investment Research in New York.

"The follow-through for the company in the post-Cherkasky era has been outstanding. It shouldn't be surprising when you've got people the caliber of Brian Duperrault, Dan Glaser and Peter Zaffino at the top of the organization. I consider Marsh to be better than they were in the past, because they're truly a profitable organization now vs. a company with good capabilities with a contingent commission subsidy masking the underlying economics."

Mr. Duperrault is president and CEO of Marsh & McLennan and Mr. Glaser is group president and chief operating officer of Marsh & McLennan. Mr. Duperrault succeeded Michael Cherkasky as CEO of Marsh & McLennan in 2008.

—By Mark A. Hofmann

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TOP BROKERS

RANK

2



Gregory Case,
president and CEO

AON P.L.C.

2011 GROSS
REVENUES
\$11.28 billion

↑
4.5%

2011 BROKERAGE
REVENUES
\$11.23 billion

↑
5.9%

said. "There was also a tax advantage that comes hand in hand with that financial flexibility."

The past year also saw Aon continue to make changes to its operational strategy, with the company looking to leverage similarities across its insurance brokerage and reinsurance brokerage units, as well as its human resources and benefits consulting unit, which expanded significantly with the \$4.9 billion acquisition of Hewitt Associates Inc. in 2010. With the aim of ensuring better coordination between the units, the broker in April named Mr. McGill group president of Aon P.L.C.

The goal is to increasingly provide data analytics and consulting advice to Aon clients in addition

to traditional brokering services, Mr. McGill said.

"There are capabilities at all of our businesses that are individually compelling when supporting a client, but collectively add disproportionately more value," he said. "We are constantly looking at how to unite the firm to add the most distinctive value proposition to all our clients. We are very early on this process but very excited for what the future holds."

Analysts say that, while the business logic of merging the separate businesses into a cohesive offering for customers is sound, it remains challenging from an operational perspective. Meyer Shields, director at St. Louis-based Stifel Nicolaus & Co. Inc., said

Aon likely will benefit from having diversified service offerings as clients begin to perceive that employee benefits and other human resources issues rank among the top risks facing their organizations.

"Cross-selling has always been the unachievable holy grail of insurance brokerage, but the prospect of Aon Hewitt benefiting from increased demand on the consulting side is very real," he said.

Mr. McGill identified Aon's capability with technology as another potential market differentiator for the firm. Technologies such as the company's Global Risk Insight Platform, a proprietary database and analytics engine the

brokerage launched in 2008, will enable it to deliver data-derived insights to clients and insurance companies, he said. Mr. McGill said a goal was to instill analytics and technology into the DNA of the firm.

Adam Klauber, an analyst at Chicago-based William Blair & Co., said Aon's use of technology is more likely to pay dividends in the long run than immediately boost market share.

"In the brokerage business, it hasn't been proven that technology is making a big deal in winning or losing clients," he said. "However, with GRIP, Aon has become a more attractive partner to the carriers."

—By Bill Kenealy

After a year on top of the *Business Insurance* annual ranking of the world's largest brokers, Aon P.L.C. is ranked No. 2 for 2012, albeit by a narrow margin.

London-based Aon posted brokerage revenues of \$11.23 billion in 2011, behind only the \$11.52 billion tallied by New York-based Marsh & McLennan Cos. Inc.

Perhaps the more notable thing about the past year for Aon is that it moved its headquarters from Chicago to London. The company announced its intent to relocate its corporate headquarters in January. In March, the company's stockholders voted overwhelmingly in favor of the proposal, which also saw Aon change its incorporation from Delaware to the United Kingdom. About 20 members of the company's top management, including Chief Financial Officer Christa Davis and Stephen P. McGill, group president of Aon P.L.C. and chairman and CEO of Aon Risk Solutions, now reside in London. Aon President and CEO Greg Case maintains a presence in Chicago and London.

Headquartering and reincorporating in the United Kingdom accomplished several strategic objectives, Mr. McGill said.

A primary benefit is that the London market provides capacity and expertise in many specialty risk areas, which is crucial to serving clients in emerging markets that are seeking coverage for specialty risks, he said.

"The center of gravity of some of the risk business, particularly the larger, more complex clients that we deal with on the insurance and reinsurance side, is more centered around London and Europe," he said.

"When you look at the growth agenda that we have, focusing on areas of the world with rapid economic growth such as Asia and the Middle East, being based in London made a huge amount of sense to us," he added.

Another benefit of the move is greater financial leeway, Mr. McGill said. The maximum statutory corporate tax rate is 25% in the United Kingdom, while the maximum U.S. corporate tax rate can reach 39.5%.

"The move gave us more financial flexibility, which will enable us to make more significant investments in our global network," he

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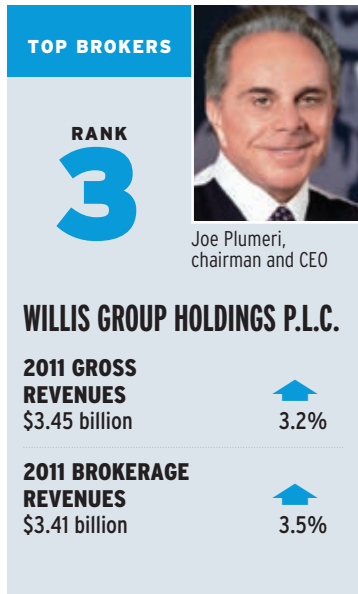
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Although 2011 was a challenging year for Willis Group Holdings P.L.C., the London-based company still managed to increase its brokerage revenues at a higher rate than it had in the prior year, maintaining its position at No. 3 in *Business Insurance's* 2012 ranking of the world's largest insurance brokers.

Gross revenues rose 3.2%, to \$3.45 billion in 2011. Most of that increase, analysts said, came from organic growth in the company's global and international segments, which separately reported increases of 7% and 5%, respectively, in commissions and fees for 2011.

However, Willis' profits fell by more than 50% last year, to \$219 million from \$470 million in 2010. Analysts pegged the steep decline in net income to a series of nonrecurring expenses, including a \$180 million pretax charge related to the company's 2011 operational review, as well as an \$11 million settlement with the United Kingdom's Financial Services Authority.

"I'd call it poor, improving to fair," said Meyer Shields, a Baltimore-based analyst for Stifel Nicolaus & Co., when asked to describe



Willis' financial performance since the beginning of 2011.

One of the more significant drags on Willis' overall growth, Mr. Shields said, was the North America segment's loan protector unit, a small specialty business included in the 2008 acquisition of Hilb, Rogal & Hobbs Co. that caters to lending houses. That unit benefited heavily from a sudden spike in foreclosure activity in 2010, but accounted for approxi-

mately 50% of the drop in revenue last year, according to Willis' 2011 annual earnings report.

Tom Mitchell, an analyst at New York-based Miller Tabak & Co. L.L.C., said the company failed to predict that the unit's performance in 2010 would prove "unsustainably strong."

Despite the difficulties Willis endured in 2011, Chairman and CEO Joe Plumeri said in an interview he remains optimistic about the company's prospects going forward. While brokerage revenues for the first three months of 2012 remained mostly flat compared with 2011, the company's net income ballooned to \$225 million from \$34 million a year ago, largely on the back of cost savings through the 2011 operational review. "As much as the challenges ahead of us really center on execution of our strategy, I think the challenges we've had are behind us," Mr. Plumeri said.

That strategy, he said, mainly refers to the continuing implementation of industry-based risk advisory models and analytics programs rolled out last summer as part of the company's Sales 2.0 initiative. Mr. Plumeri said early feedback from clients has been

encouraging.

"I'm pretty pleased about the rollout, because we were able to do all of that at a time when the economy is not so great, and while there was still a soft market out there in the insurance industry," Mr. Plumeri said. "Every company has to stand for something, and this approach clearly states what we stand for."

Additionally, Willis appears to have been spared any significant backlash from investors and clients in the wake of recent controversies regarding its collection of commissions. In March, the company discovered that employees in one of its North American units had fraudulently overstated \$28 million in commissions and fees from 2005 to 2011. However, "These kinds of mistakes tend to happen from time to time," Mr. Mitchell said. "I don't think it represents a threat to the business model."

The brokerage also announced in February it would begin accepting contingent commissions on some of its employee benefits accounts to offset a constriction in its revenue streams set in motion by caps placed on health insurers' medical-loss ratios under the federal Patient Protection and Afford-

able Care Act.

"We sent letters to every single client in this business unit, informing them of the changes under way with the insurance carrier community," Mr. Plumeri said. "They understand the market forces in play. Although we didn't welcome the changes, we had to adapt to remain competitive."

One challenge analysts said Willis' board of directors will need to address as soon as possible is the uncertainty surrounding Mr. Plumeri's future with the firm. With less than a year remaining on his current contract, Mr. Plumeri declined to comment on whether he is seeking an extension beyond 2013.

During a February conference call with investors, he said he would continue to concentrate his efforts on the business of running Willis as long as his contract allows him to do so.

"It seems fairly clear that Joe Plumeri's contract will not be extended," Mr. Shields said. "It's a very big deal. Joe has certainly made a very big imprint on Willis' operating culture and reputation, and replacing him would be a challenge."

—By Matt Dunning

For Arthur J. Gallagher & Co., 2011 was a year marked not only by setting company records on the acquisition front but a year in which that acquisition activity helped propel the broker past the \$2 billion revenue mark while positioning it for additional growth.

Among 2011's most noteworthy events for Gallagher was the May acquisition of U.K. broker Heath Lambert Ltd. for approximately \$158 million.

"The highlight of last year in many respects was our acquisition

process," said J. Patrick Gallagher Jr., chairman, president and CEO of the Itasca, Ill.-based broker. "We completed the Heath acquisition in the U.K., which was our largest ever. That's turning out to be a real seminal deal for us."

"It's really put us in a place in the U.K. where we weren't before," Mr. Gallagher said. "Before, we were primarily London wholesale brokers." The Heath acquisition allows Gallagher to pursue its "bolt-on" acquisition strategy in the U.K., Mr. Gallagher said, and the com-

pany already has completed such an acquisition that wouldn't have been possible prior to the Heath deal.

"We had no platform to do what we'd been doing in the United States for the last 30 years in the U.K. because you don't bolt on a retailer necessarily to a London wholesaler," Mr. Gallagher said. "So our acquisition opportunities now in the U.K. are substantial as are our organic recruiting opportunities."

