

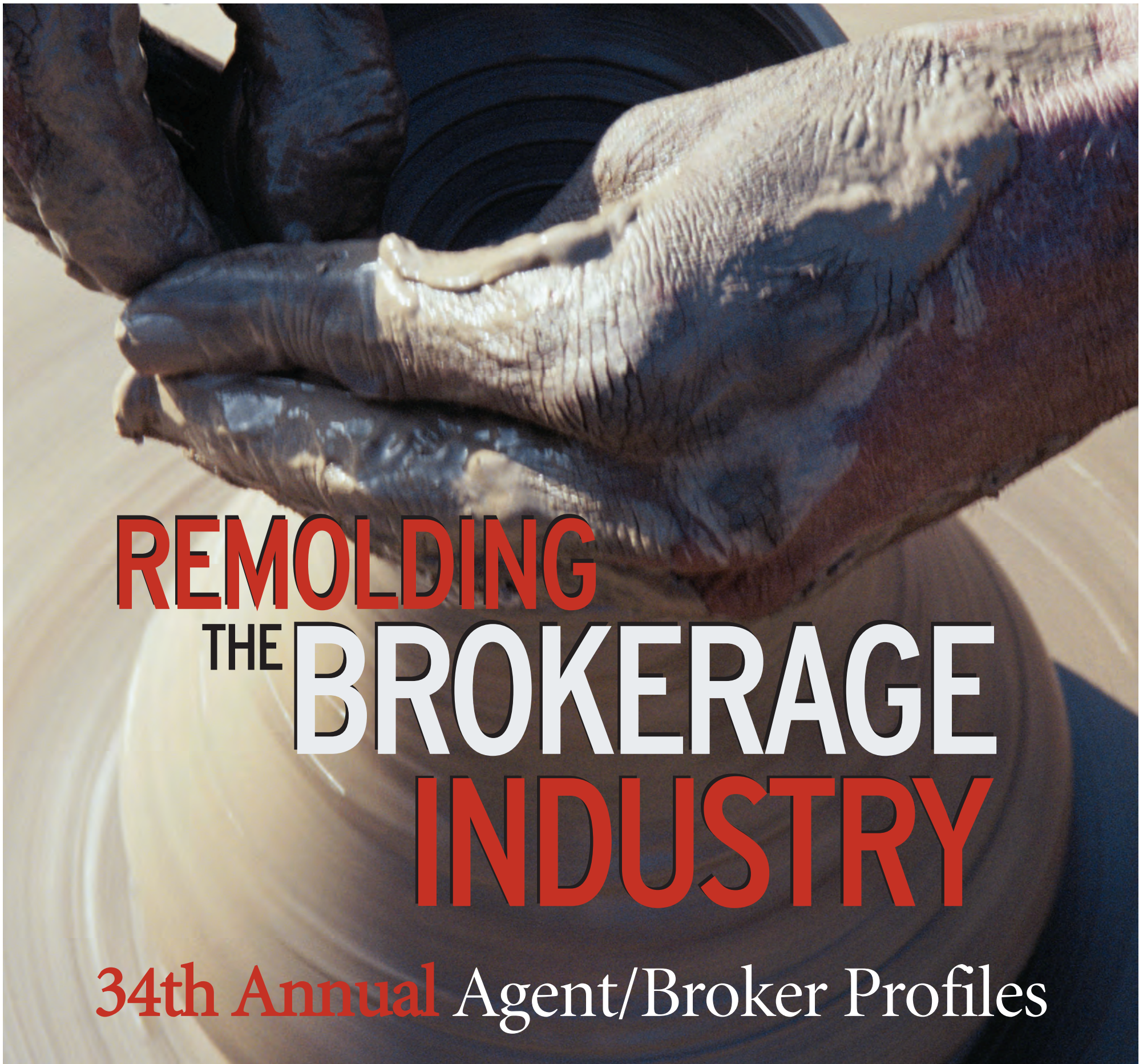
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REMOLDING THE BROKERAGE INDUSTRY

34th Annual Agent/Broker Profiles

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100 largest brokers
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Business Insurance

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Terror backstop gains momentum

Administration won't support extension in current form

By MARK A. HOFMANN

WASHINGTON—Supporters of maintaining a federal terrorism insurance backstop think the tide may be turning in their favor on Capitol Hill.

Backstop proponents recognize that the program, however, is unlikely to be as broad as that provided under the Terrorism Risk Insurance Act

of 2002, which is slated to sunset on Dec. 31.

In separate testimony last week before the House Financial Services Committee and the Senate Banking Committee, Treasury Secretary John W. Snow repeatedly said the administration would not support an extension of TRIA in its current form. He said that a Treasury Department report released on June 30 concluded that the current program is "crowding out innovation" and is hindering the development of a private terrorism reinsurance market.

To be acceptable to the White House, a future program would have to be much narrower in scope, Mr. Snow said. For example, he said the revised program would need to eliminate cover-

age for such lines as commercial automobile and general liability—both covered under TRIA—and increase the point at which federal participation is triggered to \$500 million in insured damage. Under TRIA, federal participation could, under certain circumstances, be triggered by an aggregate loss of as little as \$5 million.

Secretary Snow also said at both hearings that the administration did not want TRIA's backstop extended to group life insurance, an expansion that has some bipartisan support.

Ben S. Bernanke, chairman of the Council of Economic Advisers, said at the Senate hearing

See **BACKSTOP** / page 64

Mortgage bank looks to expand commercial lines brokerage

Countrywide diversifies insurance offerings

By SALLY ROBERTS

IRVINE, Calif.—Although it's known mainly as a mortgage bank, Countrywide Financial Corp. is hoping risk managers will soon come to know it as a commercial lines insurance brokerage as well.

Since September, Countrywide's insurance holding unit, Countrywide Insurance Group, has embarked on a commercial lines insurance effort as a means to further diversify the earnings of the Calabasas, Calif.-based financial services giant.

CIG, which has sold personal lines insurance through its Irvine, Calif.-based Countrywide Insurance Services Inc. agency for decades, now hopes to leverage the relationships with Countrywide's mortgage banking clients and build a national retail brokerage offering a full range of property/casualty and employee benefit services to middle-market and upper-middle-market businesses.

To kick off the expansion of that effort, the company announced last week that Brett Borisoff, former president of Union Bank of California's insurance brokerage unit Armstrong/Ro-

See **COUNTRYWIDE** / page 64



Some businesses in Navarre Beach, Fla., were flattened by Hurricane Dennis, but total insured damage from the season's first hurricane to make landfall was lower than expected.

Hurricane Dennis damage toll likely lower than first feared

By RUPAL PAREKH

Despite insured damages estimated at \$1 billion to \$3 billion, insurers are relieved that last week's Hurricane Dennis wasn't another Ivan.

Had it not weakened from a Category 4 to a Category 3 just before slamming into the Florida Panhandle, Dennis—the first hurricane to make landfall this year—would have caused far greater property losses in the United States, experts say.