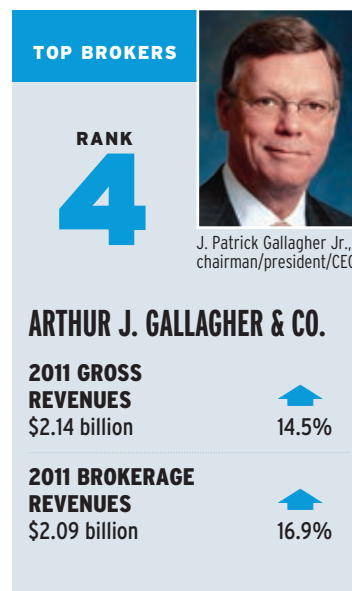
Gallagher completed 32 acquisitions in 2011. "We added \$277 million in new revenue into the company and passed the \$2 billion mark for the first time," he said. "So we're celebrating the fact that we hit \$2 billion and we celebrate that with an adage that is 'We're just getting started'—\$2 billion is nothing more than a stepping stone to our future."

Gallagher posted \$2.14 billion in gross revenue in 2011, up 14.5% from 2010, and brokerage revenue of \$2.09 billion, a 16.9% increase from 2010, ranking Gallagher fourth on *Business Insurance's* rankings of the world's largest brokers.

"They're doing what they do, which is focus on the middle market. They're transactionally oriented, and they continue to want to bring in partners who, as they say, embrace the 'Gallagher way,'" said John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco.

"They continue to be strategic acquirers," said Timothy J. Cunningham, a partner at OPTIS Partners L.L.C. in Chicago. "They're selective in terms of who they acquire. They're thoughtful about it. They look for a good fit and affinity in their merger partners."

Mr. Gallagher said in addition to its acquisition activity, Gallagher benefited in the second



reform, he said. "The government and the Supreme Court have helped us out," Mr. Gallagher said. "You simply cannot consult with a case of more than 150 lives and not have the kind of expertise and dedicated team that we have with the compliance structure of that new law," he said. "So our benefits business is on fire and you have great acquisition opportunities."

Going forward, Gallagher will continue to expand globally. In May, for example, the company announced it had increased its stake in Caribbean insurance intermediary and risk management operation CGM Gallagher Group Ltd. to 80% from 38.5%.

"We're proud of the fact that some 20% of our revenue now comes from places outside the United States," Mr. Gallagher said.

"They've talked about becoming a more international firm," said Mr. Shields. "We'll see continued acquisition domestically, obviously, but the percentage of acquisitions in the emerging markets (is) likely to grow, especially as they grow more comfortable with the culture and the processes in these countries."

Along the way, though, Gallagher will continue to emphasize cultural fit in the same way it has in assessing U.S. acquisition partners. "That's 98% of our due diligence right there," Mr. Gallagher said.

"The whole thing comes down to getting the right people," Mr. Gallagher said. "We're not going to do well in Perth, Australia, if the people we buy take their money and go to the beach. We need them coming in every day saying, 'This is exciting, and with Gallagher as my platform I can sell more, I can do more for my clients.'"

—By Rodd Zolkos

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ENSURING INSURANCE

Wells Fargo Insurance Services USA Inc. saw revenues decline last year as the company exited the wholesale brokerage business, but company executives hope the move will allow it to focus on expanding its retail insurance clientele.

Chicago-based Wells Fargo Insurance Services reported gross revenues of \$1.85 billion last year, down nearly 5% from 2010, while brokerage revenues decreased 1.4% to \$1.63 billion.

Despite decreased revenue, the company remains the world's fifth-largest insurance brokerage in *Business Insurance's* 2012 rankings. The broker is a unit of San Francisco-based banking firm Wells Fargo & Co.

Laura Schupbach, executive vp and head of the unit, said the company's 2011 performance was affected by a soft insurance market, as well as the sale of Wells Fargo's specialty wholesale brokerage operation.

The company sold San Francisco-based American E&S Insurance Brokers in February 2011 to R-T Specialty L.L.C., a unit of Chicago-based Ryan Specialty L.L.C. As a result, Wells Fargo reported \$5.3 million in wholesale revenue for 2011, down from \$18.2 million in 2010.

Kevin Kenny, executive vp and head of Wells Fargo's insurance brokerage, said the divestiture was part of a strategy to focus on cross-

TOP BROKERS



Laura Schupbach,
executive vp, Wells
Fargo Insurance

Kevin Kenny,
executive vp,
insurance brokerage
and consulting
services

RANK
5

**WELLS FARGO INSURANCE
SERVICES USA INC.**

**2011 GROSS
REVENUES**
\$1.85 billion ↓
4.9%

**2011 BROKERAGE
REVENUES**
\$1.63 billion ↓
1.4%

selling insurance and risk management services to Wells Fargo's various customers.

"Our core business strategy puts us very close to the customer, and the role of the wholesaler is more of an intermediary than direct

customer relationship-building model," Mr. Kenny said.

John Wicher, principal at John Wicher & Associates in San Francisco, said it made sense for Wells Fargo to shift away from wholesale business because the company's strength is retail insurance brokerage.

Wells Fargo Insurance Services reported \$1.1 billion in commercial retail brokerage revenue last year, down 2.7% from 2010.

The insurance services unit "is able to access almost the entire standard market, and when that's not enough, they have relationships with the best wholesalers in the country," Mr. Wicher said. "There is also the issue (of) retailers preferring not to do business with a wholesaler owned by their perceived retail competitor."

Last fall, the unit acquired Pro-comp Benefit Resources Inc., a Hazlet, N.J.-based employee benefits brokerage and consulting firm. Ms. Schupbach said the company is not actively seeking acquisitions, but could make additional deals if it finds complementary businesses that it can buy at the "right time (and) right price."

Ms. Schupbach said the insurance services unit sees growth opportunities among middle-market and upper middle-market customers, as well as in providing employee benefits management and international risk management services.

The unit's employee-benefits revenue increased to \$263.5 million last year, up 13.1% from 2010.

Insurance represents about 2% of Wells Fargo & Co.'s overall revenue, said Daniel Marchon, New York-based equity research associate with Raymond James & Associates Inc. As a result, he said the lender sees large potential for growth as it strives for more cross-selling opportunities across its business units.

"They're really excited about the fact that (Wells Fargo Insurance Services has) such limited market penetration, that they can still grow out from where they are right now," Mr. Marchon said.

Wells Fargo Insurance Services revamped its regional office structure this year to help align the brokerage's leadership with Wells Fargo's banking configuration. Ms. Schupbach said the strategy has helped the unit become more efficient by creating parallel roles between Wells Fargo's insurance and banking groups.

Mr. Kenny said the insurance unit has increased its focus on consulting that can help its clients navigate a "turbulent" insurance market.

"Our role is to take each client relationship and nurture and guide it through this turbulent period, where rates are increasing yet the business climate is not helping our customers grow," he said.

—By Sheena Harrison



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TOP BROKERS

RANK

6

Dominic Burke,
group chief executiveJARDINE LLOYD THOMPSON
GROUP P.L.C.2011 GROSS
REVENUES
\$1.29 billion  9.7%2011 BROKERAGE
REVENUES
\$1.27 billion  9.6%

Strong organic growth in its specialty retail and emerging markets business helped London-based Jardine Lloyd Thompson Group P.L.C. report gross revenues of £821.6 million (\$1.29 billion) in 2011, a 9.7% increase from 2010.

Brokerage revenues rose 9.6% to £806.9 million (\$1.27 billion) in 2011, helping JLT retain sixth place in *Business Insurance's* 2012 ranking of the world's largest brokers.

Profits rose 13% to £134.5 million (\$211.1 million) in 2011.

"These results were achieved because JLT is winning market share and has invested in building its business," said Dominic Burke, group chief executive of JLT.

The broker experienced growth

in all its specialty lines during 2011, a feat Mr. Burke is confident that JLT can repeat this year. "Financial institutions, aviation, construction, and oil and gas broking have all grown," he said.

JLT's performance compares favorably to its peers. In particular, its organic growth has beaten that of its larger rival brokers in most quarters, said Nick Johnson, London-based analyst at Numis Securities Ltd.

"JLT's organic growth reflects the quality of its management and strategy of hiring teams of professionals and its ability to win new clients," he said.

"Organic growth for the year to Dec. 31, 2011, at 7% was, by a considerable margin, market leading," said Mr. Burke.

"The world continues to be challenging, but we remain confident of our ability to maintain similar levels of performance," he added.

The strong 2011 results were achieved despite an extremely competitive market, a weak economy and declining investment income, said Mr. Burke. "The headwinds of 2010 and 2011 have broadly changed for the worse. The euro zone crisis has created liquidity and confidence issues and impacted on the economic growth of emerging economies," he said.

JLT's growth also is a function of its size, said Mr. Johnson. While the greater market share of the largest brokers limits their growth, JLT's smaller size means there is a lot of "upside and opportunity" to

grow its share, he said.

Additionally, in recent years, JLT's specialty broking units—such as aviation and financial institutions—and its growing reinsurance broking arm have benefited from hires made at the expense of rival brokers. JLT also has been attracting key hires in Hong Kong, Singapore and Australia.

But while the insurance market has shown signs of hardening in some lines of business, such as catastrophe-exposed property, JLT has yet to see marked improvements in pricing. "I am very skeptical of claims of a firming insur-

'The world continues to be challenging, but we remain confident of our ability to maintain similar levels of performance.'

Dominic Burke, Jardine Lloyd Thompson Group P.L.C.

ance market because there remains excess capacity in all the major markets and, generally, conditions continue to be soft," Mr. Burke said.

An important event for JLT in 2011 was its biggest shareholder, Jardine Matheson Holdings Ltd., raising its stake in the brokerage from 30% to 40%. "The deal ends any rumors of JLT as a potential acquisition target," said Mr. Burke. "Jardine Matheson is a long-term investor, and by increasing its stake it has made a clear statement that it sees JLT as a core asset."

Barrie Cornes, equity analyst at

London-based Panmure Gordon (UK) Ltd., agreed. "JLT had been vulnerable to a takeover by one of the large U.S. brokers, and talk of such a move was destabilizing the business. The increase in the stake has now killed any chance of JLT being taken over."

JLT's recent growth reflects its strategy to deliver its mainly London-based specialty broking into new territories, in particular Asia and Latin America.

JLT reported 29% growth in its Asian retail business, its biggest market after the United Kingdom and the Australia region, with 19%

growth in Latin America. However, continental European retail broking shrank 17%, largely due to changes from repositioning the business in Italy and Spain.

Growth in key emerging markets such as China, Brazil and India has slowed in recent quarters, but Mr. Burke said he expects JLT's business in Asia and Latin America to continue to grow.