After devastating crops and killing at least 56 in Cuba and Haiti, Hurricane Dennis touched down near Pensacola, Fla., on July 10. The storm, which rumbled along a path similar to 2004's

Hurricane Ivan, was responsible for at least five deaths in Florida and packed heavy winds and rain that flooded streets, downed trees and knocked out power lines. More than 500,000 customers in the Gulf Coast region lost electricity as a result, power companies in Alabama and Florida reported.

But losses from last week's storm will be lower than expected and significantly less than the \$7 billion in insured property damage recorded for Hurricane Ivan, insurance groups and others say.

Dennis' compact size and relatively high

See **DENNIS** / page 62

Late News

Wisconsin high court rejects med mal cap

The Wisconsin Supreme Court has struck down the state's inflation-adjusted cap on noneconomic damages awarded in medical malpractice cases not involving wrongful death. In its decision in *Matthew Ferdon vs. Wisconsin Patients Compensation Fund*, a divided court ruled that the state's cap, currently \$445,775, violated the equal protection guarantees of the state constitution. The court previously upheld a cap on noneconomic damages in medical malpractice cases involving wrongful death.

RenRe exec leaves after refusing to assist SEC

A top executive of RenaissanceRe Holdings Ltd. is resigning following his refusal to cooperate with U.S. officials probing the reinsurer's plan to restate three years of earnings. Michael W. Cash, senior vp-specialty reinsurance and a Bermudian citizen, refused to comply with a U.S. Securities and Exchange Commission subpoena asking for his testimony in an investigation into the company's plan to restate earlier financial statements, announced in February, RenaissanceRe said. The Bermuda-based reinsurer is cooperating with government requests looking into this and other matters, and "Mr. Cash's action was inconsistent with that policy of cooperation," it said.

No medical monitoring absent injury: Court

The Michigan Supreme Court has ruled that plaintiffs who claim they have been exposed to hazardous substances cannot sue for medical monitoring unless they manifest physical injury. The case, *Gary and Kathy Henry et al. vs. Dow Chemical Co.*, involved alleged exposure to dioxin. The plaintiffs in the case did not claim actual physical injury but sought a certification of a medical-monitoring class based on their fear of contracting a dioxin-related illness. The Michigan court is the fourth state high court to reject medical monitoring without injury as a cause of action.

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U.K. Court of Appeal rules in Willis captives case

The broker will be able to defend itself in litigation over alleged captive fraud.
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Aetna lets employers drop deductible for some drugs

HSA-linked plans will be able to waive the deductible for preventive medications.
Page 4

Sun Microsystems seeks to fund benefits in captive

The networking company is the latest owner that plans to cover benefits.
Page 4

London bombs highlight risk, but rates stay unchanged

The July 7 terrorist attacks will not lead to increased terror insurance rates.
Page 57

Online poll - [7/11-7/15]

Will your company ramp up security measures in the wake of last week's terrorist attacks in London?



Participate in BI's online polls at www.businessinsurance.com.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Workplace blogging brings liability risks for employers

By JUDY GREENWALD

Employers are walking a fine line when it comes to the increasingly popular practice of blogging by their employees.

Trying to prohibit employees from writing about their companies on their personal Web logs, or blogs, may be infeasible as well as unappealing. But blogs can leave companies vulnerable to numerous potential liabilities, say many observers.

A well-thought-out policy or set of guidelines, however, can mitigate, if not totally eliminate, the potential risks, say observers. Employers including Santa Clara, Calif.-based Sun Microsystems Inc.; Sunnyvale, Calif.-based Yahoo Inc.; and Armonk, N.Y.-based IBM Corp., which have such policies in place, say no problems have arisen so far as a result of employees' blog use.

The sheer volume of blogs on the Internet

Points for safe blogging

Written company guidelines can help employers avoid problems arising from employee blogs. The guidelines should tell employees:

- Identify yourself. Include a disclaimer stating this is your own opinion.
- Don't reveal company secrets. Any confidential, proprietary or trade secret is off limits.
- Check your facts.
- Respect your reader/audience. Watch both your language and content.

Source: Companies' blog guidelines

is growing rapidly. And an increasing number of companies are jumping on the blog bandwagon themselves, encouraging their employees to write blogs to help promote their products.

More than 8 million people have created blogs, and they have been read by 27% of Internet users, or about 32 million Americans, according to two surveys released in January by the Washington-based Pew Internet and American Life Project.

Tim Bray, Sun's Vancouver, British Columbia-based director of Web technologies, said he does not believe blogging qualitatively changes the risks to the company. Employees foolish enough to defame others through a blog would be likely to get themselves in trouble "sooner or later" anyway, he said.

See **BLOGS** / page 60

Who's the best? You be the judge

What companies are the best in the industry? Who's tops in terms of service, value, quality and innovation? If you read *Business Insurance*, we want to know what you think.

With our inaugural Readers Choice Awards, BI readers will choose the top companies in 11 categories relating to risk management and employee benefits. The winners will be announced and profiled in the Oct. 10 issue.

2005 Readers Choice Awards

- Best commercial lines retail insurance brokerage
- Best commercial property/casualty insurer
- Best property/casualty reinsurer
- Best employee assistance program
- Best employee benefits consulting firm
- Best insurance wholesaler
- Best managed health care organization
- Best reinsurance intermediary
- Best risk management consulting firm
- Best surplus lines insurance company
- Best third-party claims administrator

Voting, which is completely confidential, must be completed by the end of Wednesday, Aug. 24. To complete a ballot, please visit www.BusinessInsurance.com/ReaderAwards.

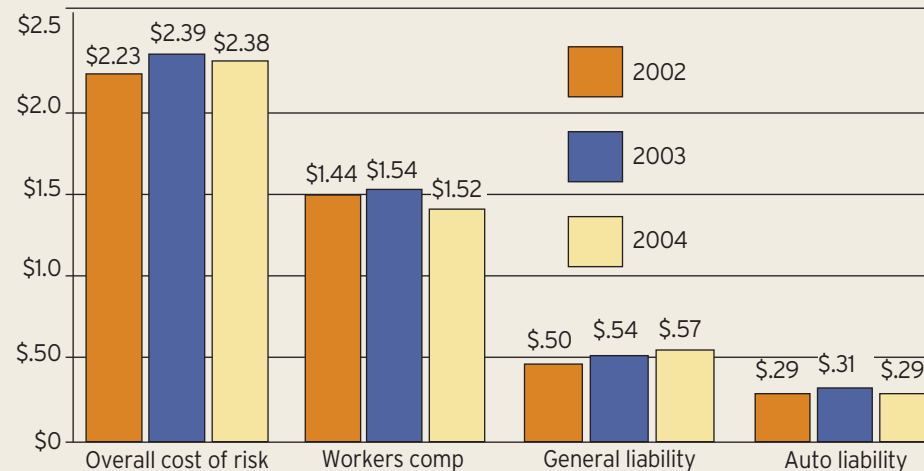
Voting is open to BI subscribers, who can fill out an interactive online ballot if they are registered users of the Web site. Subscribers who are not registered or do not wish to register may submit a paper ballot, which can be downloaded at the site, but must include their subscription number.