"Bearing in mind our geographical spread, business momentum, confidence and strategic plans, I feel we will continue to grow and attract profitable retail business around the world," he said.

JLT has steadily increased its presence overseas by opening new offices and making acquisitions. It now has a branded presence—through owned and partially owned operations—in more than 50 countries vs. 35 five years ago, and is represented in 135 countries through its broker network.

About two-thirds of JLT's clients are outside the United Kingdom.

JLT also continued to expand through acquisition. In the past year, it acquired 50.1% of insurance broker Orbital Corredores de Seguros in Santiago, Chile, a 25% stake in Marine & Aviation S.p.A. in Italy and a 25% stake in Spanish broker March-Unipisa.

JLT has no U.S. retail presence besides its aviation practice since selling its U.S. property/casualty broking and employee benefits business to Alliant Insurance Services Inc. in 2006. However, JLT continues to derive \$160 million in annual U.S. revenue through its wholesale, reinsurance and captive efforts.

"We don't have general retail brokerage in the United States, and I cannot imagine a circumstance where that would change," said Mr. Burke. "We have demonstrated that we can grow and achieve quality earnings without owning a U.S. retailer."

However, JLT sees opportunities to grow in Africa and the Middle East, "and we are looking for growth in the region through acquisition and recruitment," said Mr. Burke.

—By Stuart Collins

TOP BROKERS

RANK

7

J. Powell Brown,
president and CEO

BROWN & BROWN INC.

2011 GROSS
REVENUES
\$1.12 billion  15.0%2011 BROKERAGE
REVENUES
\$1.11 billion  15.0%

Brown & Brown Inc. has reached its goal of \$1 billion in annual revenues, and has embarked on its new \$2 billion goal.

"It didn't come without a lot of work for a lot of teammates," said J. Powell Brown, president and CEO of the Daytona Beach, Fla.-based brokerage, of reaching the initial \$1 billion goal.

Gross revenues totaled \$1.12 billion in 2011, a 15.0% increase from 2010, while brokerage revenues also increased 15.0% to \$1.11 billion. This surge moved Brown & Brown up to seventh place in *Business Insurance's* 2012 ranking of the world's largest brokers from eighth place last year.

The outlook is bright, observers

say. The property/casualty market is hardening, and "the pricing improvements there are going to help drive Brown & Brown's revenue," said Mark Hughes, Atlanta-based director and research analyst with SunTrust Robinson Humphrey Inc.

One way the brokerage plans to reach the \$2 billion mark is to continue its active acquisition strategy, said Mr. Brown. "Our goal is always about good people. It's not about geography" or other factors, said Mr. Brown. "We believe that good people run good businesses and attract more good people."

Acquisitions will continue at the same rapid pace this year. "We're looking to invest in all of our divisions of our company—that's retail, wholesale and services," Mr. Brown said.

The brokerage's largest deal during the past year was its January acquisition of San Diego-based Arrowhead General Insurance Agency Inc., a national insurance program manager with \$106.1 million in 2011 revenues.

Brett Huff, senior vp and analyst with Little Rock, Ark.-based financial services firm Stephens Inc., said the brokerage is "smart to buy smaller brokers, simply because they can sometimes get them for a price that allows a very good return on capital and allows them to grow beyond what they could grow organically."

This past year the company saw areas of improvement and others that "continued to struggle in the

economy," said Mr. Brown, adding "our business is a proxy for the middle-market economy," with concentrations in states that have been hit hard by the economy, including Arizona, California, Florida and Michigan.

Mr. Huff said the brokerage probably is more exposed than any other publicly held broker to small business accounts. Unlike its competitors, who have a mix of larger international firms, Brown & Brown is "just now beginning to see some of their customers begin to grow again," said Mr. Huff.

'We think that the economy seems to be getting better,' barring 'something very unusual happening in Europe.'

J. Powell Brown, Brown & Brown Inc.

"They've been through a tough time in the last four years, but I think the ship is turning around," said Chicago-based William Blair & Co. L.L.C. analyst Adam Klauber.

"We think that the economy seems to be getting better," barring "something very unusual happening in Europe," said Mr. Brown.

Meanwhile, "we continue to work diligently on behalf of our clients, and we try to seek new clients aggressively, but that's not something new," he said.

"We continue to be a decentralized organization," with individu-

al leaders running their business "as if they were their owners," said Mr. Brown. "We are linked with a common culture and a greater good in terms of being associated with a large organization in terms of bringing benefits to our customers," he said.

Brown & Brown "maintains a unique sales culture," that is driven partly by how its organization is decentralized, said Mr. Huff.

Commercial retail brokerage revenues increased 10.8%, to \$580.7 million in 2011 from 2010. "We continue to invest in retail busi-

nesses all over the country," said Mr. Brown. "We were very pleased with the people that joined our team, and the client relationships and the services that they provided to their customers," Mr. Brown said. "We think the economy is looking better, which bodes better for that business segment."

Employee benefits revenue increased 11.8%, to \$192 million in revenue. "Employee benefits is growing," said Mr. Brown. "The top line has gone up because we continue to acquire businesses in that segment."

Wholesale revenues increased 13.8%, to \$155.2 million. "There's been upward rate pressure in that segment longer than anywhere else, and we've had organic growth in that segment longer than anywhere else in the recent past," Mr. Brown said.

Services revenue more than doubled to \$93.1 million from \$46.3 million, which reflects in part the Arrowhead acquisition. "We've acquired several businesses that are very good businesses, and want to continue to invest in our services area," Mr. Brown said.

Personal lines revenue increased by 8.8% to \$73.7 million. "We think personal lines is a great business, and we absolutely want to invest in that with the right people," Mr. Brown said.

Reinsurance declined in revenues by 16.2% to \$17.4 million. Mr. Brown said last year the brokerage hired a new leader, Mike Cross, for that unit, and has been "very pleased with him." Brown & Brown will be growing that business in the future, "but in transition, we had a couple of changes which resulted in slightly less revenue."

The brokerage's head count increased by 14.7% to 6,061, which primarily reflects acquisitions, but some additional hiring as well, said Mr. Brown.

Mr. Brown, who took a leave of absence last year for health reasons, said he has been "feeling very good."

—By Judy Greenwald

TOP BROKERS

RANK
8H. Wade Reece,
chairman and CEO

BB&T INSURANCE SERVICES INC.

2011 GROSS
REVENUES
\$1.17 billion ↑ 0.4%2011 BROKERAGE
REVENUES
\$1.10 billion ↑ 2.3%

Despite positive premium growth and a handful of acquisitions, BB&T Insurance Services Inc. lost some ground in 2011, slipping to No. 8 in *Business Insurance's* annual rankings of the nation's largest insurance brokers from the No. 7 spot it held last year.

Gross revenues increased by 0.4% for the Raleigh, N.C.-based bank-owned insurance broker to \$1.17 billion in 2011.

Still, Daytona Beach, Fla.-based Brown & Brown Inc.'s 2011 brokerage buying spree, along with increases in coastal property insurance rates, pushed it ahead of BB&T in the *BI* rankings for the first time.

Brown & Brown made 17 acquisitions during 2011 vs. BB&T's three: Atlantic Risk Management Corp., a commercial property/casualty and employee benefits broker with expertise in construction surety and telecom-

munications based in Columbia, Md.; The Precept Group Inc., an employee benefits consultant and actuarial firm based in San Ramon, Calif.; and Liberty Benefits Inc., a San Jose, Calif.-based employee benefits broker.

But BB&T's \$570 million acquisition of The Crump Group, which closed in April, could turn things around for next year, especially if predictions of market firming come to fruition, according to industry sources.

"Margins are tougher in the wholesale business," said Timothy J. Cunningham, a partner at Chicago-based OPTIS Partners L.L.C., a financial and management consulting firm serving the insurance distribution industry. "They have been affected more than retail," he said. As a result, "BB&T was able to buy Crump at a very reasonable price. It was private equity-owned and purchased for a big premium. It had a seller looking for an exit."

BB&T also has the infrastructure in place to handle the acquisition, he said. "They were able to bolt it onto CRC Insurance Services Inc.," BB&T's wholesale unit, Mr. Cunningham said, who predicted it could give BB&T a financial boost if the property/casualty insurance market hardens.

"That is a segment of the business that will be rewarded when the market turns to a greater degree than on the retail side," he said.

Perhaps helping to smooth the integration, CRC resolved its dispute over the defection of 120 employees who left to join Chicago-based Ryan Specialty Group Inc. in May 2010. Both wholesale brokerages had filed lawsuits

against each other over departing workers' employment contracts. As a result of the settlement announced this year, the pending lawsuits will be dismissed with prejudice, the firms said in a statement.

H. Wade Reece, chairman and CEO of BB&T, said he already is seeing "accounts written in the standard market moving back to the (excess and surplus lines) world that historically had been written in that market."

Moreover, organic growth is up 6.5% in the first quarter of 2012 vs. 0.8% for the same period in 2011, he said.

"About half is price and half from new business," Mr. Reece said.

While Mr. Reece said he wouldn't go so far as to say the property/casualty insurance market is definitely firming, "I would call it transitional. I don't think it's a traditional hard market that we've had in the past. Prices are clearly going up with certain risks and in certain segments. There are a lot of things that are forcing rate changes: weather losses, investment income down, early spring storms with ice and hail, various earthquakes, tsunamis. It's clearly moving toward more underwriting discipline, more stabilization in prices, but it's not where everything's going up by 20%."

Further growth could come from the benefit side of BB&T's business with the acquisition of The Precept Group, which provides health risk management consulting services to self-funded midsize and large employers, according to Mr. Reece. "They were a competitor of ours in Cali-

fornia, so we knew them and knew they were very progressive. They have a large third-party administrator, ERISA attorneys, doctors and medical staff and a large actuarial group that goes in and studies risk. Doctors work with the actuarial folks to pinpoint problem areas, such as diabetes, to improve employee health. It's a very targeted approach to health risk management," Mr. Reece said. "We're looking to expand that platform across the country" to help middle-market and large employers drive health benefits costs down, he said.

"When you think about all the changes that have come about in the landscape with health care

reform, what they do is progressively compatible with the future landscape," Mr. Reece said.

"It's not that we're ignoring or moving away from the smaller employer groups. But from a resource standpoint, we're beefing up our consultative services for middle-market and large employers," he said.

BB&T also is banking on its new online personal lines sales tool to grow its business, especially among younger insurance buyers who are more comfortable with the use of technology, according to Mr. Reece. This month, BB&T added flood insurance to its menu of offerings available via its Internet portal.

—By Joanne Wojcik

TOP BROKERS

RANK
9David M. Lockton,
chairman

LOCKTON COS. L.L.C.

2011 GROSS
REVENUES
\$914.7 million ↑ 9.4%2011 BROKERAGE
REVENUES
\$904.4 million ↑ 9.4%

Lockton Cos. L.L.C.'s ability to meet the needs of large risk management accounts, retain clients and attract talent is helping push the broker closer to the \$1 billion mark in annual revenue, observers say.

Kansas City, Mo.-based Lockton reports that it produced \$904.4 million in brokerage revenues during 2011, up from \$826.9 million in 2010. The growth helped Lockton remain at No. 9 in *Business Insurance's* 2012 ranking of the world's largest brokers.

The number of employees working for Lockton also grew in

2011, to 4,450 from 4,107 the prior year.

Much of the property/casualty and employee benefits broker's growth success has come from organic expansion rather than acquisitions, company leaders and observers say.

"They are just shy of a billion dollars now in revenue and to get there through organic growth... speaks to the success of their business model," said John Wicher, principal at John Wicher & Associates in San Francisco.

Organic growth for the brokerage industry has been "very low," averaging from flat to about 2%, said John L. Ward, CEO at Cincinnati Partners L.L.C. in Cincinnati.

Lockton, meanwhile, is known for a customer retention rate that outperforms the industry average by a wide margin, Mr. Ward added. That, along with its leadership, has helped the company grow organically, which is less expensive than acquiring other brokers.

"Just holding on to their existing customers better than the average broker is one of the reasons why their organic growth rate compares favorably," Mr. Ward said.

Growing their industry specialty programs and opening up offices where it makes sense also

has helped, Mr. Ward said.

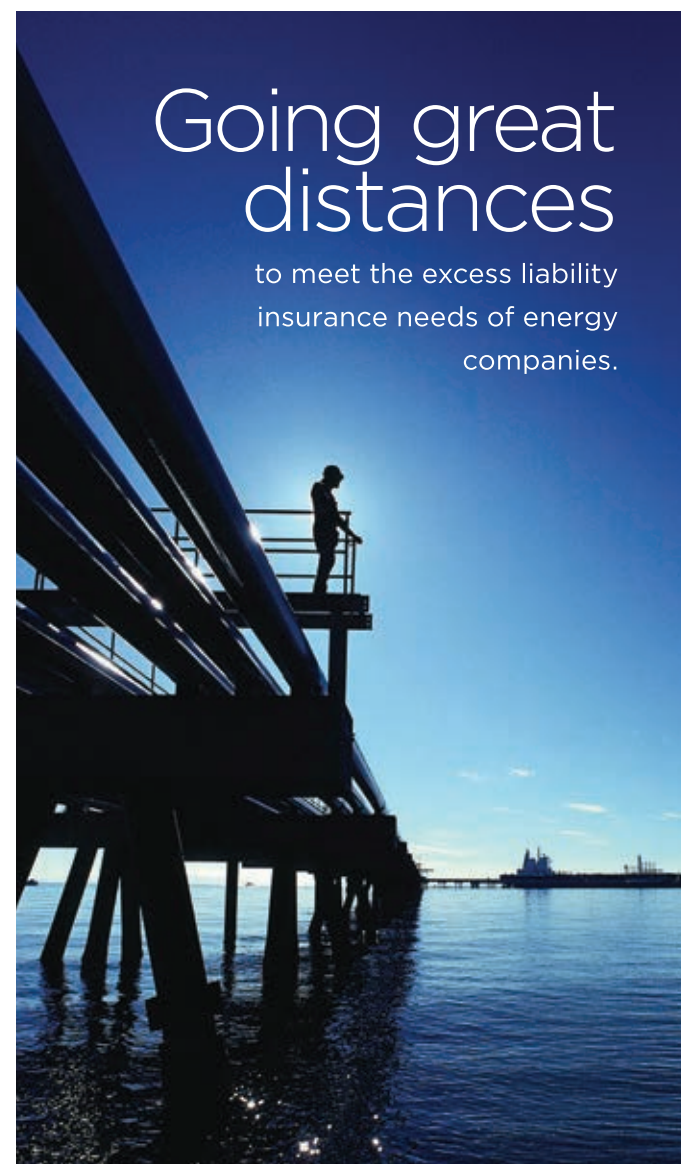
Being privately owned helps fuel the company's organic expansion because Lockton faces fewer bureaucratic hurdles than publicly traded competitors, said David Lockton, company chairman. That in turn helps the company focus on its customers and stay out of its associates' way as they work to service insurance buyers, he said.

"The reason we have been able to achieve the size we have through organic growth is partly attributable to our private ownership," Mr. Lockton said. "Our private ownership helps us attract the best talent in the industry."

Lockton's commercial retail brokerage revenue reached \$600.8 million for 2011, up from \$565.4 million the prior year.

It saw opportunities in helping commercial customers meet their business challenges, including those presented by the firming insurance market, Mr. Lockton said.

"It has firmed across the board, but it's particularly acute for a couple lines of coverage, in particular workers compensation," Mr. Lockton said. "We are doing a lot to restructure programs. We do a lot of very sophisticated actuarial analytics around collateral require-

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Continued on next page

CONTINUED FROM PREVIOUS PAGE

ments. We had a lot of success in reducing collateral required by insurance carriers. This helps our clients free up credit."

More than \$161 million of Lockton's commercial retail brokerage revenue came from non-U.S. offices in 2011. Those offices were home to 1,666 employees.

"As our clients continue to face the challenges of globalization, we continue to position ourselves to deliver solutions to the problems they encounter," said John L. Lumelleau, Lockton president and CEO. "We are constantly looking to anticipate and then tailor our responses to our clients' needs."

Lockton's employee benefits expertise produced \$234.7 million in benefits revenue during 2011, up from \$202.6 million the prior year. The company expects that demand for its benefits expertise and analytics capabilities will continue growing over the next several years, Mr. Lockton said.

"Client (benefits) costs will continue to rise unless they address the underlying cost of health care," Mr. Lockton said.

"There is no savings in the (Patient Protection and Affordable Care Act's) reform of insurance, and what clients really need to be doing—and what we are helping them do—is to manage the underlying cost, which is the cost of

health care and acute illnesses," he said.

The PPACA is "clear as mud and needs to be navigated for our clients," Mr. Lumelleau added.

"That is just in the United States," he said. "We will continue to grow our benefits business around the world as well."

But geographical expansion is just one among several drivers of Lockton's growth, sources said.

Lockton recruits "good people and has a culture of excellence," which is why very few employees leave voluntarily, Mr. Wicher said. "I think that is ultimately reflected in how those employees view and treat their clients."

—By Roberto Cenicerros

TOP BROKERS



RANK
10

Martin P. Hughes,
chairman and CEO

HUB INTERNATIONAL LTD.

2011 GROSS REVENUES ↑ 15.3%
\$879.5 million

2011 BROKERAGE REVENUES ↑ 15.3%
\$878.3 million

in 2011, Hub continued its mergers and acquisitions strategy, which compares with about 22 acquisitions in 2010. Hub made nine acquisitions in the first half of this year.

"One thing about us is that we're very disciplined about the M&A process," Mr. Hughes said. "We have a discipline, we have a procedure, and we follow it very rigidly. If it doesn't fit strategically, culturally or financially, we just won't do it."

"Hub specifically is seeing growth opportunities in Brazil," said Kevin Donoghue, managing director at Mystic Capital Advisors Group L.L.C. in New York.

While Hub's U.S. M&A strategy remains acquisitive, the brokerage is looking to expand. "I think it's a dual strategy," Mr. Donoghue said.

That strategy applied in its U.S. and Canadian acquisitions resulted in a notable expansion of Hub's operations into Latin Amer-

'The economy finally gave us a little bit of a lift in 2011. We didn't get much, but maybe we got a point out of the economy in 2011.'

Martin P. Hughes,
Hub International Ltd.

ica with the acquisition of São Paulo-based Harmonia Corretora de Seguros Ltda. in December for an undisclosed amount.

"We like the business there, and we've got a terrific operation," Mr. Hughes said. "So we've got a great base to build upon, and that's really our motto: Find a really wonderful platform and then expand that platform by growing it organically and having them do fold-in acquisitions."

Hub reverted to private ownership in 2007 after it was purchased by Apax Partners L.L.P. and Morgan Stanley Principal Investments Inc., the brokerage's current owners.

Hub's private ownership may

have benefited the brokerage, said John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco.

"Hub's investor group is much less concerned with short-term results as compared with intermediate to long-term value creation," Mr. Wicher said. "This has been a meaningful advantage over the last four years."

But Hub has made a key personnel change by hiring a new chief financial officer as it eyes public offerings, Mr. Hughes said.

"As we look down the road and think about next steps for us, which clearly is probably a move back into the public arena, I wanted to make sure that we had a CFO that was really operationally minded," he said. "For us really, the plan is to keep monitoring the public markets, and when it looks like it would be the most appropriate time for us to do it, that's when we'll go."

Mr. Donoghue of Mystic Capital said that, barring any unforeseen events, Hub's push is to go public.

"There's a continuous push to get to a certain dollar threshold to go public," Mr. Donoghue said. "I would imagine they are getting close to that threshold."

Hub's new CFO begins his role Aug. 1; the brokerage declined to provide his name.

Amid a changing commercial marketplace with potentially hardening insurance rates and an overall weak U.S. economy, Hub plans to remain focused on investing in the business.

"We have substantially invested in the business even during 2009 and 2010," Mr. Hughes said. That includes hiring new producers at field offices that are subsidized by the corporate office, customer relationship management software, and other producer tools and services.

"We're at a big, major technology push," Mr. Hughes said, spending more than \$10 million on sales technology efforts.

"We just keep thinking that the insurance marketplace is getting a little better," Mr. Hughes said. "And if rates just turn neutral, we're going to do really well because our new business production is so high and our retention ratios are really good."

—By Mike Tsikoudakis

UP COMINGS & GOINGS CLOSE

HOWARD TOLLIN



NEW JOB TITLE: Woodbury, N.Y.-based president of Sterling Environmental Services L.L.C., a division of Sterling & Sterling Inc.

PREVIOUS POSITION: Jericho, N.Y.-based managing director with Aon Risk Solutions.

LOOKING FORWARD TO: Efficiently and effectively bringing expertise and value to Sterling's clients and for future clients. I will enjoy the collaborative work environment where teams here regularly meet to provide risk management and loss control suggestions, and claims advocacy to best serve our clients.