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Visit www.BusinessInsurance.com/ReaderAwards today to cast your vote.

The cost of casualty risk

With the insurance market in transition last year, risk managers paid more for general liability coverage but cut their overall insurance costs per \$1,000 of revenue.



Source: Marsh Inc.

Casualty costs reduced as buyers make changes

Survey finds buyers willing to retain risk, swap insurers

By DAVE LENCKUS

Casualty insurance buyers were more willing to boost retentions and switch insurers last year in an effort to control their insurance costs, according to a study.

Through those measures, policyholders were able to slightly reduce the cost of their casualty risk during a year in which the casualty insurance market was emerging from hard conditions.

Depending on the line of casualty coverage, buyers boosted their retentions between 5% and 13%, according to the study by New York-based Marsh Inc.

And, compared with 2003, nearly twice as many participants switched insurers last year in an effort to find the best deal, the study found. About one in four participants switched insurers last year, compared with about one in seven in 2003, the study found.

For 1,262 study participants, the cost of ca-

sualty risk dropped a marginal 0.4%—or 1 cent per \$1,000 of revenue—to \$2.38 in 2004, according to the study, Casualty Cost of Risk 2005. The cost reflects primary casualty insurance premiums, retained losses, and claims handling expenses.

"More businesses are making changes to their casualty insurance arrangements in an effort to control higher premium costs associated with them," said Timothy Brady, a managing director in Marsh's national casualty practice.

The movement of accounts also illustrates how intent risk managers were in holding down costs, said George C. Pallis, also a managing director in Marsh's national casualty practice and the study's publisher.

"I think it really speaks more of the risk manager looking at the overall program costs and then ways to control it," he said.

Though risk managers try to retain relationships with insurers, they have to justify their costs to senior management more so now than in the past, Mr. Pallis said. "Relationships may have to suffer because of that."

See **MARSH** / page 6

Willis to offer defense in captive fraud case

U.K. Court of Appeal says broker is not bound by prelitigation deal

By CAROLYN ALDRED

LONDON—Willis Group Holdings will be able to defend itself in litigation currently being pursued over alleged fraudulent activities at its Isle of Man captive operations, following a ruling by the U.K.'s Court of Appeal.

The court ruled that units of

Willis are not bound by a prelitigation agreement reached during investigation of an alleged fraud arising from the captive insurance operations of U.K. telecommunications company Cable & Wireless P.L.C.

In that agreement, reached during an exchange of telephone calls and e-mails by legal officers of

Willis and Cable & Wireless, Willis agreed to accept liability for the alleged actions of Peter Foulger, previously a director of Willis (Isle of Man) Ltd. and the underwriting manager of Cable & Wireless' Isle of Man-domiciled captive, Pender Insurance Ltd.

Willis originally agreed to accept liability for Mr. Foulger's actions to

avoid being named as a defendant in litigation being brought by Cable & Wireless and Pender against several former Cable & Wireless employees and Mr. Foulger over more than £25 million (\$43.9 million) allegedly diverted from the captive, court papers say.

However, Willis subsequently chose to be named as a defendant

and sought a court declaration that there was no binding agreement between the parties. Cable & Wireless and Pender then sought summary judgment declaring the agreement valid.

According to court papers, Willis signed a draft letter of agreement prepared and e-mailed by C&W in which Willis accepted "legal responsibility to C&W and Pender for the acts and omissions and

See WILLIS/ page 63

Captive funding of U.S. employee benefits

More employers are now funding benefit risks through their captives

Employer	Coverage	Approved*
Columbia Energy Group	long-term disability	2000
Archer Daniels Midland Co.	life insurance	2003
International Paper Co.	life insurance	2003
Svenska Cellulosa Aktiebolaget	LTD, AD&D, life insurance	2004
Alcon Laboratories Inc.	LTD, life insurance	2004
Alcoa Inc.	life insurance	2005
Sun Microsystems Inc.	life insurance	pending

* Year in which Labor Department gave final approval

Sun asks to use captive to fund benefit risks

By JERRY GEISEL

WASHINGTON—Sun Microsystems Inc., the huge computer network systems company, is asking the U.S. Department of Labor for permission to fund the benefit risks of its U.S. employees through the Vermont branch of its Bermuda-domiciled captive.

Santa Clara, Calif.-based Sun wants to use the Vermont branch of Solaris Indemnity Ltd. to reinsure life insurance policies written by AIG Life Insurance Co. Ltd., an American International Group Inc. unit.

Solaris, which Sun established in 1997, now is used by the company to fund a wide range of property/casualty risks. In fiscal 2004, Solaris generated about \$6.3 million in premiums. Funding life insurance coverage for more than 18,000 Sun plan participants would funnel an additional \$6.6 million in premiums through the captive.

Suzanne L. Gallie, Sun's senior risk manager in its corporate risk management department in Broomfield, Colo., said financial considerations are the primary driver of the captive benefits funding arrangement.

The funding change should reduce life insurance costs by about 6%, Ms. Gallie said. "The primary

reason for doing this was cost savings," she said.

Additionally, the funding of benefits through its captive fits in with the company's philosophy of retaining risk whenever feasible.

Down the road, the benefits funding arrangement, which Sun first began to explore in 2003, also could produce certain tax advantages, Ms. Gallie said.

If Sun, which last year earned about \$11.2 billion in revenues, were to receive Labor Department permission to fund benefits through its captive, it would be the seventh employer in recent years to do so. Other big employers going this route include Decatur, Ill.-based Archer Daniels Midland Co., Stamford, Conn.-based International Paper Co. and Pittsburgh-based Alcoa Inc.

And more companies are likely to follow, experts say.

Given the potential cost savings, "I can't imagine why every company with a captive wouldn't at least consider this type of arrangement," Ms. Gallie said.

"The path is clear" for these kind of arrangements, concurred Kathleen Waslov, a consultant in the Boston office of Towers Perrin, which worked with Sun in design-

See CAPTIVE / page 62

Errors and omissions

- A story on directors and officers liability market trends in the July 4 issue improperly identified Liberty Mutual Group Inc. unit Liberty International Underwriters.

- A story in the July 11 issue on

legislation to lower the captive insurance company premium tax rate in Delaware incorrectly identified Robert Symonds, a partner with the law firm of Morris, James, Hitchens & Williams L.L.P.

Aetna drops HSA deductible for preventive medications

Move may increase adoption of plans

By GLORIA GONZALEZ

HARTFORD, Conn.—A new benefit option being offered to employers by Aetna Inc. is seen as a positive step toward alleviating one of the barriers to the increased adoption of high-deductible health plans linked to health savings accounts.