INDUSTRY CHALLENGES: One challenge to the industry will likely be explaining premium increases as we emerge from a soft market with very low rates. Another challenge will be helping clients understand new insurers and innovative products in the marketplace. I will seek to turn those challenges into opportunities by being creative with saving clients money and better protecting the most significant exposures even as a harder market emerges.

BEST THING ABOUT A BAD ECONOMY: When construction and real estate transactions slowed down, I spent more time working with risk managers on evaluating their overall insurance program. Many executives had more time to make thoughtful risk management decisions, and we developed more comprehensive risk management programs for the most competitive premiums.

ADVICE: Be passionate and enjoy your work, (be) responsive to clients and eager to learn something new every day.

OUTSIDE THE INDUSTRY, A DREAM JOB: I was hoping I found my dream job. Down the road, maybe I'll be a professor. Some former colleagues used to call me "the Professor."

HOBBIES: Walking my dog, golf, tennis, racquetball and family time.

FAVORITE BOOK: I like business books and the John Grisham and Dan Brown novels.

FAVORITE MEAL: Steak, but I annoy some people when I order it well done.

EMAIL OR PHONE, AND WHY: Phone for interactive discussion and emails for follow up because I enjoy speaking with people.

Comings&Goings

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INSURERS

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- Beecher Carlson Holdings Inc.
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REINSURANCE

- Montpelier Reinsurance Ltd.
- U.S. RE Corp.

OTHER

- Equinox Global Ltd.
- Towers Watson & Co.

Libor: Bracing for wave of D&O, E&O litigation

CONTINUED FROM PAGE 1

rates for corporate loans, mortgages and other lending.

While the topic gained wide discussion only in recent days, there apparently have been long-simmering concerns about the issue.

On Friday, the Bank of England released a 2008 memo on the topic from U.S. Treasury Secretary Timothy Geithner, then president of the Federal Reserve Bank of New York, to Mervyn King, governor of the Bank of England.

The memo included a list of recommendations with respect to the Libor rate that include efforts to “strengthen governance and establish a credible reporting procedure.”

Much of the litigation filed to date names entities as defendants, rather than individual directors and officers. This includes a now-consolidated complaint filed by Baltimore and others, *In re Libor-based financial Instruments Antitrust Litigation*, against 16 banks in New York federal court.

“I’m sure plaintiffs lawyers are looking at all the options,” said Kevin LaCroix, executive vp at OakBridge Insurance Services L.L.C. in Beachwood, Ohio, of the D&O and E&O litigation potential.

In a possible signal on that front, a proposed class action was filed last week on behalf of purchasers of Barclays-sponsored American depository receipts, which represent shares of foreign companies’ stock. The suit names Barclays, two subsidiaries, former Chairman Marcus Agius and former Chief Executive Robert Diamond as defendants. *Victor Gusinsky, Trustee, for the Vladimir Gusinsky Living Trust v. Barclays PLC et al.*, was filed in New York federal court.

The lawsuit states that Barclays’ admissions with respect to the Libor rate manipulation caused the ADR stock price to fall, and that Messrs. Agius and Diamond “knew or recklessly disregarded” the “false and misleading statements” that were published concerning the company.

“I suspect that D&O insurance will be in place” to provide legal counsel, said New York-based Wolf Haldenstein Adler Freeman & Herz

L.L.P. Partner Gregory M. Nespole in commenting on the case. But “I can’t speak” to coverage as to any judgment or settlement.

“Very few mainstream public company D&O forms would provide coverage” for regulatory fines and penalties nor would antitrust litigation be covered under D&O policies, said Mr. LaCroix.

However, shareholder derivative lawsuits would be. “Just as a general statement, it’s going to be huge,” Mr. LaCroix said in reference to future D&O litigation in connection to Libor.

David W. Steuber, a partner with Jones Day L.L.P. in Los Angeles, said, “What you would need to do is take a look at the allegations, who the parties are and

There could be ‘some really significant impact and potentially some significant liability’ because the Libor rate is used in so many different instruments.

Thomas O. Gorman,
Dorsey & Whitney L.L.P.

what the allegations are against the various parties; and from there take a look at the insurance policies. If the claims are against various individuals in their capacity as a director or officer of a particular entity, then D&O would likely come into play.”

“There are probably going to be more securities derivative actions as the investigation is completed and fines are imposed,” said Alexander D. Hardiman, a shareholder at Anderson Kill & Olick P.C. in New York. Stock price drops are likely as result, “and that inevitably leads to shareholder derivative litigation, and that in turn is going to implicate D&O insurance,” Mr. Hardiman said.

There “could potentially be a large number of claims,” he said.

Thomas O. Gorman, a partner at

Dorsey & Whitney L.L.P. in Washington, said there could be “some really significant impact and potentially some significant liability” since the Libor rate is used in so many different instruments.

Fred T. Insquith, a New York-based partner with Wolf Haldenstein, who spoke before his firm’s litigation was filed, said, “Given the testimony that’s coming out on the situation with Barclays bank, it’s hard to imagine that people will not be named individually” in litigation. In Barclays, “decisions were made on the highest levels, and it wouldn’t surprise me if that was true in many banks.”

E&O insurance may also come into play. Such litigation would be filed on behalf “of the customers of these banks if they feel they were harmed by the bank’s delivery of professional services,” such as if they suffered as a result of interest rate-related losses because of manipulation, said Mr. LaCroix.

Furthermore, said Perry S. Granof, Glencoe, Ill.-based of counsel to law firm Williams Kastner, “You have the potential for fiduciary liability exposure” with respect to potential losses incurred by 401(k) funds, pension funds or other instruments that may have been linked to Libor rates.

It is not clear how the D&O coverage of the affected financial institutions is structured, said Mr. LaCroix. It is “hard to know how any given company’s policy would respond to a particular set of claims.”

“I think some banks may be self-insured and others may have sizable self-insured retentions or captive programs,” said Edward Kirk, a partner at Clyde & Co. in New York. “They may just have high excess coverage from the market.”

As a result of D&O claims stemming from the Libor case, “we may experience a reduction in capacity for lower layers of D&O for banks,” Neo Combarro, London-based senior vp with Lockton Cos. L.L.C.’s financial risks team, said in an email. “However, the market continues to offer an abundance of capacity, so we would not expect adverse rate change.”

“One could assume underwriters may look to limit coverage and place more onerous conditions around disclosures and warranties on tier 1 banks. Certainly, underwriter due diligence and requests for disclosure may increase in light of recent events,” Mr. Combarro said.

Exchanges: Tax credit quandary

CONTINUED FROM PAGE 1

Internal Revenue Service regulations.

The PPACA says premium subsidies are available to eligible individuals who purchase coverage through an exchange “established by the state.”

But subsequent IRS regulations—finalized this year—say the subsidies also would be available to those buying coverage in exchanges established by the federal government.

The “provisions of the Affordable Care Act support the interpretation that credits are available to taxpayers who obtain coverage through a state exchange, regional exchange, subsidiary exchange and the federally facilitated exchange,” according to the IRS regulation.

“Moreover, the relevant legislative history does not demonstrate that Congress intended to limit the premium tax credit to state exchanges,” according to the regulation.

Lawmakers react

But that interpretation has drawn fire from some Republican lawmakers. Last month, Tennessee Republican Reps. Scott Desjarlais and Phil Roe introduced a proposal that would effectively bar the IRS from enforcing the rule.

And Sen. Orrin Hatch, R-Utah, in a letter sent last year to IRS Commissioner Douglas Shulman and Treasury Secretary Timothy Geithner, wrote: “Simply put, under current statutory law, there is no premium assistance amount...to the extent that an exchange is a federally facilitated exchange.”

Regardless of why the legislative language “precludes the application if premium credits to any federal exchanges,” it is up to lawmakers, not regulators, to make any changes, Sen. Hatch wrote.

The issue of what types of exchanges at which individuals can use premium subsidies to

buy coverage has assumed a growing importance as more states say they will not set up exchanges. Experts say that anywhere between one-third to one-half of states may not establish exchanges, leaving that role to the federal government.

But if premium subsidies are available only to those getting coverage in state-established exchanges—as some Republican lawmakers and others say—the uninsured in other states would lose access to the subsidies, said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

In turn, those individuals’ employers would not face penalties for not offering coverage or for coverage that flunks the health care reform law’s affordability test because those penalties are triggered only if an employee uses a subsidy to buy coverage in an exchange.

Some observers say a simple drafting error may be why the legislative language states the premium subsidy is available for coverage only in state exchanges.

“This was undoubtedly a drafting error or oversight that was not corrected. It is very hard to see any policy justification for making subsidies available from state exchanges and not through a federal exchange. I don’t think that was ever contemplated,” said Paul Dennett, senior vp-health care reform with the American Benefits Council in Washington.

“It is hard to imagine that there would be federal exchanges without premium subsidy eligibility,” said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

Ultimately, the issue may end up being resolved in court.

“This could end up the next big litigation” involving the health care reform law, said J.D. Piro, a senior vp with Aon Hewitt in Norwalk, Conn.

But those filing suit might have difficulty getting courts to overturn the IRS regulations.

“The bar for succeeding would be very high,” Mr. Dennett said. Those bringing suit would have to prove that regulators acted in an arbitrary way in drafting the premium subsidy/exchange rules, he added.

SAC Re: Bermuda startup gets private equity backing

CONTINUED FROM PAGE 1

established by New York-based hedge fund Greenlight Capital Inc.

Mr. Burton, who previously was chief underwriting officer of the Bermudian underwriting subsidiary of Lancashire Holdings Ltd., acknowledges that the experiences of Greenlight and Third Point were instructive as he built his management team throughout the past year. That team includes Claude Lefebvre, chief

underwriting officer of casualty, who previously was managing director and head of Europe, Middle East and Africa operations for GC Analytics, a unit of Guy Carpenter & Co. L.L.C. In addition, Kathleen Reardon will join the team this year as chief underwriting officer of property, pending Bermuda immigration approval.

While reinsurance startups often are assembled in haste in the wake of large catastrophes such as Hurricane Katrina, Mr. Burton

said he had the luxury of time while building SAC Re.

“We have been able quite deliberately pull our executive team together over the last 12 months, and I’m extremely pleased with the strength of our executive leadership,” he said.

Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York, said that while the reinsurance marketplace is crowded, there is room for more capital.

“The record so far among hedge

funds that formed down there is that they have been pretty responsible players,” he said.