The Hartford, Conn.-based managed care company recently announced that employers with 51 or more employees purchasing high-deductible health insurance plans linked to HSAs will have the option of waiving the deductible for preventive medications for employees with increased health risks due to hypertension, high cholesterol, diabetes, asthma or osteoporosis. This means that, like other preventive benefits, members may receive coverage for these drugs before meeting their deductible. Under law, HSAs must be linked to health insurance plans with deductibles of at least \$1,000 for individual coverage and

Preventive medicines

Employers with Aetna HSAs may waive deductibles for preventive drugs including:

- Beta Blockers
- Calcium Channel Blockers
- Antihypertensives
- Diuretics
- ACE Inhibitors
- Angiotensin Receptor Blockers
- Antihyperlipidemics
- Antidiabetics
- Antiasthmatic Agents
- Anti-Osteoporosis Medications
- Blood Thinning Agents
- Pediatric Vitamins w/Fluoride
- Prenatal Multivitamins

\$2,000 for family coverage.

By introducing this option, Aetna aims to address a key concern employers have about high-deductible health plans with HSAs: whether employees would forgo taking needed medications because the

drugs were subject to the deductible and risk developing more complicated and costly conditions in the future.

Aetna will also make this option available to employers with plans featuring health reimbursement arrangements, which are somewhat similar to HSAs, and expand it to allow employers with HRAs to waive deductibles for chronic medications as well, according to Robin Downey, Aetna's head of product development in Middletown, Conn. Both coverage options will be effective Jan. 1, 2006.

Aetna's program reflects earlier guidance provided by the Treasury Department. That guidance made clear that drugs considered preventive in nature could be covered on a first-dollar or low-deductible basis by the otherwise high-deductible HSA-linked plans.

Under the guidance, drugs prescribed for a person because he or she is at risk of developing a disease would be considered preventive. For example, medication taken to

See AETNA / page 62

Judge may reconsider ADEA case

Erie County ruling threatened retiree health care benefits

By JERRY GEISEL

PHILADELPHIA—A federal judge is likely to re-examine a ruling from earlier this year that effectively blocked the Equal Employment Opportunity Commission from enforcing a rule that would allow employers to continue to provide richer benefits to younger retirees than to Medicare-eligible retirees without facing age discrimination charges.

In March, Judge Anita Brody of the U.S. District Court for the Eastern District of Pennsylvania, in responding to a complaint by the AARP, said the EEOC lacked authority to implement its rule to exempt retiree health care plans from the Age Discrimination in Employment Act.

That exemption would end a threat to retiree health care plans that emerged five years ago when a

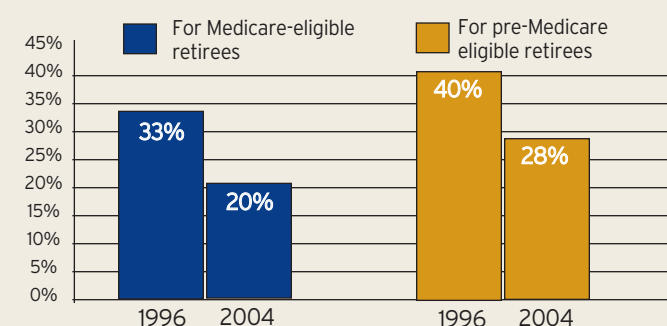
federal appeals court ruled that ADEA applies to such plans. By being subject to ADEA, retiree health care plans either would have to provide the same level of benefits to younger and Medicare-eligible re-

tirees, or employers would have to spend the same amount on health care benefits for the two groups of retirees.

See ERIE / page 60

How retiree health care plans are shrinking

Employers with at least 500 employees that offer plans



SOURCE: Mercer Human Resource Consulting

Marsh: Buyers switching insurers to control costs

Continued from page 3

Overall, Marsh examined the 2004 insurance placements of 2,028 buyers. About one-third reported revenues of \$1 billion or more, and 36.5% reported revenues of \$200 million or less.

But for comparative purposes, the data on the 1,262 participants who participated in the latest and last year's study are the most meaningful, Mr. Pallis said.

The casualty market transitioned from a hard market during the first part of 2004 to a softening market during the last quarter, when buyers for the first time in several years were able to negotiate flat or modest rate decreases, the study notes.

Overall for the year, the buyers who participated in the 2003 and 2004 studies negotiated slightly lower insurance rates that helped reduce their workers compensation costs by 1.3% and automobile liability costs by 6.5% (see chart). Auto liability limits, though, dropped slightly to less than \$1.93 million from nearly \$1.94 million in 2003.

But the study's authors said

those cost reductions came with a price that masked the true cost of coverage. Workers comp retentions increased 13.2%, but the average retention figure was not detailed in the study. Auto liability retentions grew 7% to more than \$1.08 million.

Meanwhile, general liability program costs increased 5.6%, but buyers would have fared worse if they had not agreed to increase retentions by 5% on average to nearly \$1.03 million, the study's authors say.

But study participants also purchased an additional 2.3% of general liability limits, raising their coverage limits to nearly \$1.75 million.

Holding down costs

Study participants also attempted to hold down costs by unbundling claims-handling responsibilities from their insurance programs, the study found. More than one-third outsourced claims-handling responsibilities to third parties, a 50% increase from 2003.

And while terrorism coverage re-

mained in high demand, significantly fewer study participants that faced terrorism exclusions in their general and auto liability policies purchased the optional buyback coverage that is reinsured by the federal government.

Some 82% of buyers purchased the general liability terrorism buyback coverage, compared with 93% in 2003. And, 87% purchased the auto liability terrorism coverage, compared with 95% the year before.

Among the study's total participants, the industry groups that reported the highest cost of casualty risk per \$1,000 of revenue were governments—\$18.59, transportation services—\$10.64, and educational and nonprofit institutions—\$8.97.

The industry groups that reported the lowest cost were insurers—44 cents, financial institutions and real estate companies—62 cents, and mining and energy companies—65 cents.

The study, Casualty Cost of Risk 2005, is available at no cost by contacting Peggy Sherertz at Marsh at 212-345-3393.



PAUL WINSTON

Editorial Director

Setting the record straight on TRIA

Lawmakers and administration officials are giving lobbyists calling for extending the Terrorism Risk and Insurance Act the cold shoulder, as if they were asking for a pork-barrel project to fund a leech-farming institute on the Potomac. The fact that these supplicants instead represent an industry and its policyholders that are vital to the economic well-being of this country does not seem to register in Washington.

TRIA is hardly about largesse for insurers. Unfortunately, that is how it has been portrayed by consumer activists. I sense that many lawmakers have bought into that myth hook, line and sinker. If you've ever had to remove a treble-hooked Rapala from the mouth of a congressman, then you know what a challenge remedying this will be.

This and other misconceptions about TRIA need to be cleared up and lawmakers made to understand what's really at stake if the act is not renewed.

- Misconception: TRIA is a big bailout for the insurance industry.

The law provides a backstop for the insurance industry in case of a terrorist attack, not a subsidy or first-dollar coverage. To date, the federal government has not paid out one nickel to insurance companies—a fact acknowledged by Treasury Secretary John Snow.

In the event the government backstop were to be triggered, any money paid out by the feds would have to be repaid over time—after insurers themselves have paid the brunt of claims.