In assigning a financial strength rating of A- (excellent) and issuer credit rating of a- to SAC Re, Oldwick, N.J.-based rating agency A.M. Best Co. Inc. cited the firm’s “excellent risk-adjusted capitalization, knowledgeable management team and prudent business plan.”

Noting that a hard market has yet to materialize, Brian McGuire, senior vp of Pearl River, N.Y.-

based reinsurance brokerage U.S. RE Corp., said new Bermuda entrants will face challenges.

“Third Point Re and SAC Re are looking for high-quality returns on catastrophe business,” but it probably will take some time to generate the desired returns, he said.

However, Mr. Burton expressed confidence.

“We expect to grow organically quite significantly over the next few years, but for now we have no expectations to be in many different locations or classes of business,” he said. “That said, we are open-minded, fairly nimble and opportunistic.”

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Market Moves

Alterra creates sidecar for retro business

HAMILTON, Bermuda—Alterra Capital Holdings Ltd. has established a sidecar to increase capacity in the collateralized retrocessional market.

The Bermuda-based reinsurer said the entity, New Point V Ltd., was established to create additional capacity for the property catastrophe collateralized reinsurance marketplace.

Alterra and Greenwich, Conn.-based private equity firm Stone Point Capital L.L.C. are joint sponsors of New Point V. Stone Point has capital commitments from its sponsors and additional investors of approximately \$210 million, Alterra said in a statement.

"We are pleased to continue our support of the collateralized retrocessional market with New Point V and are glad to be partnering again with industry experts like Stone Point," Alterra President and CEO Marty Becker said in the statement. "With New Point V, we believe we remain well-positioned to serve our clients' needs as they seek property catastrophe reinsurance."

Hylant purchases benefits brokerage

TOLEDO, Ohio—Broker and consultant Hylant Group Inc. has acquired AGIS, an independent, full-service employee benefits agency with offices in Birmingham, Mich., and Orlando and Jacksonville, Fla.

Financial terms of the transaction were not disclosed.

The companies reported that AGIS' Birmingham, Mich., office will transition to Hylant's Detroit office, bringing additional expertise and experience to Toledo, Ohio-based Hylant's expanding Southeast Michigan operation.

Hylant acquired AGIS' Indianapolis office in 2011 and embarked on a corporate restructuring strategy this year.

Founded in 1978, AGIS has more than 1,000 clients and 75 employees producing less than \$20 million in revenues. Hylant, founded in 1935, is a full-service insurance brokerage with 14 offices in Ohio, Michigan, Illinois, Indiana, Tennessee and Florida. Hylant's combined property/casualty and employee benefits premiums total more than \$1.25 billion.

"The acquisition of AGIS demonstrates our commitment

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

NO. 5220 OF 2012

IN THE MATTER OF
ZURICH SPECIALTIES LONDON LIMITED
- and -
SWISS RE INTERNATIONAL SE, UK BRANCH
- and -

IN THE MATTER OF
PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE

NOTICE IS HEREBY GIVEN that on 25 June 2012 Zurich Specialties London Limited ("ZSL") and Swiss Re International SE, UK Branch ("SRI") made an application (the "Application") to the High Court of Justice pursuant to section 107(1) of the Financial Services and Markets Act 2000 (the "FSMA") for an Order:

(1) under section 111 of FSMA sanctioning an insurance business transfer scheme for the transfer of all insurance business from ZSL to SRI; and

(2) making ancillary provisions in connection with the Scheme pursuant to section 112 of FSMA.

Copies of a report on the terms of the Scheme prepared pursuant to section 109 of FSMA (the "Independent Expert's Report") and a statement setting out the terms of the Scheme and containing a summary of the Independent Expert's Report are available free of charge on ZSL's website at www.zsl.co.uk. Supporting documents and any further news about the Scheme will be posted on this website so you may wish to check for updates.

You can also request free copies of any of these documents by contacting ZSL using the details set out below.

The Application will be heard on 6 November 2012 before a Judge of the Chancery Division of the High Court at the Rolls Building, Royal Courts of Justice, 7 Rolls Buildings, Fetter Lane, London, EC4A 1NL. If approved by the Court, it is currently proposed that the transfer will take effect on 1 January 2013.

Any person (including any employee of ZSL or SRI) that believes that he or she would be adversely affected by the carrying out of the Scheme is entitled to either make written representations or be heard (either in person or by a legal representative) at the hearing of the Application on 6 November 2012. Any person who intends to appear at the Court or make representations in writing is requested to notify his or her objections as soon as possible and by no later than 2 November 2012 to the address set out below.

If the Scheme is sanctioned by the Court, it will result in the transfer of all the contracts, property, assets and liabilities of ZSL to SRI; notwithstanding that a person would otherwise be entitled to terminate, modify, acquire or claim an interest or right or to treat an interest or right as terminated or modified in respect thereof. Any such right will only be enforceable to the extent the order of the Court makes provision to that effect.

Zurich Specialties London Limited
33 Jermyn Street, London, SW1Y 6AD
Telephone: 020 7758 7452
E-mail: zsltransfer@zurich.com

LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF AMBASSADOR INSURANCE COMPANY
Vermont Superior Court, Civil Division, Washington Unit, Docket S-444-83 Wnc

NOTICE OF MOTION FOR FINAL CLAIM DATE TO CUT OFF CLAIMS AGAINST AMBASSADOR INSURANCE COMPANY

The Liquidator of Ambassador Insurance Company (AIC) has filed a motion that the Vermont Superior Court issue an order establishing a date by which all claimants must prove their open claims (Final Claims Date) and after which any other claims against AIC will be forever barred and no further amendments to claims or evidence related to existing claims may be submitted (Motion for Final Claim Date or Motion). **The Vermont Superior Court will hold a hearing on the 16th day of October, 2012, at 9 o'clock in the morning, 65 State Street, Montpelier, Vermont to rule on the Liquidator's Motion.**

Neither the Motion nor the Order will expand the rights of policyholders or claimants in any manner. The Motion and Order do not change your rights or status if you did not file a timely proof of claim by the March 1, 1988 Bar Date. The Motion and Order also do not change your rights or status if you held a claim denied or approved in whole or in part by the Liquidator, which determination was approved by the Court. You will not have the right to file a Claim Amendment or further proof of claim if you do not currently have an open claim (including a policyholder protection claim) that was filed by March 1, 1988.

- This notice outlines the right to object to or support the Motion for Final Claims Date.
- This may be the only notice sent regarding this matter.
- All claimants are advised to review all available information and protect their interests accordingly.

If the Liquidator's motion is granted, the Court will issue an order setting a date 90 days after entry by which a holder of an open claim that has not been liquidated must prove the claim ("Claim Amendment"). A Claim Amendment to an open claim not previously liquidated must specifically identify the event, accident or occurrence giving rise to the claim, the person or property allegedly injured or damaged, and the nature and extent of the alleged injury or damage, by the Final Claim Date or shall be forever barred.

Any objection to or support of the motion and all documentation relevant to your objection or support ("Responsive Papers") must be received or postmarked by September 5, 2012. Responsive Papers with postmarks after September 5, 2012 will not be considered. You must both file with the Court and serve the Liquidator by first class U.S. mail, postage prepaid, at the following addresses:

Clerk, Vermont Superior Court
Civil Division, Washington Unit,
65 State Street
Montpelier, VT 05602

Ambassador Insurance Company,
In Liquidation
P.O. Box 40
Montpelier, Vermont 05601

Your submission to the Court must have a reference to "In re the Matter of the Ambassador Insurance Company, Docket No. S-444-83" and an affidavit of your service on the Liquidator. You may appear at the hearing at the time and date noted above. **NOTE: The Court will not consider objections at the hearing unless the claimant has timely filed and served Responsive Papers in accordance with this Notice.**

The Liquidator maintains a website related to this petition, www.AmbassadorLiquidation.com, and has posted copies of the Motion and other relevant documents there. All AIC policyholders, claimants, creditors and other interested parties are advised to review all applicable information and materials and to protect their rights accordingly.

Dated: June 14, 2012

Stephen W. Kimbell, Commissioner
Vermont Department of Financial Regulation
as Liquidator of Ambassador Insurance Company
George K. Bernstein, Agent for the Liquidator

REQUEST FOR PROPOSAL

NEW YORK CITY HOUSING AUTHORITY

-PUBLIC NOTICE- INVITATION FOR BID PROPERTY INSURANCE

The New York City Housing Authority ("NYCHA") requests quotations from qualified **INSURANCE CARRIERS** for Primary/Excess Property Insurance coverage. Coverage is to become effective **October 30, 2012**.

Proposals must be made in the format and within the timeline(s) included in the Invitation for Bids package containing instructions, specifications and detailed submission requirements. Packets may be obtained by calling NYCHA's Property Insurance Broker: **Towers Watson, One Stamford Plaza, 263 Tresser Boulevard, Stamford, CT 06901-3226 at (203) 363-1983**. In order to be eligible, completed bids must be received by **3:00 P.M. EST on August 13, 2012**.

All inquiries for additional information regarding the Invitation for Bids are to be directed, in writing, to **Brendan Osean, Towers Watson, at the aforementioned address, telephone or e-mail to: Brendan.Osean@towerswatson.com**.

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Continued on next page

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to the employee benefits space. Our clients will continue to need access to consulting expertise and services as the landscape of health care and employee benefits services continue to evolve," said Michael Hylant, CEO of Hylant Group, in the statement. "The level of leadership, talent and company culture of AGIS supports our plans for strategic growth in our existing offices and our new Orlando and Jacksonville locations."

Industry veterans form reinsurance brokerage

MINNEAPOLIS—Insurance industry veterans Dan Koshiol and Lindsay Ginter have formed a new reinsurance broker, StoneHill Reinsurance Partners L.L.C., the executives announced.

Mr. Koshiol, a 15-year veteran of reinsurance brokerage firms including Guy Carpenter & Co. L.L.C., John B. Collins & Associates Inc. and E.W. Blanch Co. Inc., will serve as the firm's president and CEO.

Ms. Ginter most recently managed a reinsurance captive for Wells Fargo & Co. and also held positions at Collins and E.W. Blanch. Ms. Ginter will serve as senior vp.

The new brokerage is located in Minneapolis.

"We see a marketplace need for a broker who will solely invest time and resources on their clients," Mr. Koshiol said in a statement.

MMA expands in upper Midwest

NEW YORK—Marsh & McLennan Agency L.L.C., a subsidiary of Marsh Inc., has acquired Security Insurance Services Inc., a Milwaukee-area insurance agency specializing in the senior living health care, construction and manufacturing industries.