TRIA merely gives insurers a measure of protection so they feel more comfortable writing coverage against this unpredictable and potentially catastrophic risk. Rather than abandon TRIA and drive the private sector away from this coverage, the government should be doing everything in its power to encourage them to enter this market.

- Misconception: Insurers today are as profitable as they were before Sept. 11 so they clearly they can afford to take a hit.

For the insurance industry, profits are famously fragile and could vanish with a single large event. Insurance 101: If there's no loss under a policy, the insurer pockets the premium and makes a profit. But even without a claim, it has performed a service: it put its assets at risk in case of a claim for the duration of the policy—and often for many years down the road.

Could terrorism coverage generate

a profit? Sure, as long as there's no terrorist attack, but insurers are assuming the risk and responsibility of paying out billions of dollars if a loss occurs—as well as that they will not incur a catastrophic loss in some other line of coverage.

- Misconception: Terrorism is just another risk, such as hurricanes, that can be insured in traditional ways.

Terrorism is hardly a routine business risk; rather, it's an act of war waged on individuals and businesses by nontraditional combatants unhappy with the policies of the government. As a result, the U.S. government should help cover this risk of collateral damage to its citizens by terrorists who may be unhappy with U.S. policies abroad.

As for the comparison between hurricane losses and terrorism losses, it's a specious argument. Sure, both are unpredictable, but insurers have more than 100 years of reliable weather records to try to predict their hurricane exposure and businesses have a similar amount of experience with managing weather risk. That is hardly true with terrorism.

- Misconception: The private market will develop its own solutions to the problem without any intervention by Uncle Sam.

In a truly free market, perhaps that would be true—but it would take more time. Also, insurance is one of this country's most highly regulated industries and is not free to put its assets at risk simply because it smells an opportunity. Rating agencies and stock analysts also constrain the so-called free market of insurance.

- Misconception: If the government lets TRIA lapse, it will avoid big expenses in the wake of a terrorist attack.

Without coverage, terrorism losses likely will drive many companies out of business, create unemployment and interrupted commerce, strain local government resources and other economic nastiness. Cost to the government: Increased disaster relief, loss of tax revenues, higher unemployment, welfare and aid expenditures, and so on.

I could go on and on, but the people who can clear up such misconceptions best are the ones who really stand to benefit from TRIA: Businesses, public entities and individuals who face economic ruin if they are left to bear the risk of loss without any insurance.

Stand up and be heard. Don't let this be portrayed as a government handout to fat cat insurers. Nothing could be further from the truth.

Editorial Director Paul Winston's commentary appears fortnightly. He can be reached at pwinston@businessinsurance.com.



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A PUSSYCAT, YOU WOULDN'T
NEED A BROKER LIKE US.

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Editorial

An opportune time to look at broker pay

INSURANCE BROKERS ARE in a tough spot. After many of the largest brokers agreed to forgo accepting contingent compensation from insurers last year, they're striving to develop new compensation models.

As we report in our annual Agent/Broker Profiles issue, negotiating higher standard commissions is far from certain, and few clients are eager to pay increased fees. In addition, brokers seeking compensation for services they provide to the London market have met stiff opposition.

There is no easy way to replace the huge amount that contingent compensation represented. The settlements agreed to by Marsh, Aon, Willis and Arthur J. Gallagher, reflecting the contingent income they accepted in 2003, alone total more than \$1.1 billion.

And brokers can't quickly grow their way out of the hole, either. Revenue growth will be much harder to achieve now, for various reasons, not the least being the softening market. Reduced profit margins, partly from the loss of contingent compensation, and a dwindling number of attractive acquisition targets are slowing broker consolidation.

Since the investigations of broker practices last year, brokers have committed to transparency and disclosure. But that's only half the equation. Buyers now need to look more carefully at what is being disclosed. The new era of transparency affords brokers and their clients a golden opportunity to discuss the value that a broker brings.

Showing welcome leadership in this area is Ellen Vinck, the president of the Risk & Insurance Management Society Inc., who has called for brokers, insurers and risk

managers to jointly develop a new compensation model free of contingent commissions. We think this is an excellent idea that would benefit both buyers and the industry.

As they sit down to discuss compensation, we suggest they explore a proposal by the Assn. of Insurance & Risk Managers that all broker compensation come from clients and none from underwriters. Such a system could simultaneously achieve several goals.

First, it would virtually eliminate the conflicts of interest that led to the shocking abuses uncovered in the past year. Second, it would reinforce disclosure and transparency. Finally, and perhaps most importantly, it would give the buyer an incentive to understand its cost of risk and evaluate brokers' performance.

If the broker is understood to represent the buyer, and not the underwriter, then the broker's compensation should come from the buyer. Whether that compensation takes the form of fees or commissions really doesn't matter. What is important is that the broker and the client agree on the price. Would disintermediation occur if brokers were all compensated by their clients? That's not likely. It's simply not practical for the majority of risk and benefit managers to deal directly with multiple markets.

We think a compensation model in which only the buyer pays the broker would enable each party in an insurance transaction to focus on what each is in business to do: insurers could concentrate on underwriting at the right price, brokers could channel their energies into best serving their clients and buyers could devote themselves to protecting their organizations' people and property.

Schillerstrom



Editorial

Don't waste second chance on Erie County exemption

IT ISN'T OFTEN THAT a federal judge has the opportunity to take another look at a case after handing down a ruling. But that is likely to happen in what has become a long-running controversy affecting retiree health care plans.

That saga began five years ago when a federal appeals court, in what has become known as the Erie County case, ruled that retiree health care plans are subject to the Age Discrimination in Employment Act.

Simply put, that meant employers, to prevent a charge of age discrimination under long-standing ADEA rules, either would have to provide the same level of health care coverage to older retirees or pay the same amount for coverage for Medicare-eligible retirees and their younger retirees.

That ruling, if enforced, would have been a catastrophe for both employers and retired workers. Employers, because of the availability of Medicare for older retirees, typically provide a lower level of benefits to such retirees than to younger retirees. But, under the ruling, that practice would have exposed them to damage suits.

Faced with that possibility, employers almost certainly would—to meet this equity mandate—reduce the benefits of younger retirees or even eliminate coverage for both groups.

The EEOC eventually came to recognize the terrible health care policy consequences of the Erie County ruling and said it would not enforce the decision. Later, it proposed a final rule to exempt retiree health care plans from ADEA.

Regrettably, U.S. District Court Judge Anita Brody earlier this year said the EEOC lacked the authority to issue such an exemption. But in the wake of a subsequent Supreme Court ruling that says, in certain situations, courts must defer to federal agencies' interpretation of law, Judge Brody has indicated she would like to take another look at the case.

We hope Judge Brody reverses her initial ruling and that, if she does not, Congress straightens out the matter.

It is bad enough that retiree health care plan coverage is shrinking, and courts should not accelerate that trend.

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Spotlight

34th Annual
AGENT/BROKER PROFILES
and RANKINGS

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The complete 2005 Directory of Agents & Brokers is available online in the Directories area of www.businessinsurance.com. The online database is free to subscribers of *Business Insurance*. PDF copies of the directory also can be purchased online.