Security Insurance Services, established in 1983, will operate as a division of RJF, a Minneapolis-based MMA company, further expanding MMA's presence in the upper Midwest, according to

an MMA statement.

All of Security Insurance Services' 65 employees, including President and CEO Scott Naze, will join MMA's upper Midwest hub and continue to work out of their existing offices in New Berlin, Wis., and Appleton, Wis.

Terms of the deal were not disclosed.

Established in 1983, Security Insurance Services has annual revenues of approximately \$10 million and offers a broad range of property/casualty and employee benefits products and services to a variety of businesses and individuals throughout the Midwest.

Security Insurance Services is the

19th acquisition MMA has made since November 2009. With this latest acquisition, MMA will generate approximately \$365 million in annualized revenue in 2012.

Insurer Allied World opens construction casualty unit

NEW YORK—Allied World Assurance Co. Holdings A.G. has launched a construction casualty division.

Based in its U.S. casualty operations, the unit is offering lines of business such as commercial general liability and commercial automobile, railroad protectives, and owners and contractors protec-

tives, the insurer announced.

Other services include contractor practice programs, owner-controlled insurance programs, contractor-controlled insurance programs and project-specific programs.

Michael Conroy has been appointed vp, construction, a newly created position. He oversees the development of the new division and reports to Lou Iglesias, president of U.S. property/casualty for Allied World. Previously, Mr. Conroy was vp of construction risk management at American International Group Inc.

He and the new division are based in New York.

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BI's Products & Services column reports on new product offerings. Please send Products & Services news to Anna Gaynor, 150 N. Michigan Ave., Chicago, Ill. 60601 or email agaynor@businessinsurance.com.

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Olympics: London prepares for games

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towards the events and the athletes," said Lance J. Ewing, hospitality and leisure industry practice group leader at Chartis Inc. in Memphis, Tenn. "These are formidable risk exposures including health insurance, cancellations coverage, terrorism, (kidnap and ransom), travel insurance and property coverage."

There also are exposures surrounding the construction of event venues, dormitories and other facilities, Mr. Ewing said.

"Companies that have an interest in the Olympics as well have to identify their risks," he said, citing the example of McDonald's Corp., which has built its largest restaurant in London's Olympic Park with seating for 1,500 diners.

"Insurance is provided by most carriers, but a fair amount of the coverage has to be pooled," Mr. Ewing said, noting that International Sports Federations members pool for exposures such as acts of war or terrorism at the Summer and Winter Games.

Among the risks surrounding a modern Olympics, cancellation is one of the largest exposures and, consequently, cancellation coverage is likely to be among the largest insurance placements for the London Summer Olympics.

"The stakeholders, those that have the insurable interest, are numerous," said Andrew Duxbury, underwriting manager of contingency/special risks at Munich Reinsurance Co.'s London general branch.

At the top of those with insured interests is the International Olympic Committee, "who are the brand owner and invariably maintain the TV rights. It's they who sell the TV rights to the TV companies around the world, and that's the major driver of revenue," Mr. Duxbury said.

The local organizing committee has its own interests such as ticket sales, as do sponsors that might be planning customer events during the games. Others include those manufacturing and selling Olympic souvenirs, "hopefully under license," Mr. Duxbury said.

Munich Re is taking on a sizable amount of the cancellation risk surrounding the London Olympics.

"At last count, Munich Re Group's involvement is around €350 million (\$430.1 million)," Mr. Duxbury said. While he wouldn't speculate on the extent of cancellation coverage in place for the London games or the percentage Munich Re is assuming, Mr. Duxbury used the 2010 World Cup as a reference point.

"We did a quick calculation for

the South Africa World Cup as best we could of all the insurance interests that could be out there and felt there could potentially be a \$5 billion exposure to a cancellation of the World Cup. Not all of that was insured," he said. "I wouldn't see the Olympics as any less than that, possibly more."

Insurers, brokers and insureds involved in the London games generally are tight-lipped about coverage that is in place. The London 2012 Organizing Committee did not respond to requests for comment, but a spokeswoman for the Lausanne, Switzerland-based IOC said the organization relies on insurance to help protect it from risks that might interfere with the games.

"Since Jacques Rogge was elected president of the IOC in 2001, one of his priorities has been to ensure that the funding of the organization and affiliated national Olympic committees and international federations is protected in the event of unexpected events affecting the staging of the games," the spokeswoman said.

The IOC had \$415 million in insurance coverage in place for the 2008 Beijing Summer Olympics, the spokeswoman said.

"The policy is part of an overall IOC strategy to manage any risk inherent to our core business—the

Olympic Games—and is part of efforts to support measures already undertaken to build financial reserves," she said.

"The insurance policy allows the IOC, international federations and national Olympic committees to maintain operations in the event the Olympic Games should not take place," the spokeswoman said, noting that the first games for which the IOC had such cancellation coverage was the 2004 Summer Games in Athens, Greece.

Vancouver's Mr. Holton said medical emergencies are another risk that Olympic organizers must address, an exposure that played out at the Vancouver Games with the death of Georgian luger Nodar Kumaritashvili.

"There's always a risk of serious injury or even fatality for athletes on the field of play. Unfortunately, you had that happen at VANOC," Mr. Holton said. "Any games have to be prepared for that and also have contingency plans in place."

The IOC requires the host committee to provide medical treatment to the Olympic and Paralympic "families," the athletes, organizing committee and international federation members, sponsors, broadcast teams and others, Mr. Holton said.

"In our case, we bought insurance," he said. "We also bought insurance that would cover repatriation to their home country if required."

Pensions: Set for premium increase

CONTINUED FROM PAGE 3

In addition, the law will raise the variable rate premium by \$4 per \$1,000 of plan underfunding in 2014, with an additional \$5 increase in 2015.

That will mean a variable rate premium of at least \$18 per \$1,000 of plan underfunding in 2015—double the current rate.

However, the law also places a cap on the total amount of money employers with underfunded plans will pay in variable-rate premiums. Regardless of the amount of underfunding, the maximum variable-rate premium cannot exceed \$400 per participant.

The jump in the PBGC premium is likely to accelerate employer examination of ways to reduce the number of participants in their plans—such as giving participants the opportunity to take their accrued benefit as a lump sum—reducing the amount of PBGC premiums they pay.

"You'll see more interest in these types of programs," said Aon Hewitt's Mr. Keener.

With PBGC premiums spiraling, "You'll see more lump sums being offered" as the cost of keeping participants in a plan keeps going up, Mercer's Mr. Cadenhead said.

While escalating PBGC premiums is something employers will face in the years ahead, for now they will see dramatic reductions in required plan contributions. Those reductions are the result of the higher interest rates the new law will allow employers to use to value plan liabilities.

Under the new law, employers will continue to value plan liabilities based on interest rates on top-

rated corporate bonds for three different segments, averaged over 24 months. Segments refer to when benefits are paid to participants.

Under this methodology, interest rates that value plan liabilities are based on the maturity date of the corporate bonds. For example, interest rates on pension liabilities to be paid within the next five years would be based on corporate bonds maturing within five years.

The actual interest rate for each segment in 2012 would have to be within 10% of the average of those segment rates for the preceding 25-year period. In succeeding years, this 10% corridor would increase and top out at 30% in 2016.

With this new methodology, the interest rate used to value benefits paid over the next five years, for example, will increase roughly three percentage points, with smaller but significant percentage increases for benefits paid out beyond five years, experts say.

For example, the current required interest rate of nearly 2% to value benefit payments within the next five years will rise to just under 5%, reducing the value of the liabilities and the amount employers will be required to contribute to their plans.

In all, a typical employer plan might see the value of liabilities fall between 12% and 18%, consultants say. "If your plan was 85% funded, it now might be 100% funded," PwC's Mr. Abraham said.

Whether employers decide to take advantage of the funding relief, though, will vary depending on employer circumstances, experts say.

For example, if an employer contributes less now, it could face higher contributions later on. That could pose problems for employers if their future cash flow slumps.

Employers will need to step back and consider a funding policy that makes them comfortable, Mr. Abraham said.

With PBGC premiums spiraling, 'You'll see more lump sums being offered' as the cost of keeping participants in a plan keeps going up.

Bruce Cadenhead, Mercer L.L.C.

Staff: BI adds two new staffers

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position at brokerage Aon P.L.C. in Chicago.

Mr. Bomberger can be reached at 312-649-5483 and at pbomberger@BusinessInsurance.com.

Ms. Tomseth most recently was an account manager and social media specialist at Jo Chicago, a boutique public relations and marketing firm. Previously, she was a staff writer and editor for Playboy magazine in Chicago and worked as online community manager for Playboy.com. Earlier positions include editorial assistant at Chicago Home & Garden magazine and reporter and staff writer for Connection Newspapers in McLean, Va.

She has a bachelor's degree in English literature from the University of Virginia and a master's in magazine and new journalism from Northwestern University's Medill School of Journalism.

Ms. Tomseth's responsibilities include managing the digital content of *Business Insurance*. She succeeds John Thomas, who is taking a senior editorial position at Modern Healthcare, a sister publication of *Business Insurance*.

Ms. Tomseth can be reached at 312-649-5275 and via email at atomseth@BusinessInsurance.com.

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Ex-mods: Employers facing premium changes

CONTINUED FROM PAGE 3

“material” impact on individual employers’ premiums, said Pamela F. Ferrandino, casualty practice leader, placement for Willis North America Inc. in New York.

“What we will see this do is really reward companies that have worked hard to improve and maintain their loss profile,” Ms. Ferrandino said. “Those risks that really have better-than-average experience benefit from being better than average.”

But employers “with bad experience are going to see a higher apportionment of debits” added to their pricing, while those with a good loss history will see more credits, said Bill Carney, vp and chief underwriting officer at Accident Fund Holdings Inc. in Lansing, Mich.

“So it really underscores the need for employers to invest in loss control, invest in safety, invest in their people and have a very strong return-to-work program,” Mr. Carney said. “That is regardless of (employer) premium size.”

But midsize employers with guaranteed-cost insurance policies will see a greater impact from the split-point change than will larger employers, Ms. Ferrandino said.

That is because larger employers are more likely to employ risk managers and safety personnel, and they tend to maintain large deductibles, sources said.

Ex-mod formula modifies costs

A workers compensation experience modification factor is a component of the formula used to adjust a manually rated premium for the difference between a particular organization’s “inherent risk and the average risk for all companies with payrolls in the same class codes,” according to Willis North America Inc.

To determine an employer’s premium, state-approved rates for employee class codes are multiplied by the employer’s exposure, measured by payroll. That then is modified by the ex-mod.

An employer with a credit mod of 0.75, for example, would benefit from a premium based, essentially, on 75% of its prevailing rates. However, an employer with a 1.25 debit mod would pay a premium based on 125% of the prevailing rates.

—By Roberto Cenicerros

But even larger employers will have to beef up their pre-loss safety programs and solidify their

post-loss practices, such as modified-duty return-to-work programs to get the best insurance pricing, Mr. Carney said.

“If they were doing a good job before, they need to do an even better job now if they are having problems with their loss experience,” Mr. Carney said. “If you are a large employer and (already) have a high-debit mod, you are probably going to have a higher debit mod after these changes.”

There are other implications as well. Large construction project owners, for example, often choose contractors based in part on the builder’s ex-mod, which likely will change.

And NCCI’s ex-mod change comes amid firming pricing for workers compensation coverage, which could accelerate some employers’ shift from guaranteed-cost programs to buying loss-sensitive policies in order to pay lower premiums up front, sources say.

NCCI’s ex-mod change calls for increasing the experience rating split point from its current \$5,000 to \$10,000 in 2013. It will increase to \$13,500 in 2014 and to \$15,000 in 2015. In future years, it will be indexed for claim-expense inflation.

A workers comp loss up to the split point is known as the “primary loss” and reflects frequency of such claims, according to NCCI documents. The amount of loss above the split point is referred as the “excess loss” and reflects severity.

“Under this split-rating method, actual primary losses are given full weight in the experi-

ence rating formula while actual excess losses only receive partial weight,” according to NCCI.

The biggest impact, therefore, will be on pricing, particularly for employers experiencing high-frequency, low-severity workers comp claims in the states where NCCI helps determine rates, said Richard Pankhurst, a director in the insurance advisory practice at PricewaterhouseCoopers L.L.P. in Austin, Texas.

Mr. Burton agreed.

“It is a plan that is heavily leveraged on frequency of loss vs. severity of loss because those are the types of injuries that get controlled by employers through their safety programs,” he said.

Yet employers should not lose sight of mitigating high-severity losses, Mr. Pankhurst advised.

The split-point change is needed because the average claim cost has increased threefold since the last update, rendering the current experience rating plan less sensitive to reflecting an individual employer’s risk experience, NCCI said.

For insurers, the impact will be revenue-neutral because they will collect more premium from employers with greater losses and less from those with fewer losses, said Insurance Information Institute Inc. President Robert Hartwig.

But insurers will benefit as accounts will have greater incentive to improve their loss experience, making them more profitable, Mr. Hartwig said. Employees also will benefit from workplaces that now have a greater incentive to reduce injuries, he added.

inBrief

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strong financial numbers. Moreover, the report expects particularly robust numbers from commercial lines insurers because most losses incurred due to the hailstorms, wildfires and tornadoes during the second quarter likely will affect personal lines insurers the most.

Insured cat losses hit \$12B worldwide

Global insured catastrophe losses for the first half of 2012 reached about \$12 billion, according to an analysis by Munich Reinsurance Co. That compares with \$81.7 billion for the corresponding period of 2011, a total that reflected insured damage from the March 2011 earthquake and tsunami in Japan as well as earthquakes in New Zealand.

Opioid use drops in Calif., FDA plans to fight misuse

The use of Schedule II opioid painkillers to treat injured California workers has dropped to its lowest level since 2007, according to a study released by the California Workers’ Compensation Institute. Opioid use fell from a peak of 5.8% of workers comp prescriptions during the second quarter of 2010 to 3.4% during the fourth quarter of last year. Meanwhile, the Food and Drug Administration has approved a risk management plan to help combat the misuse and abuse of long-acting opioid prescription pain medications.

Pension funding levels plunged in June

Funding levels of pension plans sponsored by large publicly held U.S. employers plunged in June as lower interest rates fueled a rise in plan liabilities, Milliman Inc. said in an analysis. Defined benefit plans offered by the 100 U.S. employers with the largest pension programs were an average of 75.6% funded as of June 30, down from 77.9% at the end of May 31. In all, the funding deficit jumped \$77 billion last month.

NIMA: States leery of tax compacts

CONTINUED FROM PAGE 4

filed the first policy covered by the compact early this month and continues to receive multi-state policy filings daily, the spokeswoman said.

Tom Travis, a specialist with the Louisiana Property and Casualty Insurance Commission and an assistant to the commissioner on NIMA-related issues, said Louisiana may fare better as a participant in a tax-sharing arrangement than on its own.

“That’s because, just looking at the surplus lines industry, a lot of the big premium policyholders are out of state-based oil and gas

companies, for example,” he said. “We think we would be missing out on a pretty substantial amount of premium if we just went it alone. So that’s one of the reasons we wanted to be in a tax-sharing arrangement.”

Louisiana, which also joined a year ago, collects about \$60 million in surplus lines premium taxes annually, Mr. Travis said.

While some states are taking a wait-and-see approach to the compacts, “it seems like there’s a lot of feeling our way around and trying to get grip on how these clearinghouses are going to work,” Mr. Travis said.

“When you look at the range

of multistate premiums nationwide, once you start to apply tax rates to that, you see that the ultimate financial results of those tax calculations tend to be pretty insignificant in relation to total surplus lines tax in each state,” said Brady Kelley, executive director of the Kansas City, Mo.-based National Assn. of Professional Surplus Lines Offices Ltd., which supports SLIMPACT.

But SLIMPACT has yet to be implemented. While it has nine members states—Alabama, Indiana, Kentucky, Missouri, New Mexico, North Dakota, Rhode Island, Tennessee and Vermont—it still needs one more to

become operational.

“Right now, we’re not aware of any other state that is considering SLIMPACT legislation,” Mr. Kelley said.

Hawaii also withdrew from NIMA in June because the collection period for NIMA did not match up with Hawaii law, said Gordon Ito, the state’s Honolulu-based insurance commissioner.

“For Hawaii, unfortunately, it didn’t meet our tax provisions, and so that really was the reason why we thought at this time we should withdraw,” Mr. Ito said. “We’re taking a wait-and-see approach to see what happens with SLIMPACT and what happens with NIMA. We hope that either compact gets moving forward and ultimately a uniform system is created,” he said.



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Relying on business partners to execute their responsibilities as promised and on time is such a crucial element of today’s economy that many firms have supply chain specialists dedicated to managing the task and buy insurance to guard against the risk. This new white paper from **Business Insurance** evaluates the supply chain risk that companies face, analyzes the coverage available under contingent business interruption coverage and offers advice from leading industry experts about how to manage this catastrophic exposure.

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HOW TO SUCCEED IN BUSINESS? BEND THE RULES

As Claude Rains memorably says in "Casablanca," "I'm shocked, shocked."

A law firm's survey of 500 financial services professionals in the United States and the United Kingdom found that more than half believed they either may need to engage in unethical or illegal conduct to be successful, or indicated that they had observed or had firsthand knowledge of wrongdoing in the workplace.

According to the survey by New York-based Labaton Sucharow L.L.P., 24% reported they may need to engage in unethical behavior, while 26% said they had observed or knew of such behavior. Furthermore, 16% said they would engage in insider trading if they could get away with it.

Among other results of the survey, which was conducted in June, 39% of respondents said their competitors are likely to have engaged in illegal or unethical activity in order to be successful.

In addition, 30% said their compensation or bonus plan created pressure to compromise ethical standards or violate the law, while 23% reported other pressures that may lead to unethical or illegal conduct.

However, 30% said they feel regulators effectively deter, investigate and prosecute misconduct.

Commenting on the results, Labaton Sucharow Partner Chris Keller said in a statement, "It is shocking that four years after the global economic crisis began there continues to be a fundamental lack of integrity in the financial services industry."



AP PHOTO

Singer Katy Perry's insurers are worried that her peppermint candy spinning bra can cause injuries to her neck.

Insurers in tizzy over Perry's spinning bras

Every performer worries about wardrobe malfunctions causing embarrassment, but Katy Perry's insurers are worried that certain parts of her on-stage costumes could cause permanent injuries, according to the London Evening Standard.

Insurers have become particularly concerned with the mechanized, spinning peppermint candies attached to one of Ms. Perry's bras, which the singer can be seen wearing in several scenes of her new film, "Katy Perry: Part of Me."

According to the Evening Standard, Ms. Perry's hair has a tendency to get

caught in the bra's motors.

Ms. Perry told the Evening Standard that her insurers have asked her to redesign the costume piece, fearing that the singer could suffer permanent damage to her neck if the tangles keep occurring.

"I keep being told the insurers are worried I will injure my neck," Ms. Perry told the newspaper. "I seriously doubt it could be lethal, but they want a new bra designed that will not allow hair to be caught up."

Ms. Perry said that when her hair gets caught in her costumes, she usually continues performing.



TRYST PROVES INJURY A FRAUD: PROSECUTORS

A Northern California woman seen trading her crutches for high-heeled shoes before running into a public park for a sexual romp has pleaded not guilty to workers compensation insurance fraud.

The 28-year-old woman worked as a custodian for Sequoia Union High School District when she claimed to have injured an ankle, rendering her incapable of working or even walking without pain, according to news reports.

She made several visits to a doctor while using crutches.

But a video recording showed her walking into the doctor's office with the crutches, then leaving without them.

She also was seen leaving the office, throwing the crutches into the back seat of her car, then driving to a gas station where she changed into the high heels.

Next she ran into a park to meet a male acquaintance and engaged in behavior that a doctor concluded would not be possible with an injured ankle.

MEAT LOAF COOKING UP SUIT OVER IMPERSONATOR

If impersonation is the highest form of flattery, it seems rock legend Meat Loaf doesn't appreciate the compliment from a long-time fan.

According to documents filed June 29 in a Los Angeles federal court, Meat Loaf—whose real name is Michael Aday—is suing Dean Torkington, who has been impersonating the singer professionally for 17 years. In addition to an injunction and \$100,000 in damages, Mr. Aday is seeking ownership of MeatLoaf.org, the website Mr. Torkington created in 2000 to promote his services as a Meat Loaf imitator.

In his lawsuit, Mr. Aday says that Mr. Torkington

created the website "in bad faith," accusing him of trying to pass himself off as the real Meat Loaf.

"Torkington, until recently, had confusingly described his show as 'Torkington presents Meat Loaf,' followed by a small-print 'a tribute,' as if he was a promoter presenting the real Meat Loaf," the lawsuit alleges.

Mr. Aday has been recording and performing under the Meat Loaf moniker since 1967, according to the suit.

Meat Loaf



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