BROKERS REMOLDING THEIR BUSINESS

RIMS president issues challenge for industry: Eliminate contingents

By **DAVE LENCKUS**

Is the president of the Risk & Insurance Management Society Inc. ringing the death knell for contingent commissions for all brokerages and agencies?

Or has she only signaled the beginning of a free-for-all among brokerage, risk management and insurer heavyweights by encouraging a top industry executive to broker a powwow among those three interests over the fate of the controversial form of compensation?

RIMS President Ellen Vinck is taking a tougher stance on contingent commissions than are the various state attorneys general who have investigated brokerages for allegedly driving up their commission revenues through illegal practices such as bid rigging and client steering. She wants to see the commissions—which insurers pay brokerages and agencies that meet volume or profitability goals on the business they produce—ended industrywide.

To that end, Ms. Vinck has pressed Joe Plumeri, chairman and chief executive officer of London-based Willis Group Holdings Ltd., for support.

Willis, the world's third-largest brokerage, relented under client pressure and abandoned contingent commissions in October 2004. It agreed in settlements with New York and Minnesota officials in April not to accept them again.

Since then, at a RIMS conference address and later during a small meeting of clients, which included Ms. Vinck, Mr. Plumeri challenged the industry and RIMS to rethink how business should be conducted.

Ms. Vinck's plan is to convene a group of risk managers, brokers and insurers to negotiate both the elimination of contingent commissions industrywide and the creation of a replacement—and standard—brokerage compensation system that risk managers could trust would not influence their insurance placements.

Ms. Vinck said that if Mr. Plumeri is serious about wanting a new approach to client service, then he could play a major role by encouraging broker and insurer executives to join risk managers at the bargaining table.

Mr. Plumeri recently accepted Ms. Vinck's challenge in what a Willis spokesman said will be an effort to "plant the seeds of an industry revolution."

But any revolution designed to end the lucrative compensation arrangement (see chart) likely would be fiercely contested.

The commissions keep the distribution system competitive and encourage intermediaries to help buyers manage risk better, say brokers that have not abandoned the commissions, as well as representatives for industry trade groups.

See **COMMISSIONS** / page 24

Brokers reforming pay models after flood of lawsuits

By **SALLY ROBERTS**

What a difference a year makes.

At this time last year, a handful of insurance brokerages were dealing with investigations by law enforcement and regulatory officials in New York, Connecticut and California over whether the acceptance of contingent commissions posed a possible conflict of interest.

Observers at the time said it was unlikely that contingent commissions would be barred because state officials would not be able to conclude that risk managers were duped or harmed by the longstanding industry practice.

New York Attorney General Eliot Spitzer's fraud and bid-rigging suit against Marsh & McLennan Cos. Inc. last October and the resulting \$850 million settlement in January changed all of that.

Not only have Aon Corp., Willis Group Holdings Ltd. and Arthur J. Gallagher & Co. reached similar agreements with state authorities to settle charges and concerns that they too steered business to insurers paying the highest contingent commissions, but they also all agreed to cease collecting the commissions and to adopt more transparent business practices.

While the dust has yet to settle fully, these brokerages are all re-examining their businesses and taking a closer look at the value that they provide to clients, while at the same time looking for ways to cut costs and recoup the lost contingent commission income.

In addition to engineering new compensation models, some brokerages are divesting business operations—like wholesale brokerage units—to alleviate any perception of a conflict of interest, while others, like Marsh, are abandoning unprofitable accounts.

In the meantime, risk managers continue to see changes to their brokerage service teams as a result of all of the employee defections, headcount reductions and turnover among the insurance brokers as a result of the investigations.

"The last year has resulted in the most dynamic, dramatic change in the distribution sector of this industry at least in my career and in most people who are in the business' career," said Ken Crerar, president of the Council of Insurance Agents & Brokers in Washington. "What started out as an investigation into an industry and in-

See **BROKERS** / next page

Coming next: Workers Compensation & Disability Management ... **Aug. 1**

Largest U.S. benefit specialists

Brokers deriving a majority of 2004 gross revenues from benefit business

Company	Revenues from benefits*	% of gross revenues
CBIZ Benefits & Insurance Services Inc.	\$84,045,600	54%
Brokerage Concepts Inc.	\$53,310,900	83%
Fleet Insurance Services	\$49,734,300	66%
Trion	\$33,800,000	100%
Fringe Benefits Management Co.	\$30,987,076	100%
Associated Financial Group	\$21,598,781	50.4%
Thesco Benefits L.L.C.	\$11,399,314	100%
McGraw Wentworth	\$7,434,040	100%
Mid American Group Inc.	\$5,899,757	100%
Preferred Benefits Inc.	\$1,211,630	100%

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

Brokers: Amid trauma, a focus on relationships

Continued from previous page
dustry practices has caused changes to the basic fundamentals of how we all look at our business and how we approach it."

"The reality is that I, too, think the business is going to be stronger and better off than it was before this all happened," he said.

With that said, though, "I don't wish upon any industry to have to go through what we've had to go through," Mr. Crerar said.

And the trauma is not yet over. Brokerages continue to cooperate with various state authorities that have issued subpoenas and requests for information regarding their

'It's a much more enduring and durable business anytime you can price your product and your service for what it's worth.'

Joe Plumeri
Willis Group Holdings Ltd.

compensation practices. The tedious process is expensive and time-

consuming and has diverted the brokers' attention away from other things like new business production, brokerage executives say.

At the same time, Chicago-based Acordia Inc. is in a battle with West Virginia's attorney general over its acceptance of contingent commissions (BI, May 30). And Glen Allen, Va.-based Hilb Rogal & Hobbs Co. recently reached a settlement with Massachusetts' attorney general over the acceptance of undisclosed commissions (BI, June 6).

Despite the lawsuits, Acordia and HRH continue to accept contingent commissions. As does the vast majority of smaller brokers and agents in the market, including BB&T Insurance Services Inc. and Brown & Brown Inc.

And there lies one of the unresolved questions within the industry: Does there need to be a level playing field in the market when it comes to contingent commissions?

Brokers, insurers and risk managers disagree about whether transparency is enough or whether contingent commissions need to be eliminated all together (see story, page 24).

State of the industry

The contingent commission controversy is just one of the many challenges brokers face today as they move forward with new business models in the wake of the investigations.

"The market is clearly a market that is in flux," said William A. Malloy, president of Marsh Inc. The changes in the market are driven largely by the changes in the business models that are being adopted by various brokers. And the larger brokers are all adopting different approaches so clients and insurers will have to interact with each broker differently, he said.

"The brokerage industry is very much in a state of transition, but for the good," said Joe Plumeri, chairman and chief executive officer of London-based Willis. "It's a much more enduring and durable business anytime you can price your product and your service for what it's worth. That means you're constantly being innovative, creative, exciting...and if you do those things and you

See **BROKERS** / page 14

Gains in home currency

2004 brokerage revenue gains in brokers' home currency

Wells Fargo & Co.	17.9%
Brown & Brown Inc.	17.1%
BB&T Insurance Services Inc.	12.4%
Arthur J. Gallagher & Co.	10.2%
Willis Group Holdings Ltd.	10.0%
Hilb Rogal & Hobbs Co.	9.7%
Jardine Lloyd Thompson Group P.L.C.	9.1%
Marsh & McLennan Cos. Inc.	8.3%
Alexander Forbes Ltd.	2.8%
Aon Corp.	2.5%

Source: BI Survey

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Leading U.S. retail brokers

Ranked by 2004 retail brokerage revenues from U.S. offices

Company	2004 revenues	% change	Company	2004 revenues	% change
Marsh & McLennan Cos. Inc.	\$2,900,000,021 ¹	1.2%	USI Holdings Corp.	\$340,418,000	19.1%
Aon Corp.	\$1,462,000,000	5.6%	Lockton Cos. Inc.	\$325,850,000	14.0%
Wells Fargo & Co.	\$755,495,000	21.7%	Wachovia Insurance Services Inc. ²	\$303,078,637	115.2%
Arthur J. Gallagher & Co.	\$721,529,000	5.5%	Hub International Ltd.	\$173,408,629	30.0%
Willis Group Holdings Ltd.	\$682,200,000	1.8%	Alliant Resources Group Inc.	\$139,584,000	19.4%
Hilb Rogal & Hobbs Co.	\$488,608,541	3.8%	ABD Insurance & Financial Services	\$130,587,000	11.5%
BB&T Insurance Services Inc.	\$424,270,900	12.0%	CBIZ Benefits & Insurance Services Inc.	\$110,575,547	-6.0%
Brown & Brown Inc.	\$402,379,928	17.8%	Frank Crystal & Co. Inc.	\$91,205,120	6.6%

¹ BI estimate ² Pro forma to include Palmer & Cay Inc. which was purchased May 2005
Source: BI survey

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Brokers: Clients' needs now at the forefront

Continued from page 12

charge appropriately for them, the clients will pay, I think."

The future is about placement and servicing, getting policies out quicker, paying claims quicker, understanding clients' needs and doing what is necessary to solve their problems, he said.

Indeed, for Aon, "the biggest challenge is in understanding that the opportunity for us is around better understanding client needs and better serving clients' needs," said Gregory C. Case, president and CEO. "I think that has stunning potential. For Aon, we're a global com-

'Our approach is pretty consistent, it's always been consistent—showing and demonstrating our core values to the client—integrity, accountability and truthfulness.'

Martin L. Vaughan III
Hilb Rogal & Hobbs Co.

pany with global assets and I want us to be more consistent about how we bring those assets to our clients."

"Like any industry, clients and customers occasionally ask you about the challenges that are going on in our business," said Martin L. Vaughan III, chairman and CEO of HRH. "Our approach is pretty consistent—it's always been consistent—showing and demonstrating our core values to the client—integrity, accountability and truthfulness."

"We're talking to our clients now more than ever," said Mr. Vaughan.

BB&T Insurance Services Inc.'s clients have been prompted to ask a lot more questions of the Raleigh, N.C.-based brokerage as a result of the compensation scandal.

BB&T, which has changed its compensation structure so that it

Brokers: Firms putting effort behind disclosure process transparency

Continued from page 14

does not accept contingent commissions from insurers on business where it receives payments from policyholders, has spent a sizable amount of time retraining employees and making sure they do a more accurate job of explaining the process to clients. This has been time consuming, but has made BB&T's fee disclosure process more complete and transparent, said H. Wade Reece, chairman and president of Raleigh, N.C. based BB&T.

"I think there's been a greater effort on our part to build good, complete relationships with our clients and I think that's a good

thing," he said.

Mr. Reece said he hopes this will lead to increased retention of clients as the company focuses on ensuring its clients feel good about their relationships with the broker. "I would characterize that as actually a positive thing," he said.

According to Owen Ryan, global managing partner of Deloitte & Touche L.L.P.'s insurance services practice in New York, the biggest challenge overall, particularly for the larger brokerages, "is to articulate their value proposition."

These brokers offer "a smorgasbord of services to their clients and some of those are highly valu-

"We're not selling widgets here. We're selling promises, and promises are based on trust and relationships."

Ken Crerar
Council of Insurance Agents & Brokers

able...to clients and then there are others that are much more mun-

dane," he said. "Unfortunately, the brokerage community has not done a great job in articulating the value that they bring or what their high-value services are and pricing for them in a way that makes it profitable for them as an organization, but also in a way their customers can understand."

Better articulating their value to customers may be one way larger brokers can maintain their market share, which John Ward, a Cincinnati-based independent insurance analyst, says is one of the biggest challenges brokers face today.

"You've got the top three or four players having a very dominant toe-

hold on the segment, and that's probably going to change in a big way, not just from the Spitzer-effect and the reeling the big four are involved with right now, but also from the impact of new players coming onto the scene like Integro," Mr. Ward said. "I think we'll see a real shift in the balance of power."

Integro rising

Newly established insurance brokerage Integro Ltd. was founded by three former Marsh executives earlier this year, including former Marsh President Roger E. Egan, who was asked to resign in the wake of Mr. Spitzer's investigation. Integro continues to build up its staff to service large complex accounts at the expense of Marsh and to a lesser extent, other firms.

Brian R. Meredith, an analyst at Banc of America Securities in New York, for one, though, does not see Integro posing a significant threat to Marsh, Aon and Willis in the near-term.

"Integro is still building its platform and clients are unlikely to give them their whole risk management account," Mr. Meredith said. "Once they build their platform, we'll have to see what the market dynamics are like and they may have settled down by then, so it will be more difficult for them to get business," he said.

Rather than focus on the negative aspects of the investigation, some see the aftermath of the investigations as a promising time for the brokerage industry.

"I think these are very exciting times in the insurance industry," Mr. Plumeri said. "It is a wonderful opportunity to take a good look at the way we operate as an industry."

"I think it's an incredibly exciting opportunity in this industry," said CIAB's Mr. Crerar. Agents and brokers are "having conversations with their clients at levels that are important about what they are doing, and those are huge opportunities for strengthening relationships. And that's what this industry is all about. We're not selling widgets here. We're selling promises, and promises are based on trust and relationships."

"At the end of the day, (agents and brokers) are going to be compensated for the value that they provide," Mr. Crerar said. "Frankly, I think people are going to do well. This industry is not going out of business."

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has acquired the assets of

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has acquired the assets of

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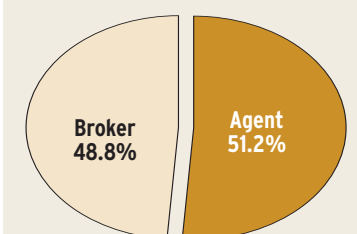
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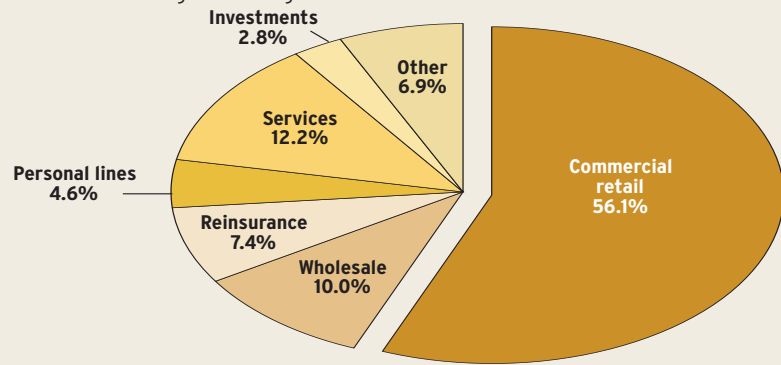


Source: BI survey

BI RANKS

Business breakdown

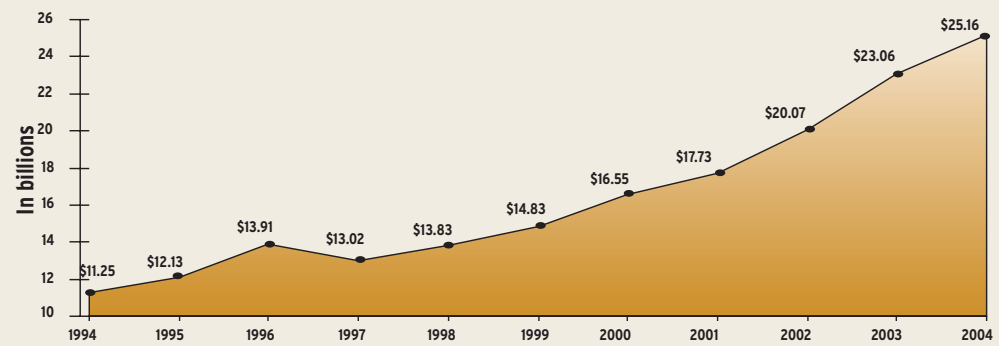
Areas contributing to the largest brokers' overall revenue.



Source: BI survey

A decade of growth

As a group, the 10 largest brokers have seen total brokerage revenues rise in most of the last decade.



Source: BI survey

World's 10 largest insurance brokers

Ranked by 2004 brokerage revenues

Rank	Company address/phone/fax Web site	Chief executive	2004 brokerage revenues	% change	2004 employees	% change	2004 offices	% change	Percentage of business						
									Commercial retail	Wholesale	Reinsurance	Personal lines	Services	Investments	Other
1	Marsh & McLennan Cos. Inc. ¹ 1166 Ave. of the Americas New York, N.Y. 10036 212-345-6000; fax: 212-345-3833 www.mmc.com	Michael G. Cherkasky, president/CEO	\$10,365,000,000	8.3%	58,500	7.3%	700	3.7%	43	2	7	0	34	2	12
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601 312-381-1000; fax: 312-381-6032 www.aon.com	Gregory C. Case, president/CEO	\$6,902,000,000	2.5%	47,000	-11.3%	500	-16.7%	41	4	8	0	14	3	30
3	Willis Group Holdings Ltd. 10 Trinity Square London, EC3P 3AX, England 44-207-488-8111; fax: 44-207-481-7096 www.willis.com	Joe Plumeri, chairman/CEO	\$2,205,000,000	10.0%	15,800	42.1%	300	0.0%	60	1	34	1	2	3	0
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place Itasca, Ill. 60143-3141 630-773-3800; fax: 630-285-4000 www.ajg.com	J. Patrick Gallagher Jr., president/CEO	\$1,325,200,000	10.2%	8,204	13.8%	150	36.4%	49	8	5	1	24	13	0
5	Wells Fargo & Co. ² 150 N. Michigan Ave., Suite 4100 Chicago, Ill. 60601 312-423-2500; fax: 312-423-2508 www.acordia.com, www.wellsfargo.com	Kevin W. Conboy, president/CEO-Acordia Inc.; Ron Zickert, interim president- Wells Fargo Insurance Inc.	\$943,728,000	17.9%	5,754	2.9%	156	0.6%	73	3.7	0.3	8	6.1	1	8.3
6	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars London, EC3N 2PH, England 44-207-528-4444; fax: 44-207-528-4185 www.jltgroup.com	Ken Carter, executive chairman	\$857,844,000 ³	22.4%	5,349	15.9%	46	4.5%	39	16	17	1	24	3	0
7	BB&T Insurance Services Inc. P.O. Box 31128 Raleigh, N.C. 27622 919-716-9777; fax: 919-716-9783 www.bbandt.com	H. Wade Reece, chairman/president	\$679,748,400	12.4%	3,319	10.3%	90	7.1%	61	25	0	11.7	0	0.7	2.1
8	Brown & Brown Inc. 220 S. Ridgewood Ave. Daytona Beach, Fla. 32114 386-252-9601; fax: 386-239-5729 www.bbinsurance.com	J. Hyatt Brown, chairman/CEO	\$638,267,398	17.1%	3,960	12.6%	117	0.0%	62	24	0	9	4	0	1
9	Alexander Forbes Ltd. Alexander Forbes Place, 61 Katherine St. Sandown, 2196 South Africa 27-11-269-0000; fax: 27-11-269-1111 www.alexanderforbes.com	Rael Gordon, group CEO	\$635,861,700 ⁴	18.4%	5,255	3.5%	55	1.9%	54	9	2	9	10	2	14
10	Hilb Rogal & Hobbs Co. 4951 Lake Brook Drive, Glen Allen, Va. 23060 804-747-6500; fax: 804-747-6046 www.hrh.com	Martin L. Vaughan III, chairman/CEO	\$609,659,794	9.7%	3,700	12.1%	109	0.9%	79	7.4	0.8	7.7	3.6	0.5	1.1

Business Insurance defines brokerage revenues as commissions and fees derived from insurance services, including brokerage, consulting and other income but not interest income or underwriting income. 1 Percentage of revenues breakdown is a BI estimate. 2 Includes Acordia Inc. and Wells Fargo Insurance Inc. 3 British pound=\$1.8330 (2004), \$1.6341 (2003). 4 South African rand=\$0.1611 (2004), \$0.1399 (2003); fiscal years ending 3/31. Source: BI survey

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BI RANKS

100 largest brokers of U.S. business

Ranked by 2004 brokerage revenues generated by U.S.-based clients

2004 rank	2003 rank	Company	2004 revenue	% change
1	1	Marsh & McLennan Cos. Inc.	\$5,804,400,000	8.3%
2	2	Aon Corp.	\$3,105,900,000	-3.9%
3	3	Arthur J. Gallagher & Co.	\$1,192,680,000	10.2%
4	4	Willis Group Holdings Ltd.	\$1,036,350,000	1.4%
5	5	Wells Fargo & Co. ¹	\$943,728,000	17.9%
6	6	BB&T Insurance Services Inc.	\$679,748,400	12.4%
7	8	Brown & Brown Inc.	\$638,267,398	17.1%
8	7	Hilb Rogal & Hobbs Co.	\$601,734,217	9.2%
9	11	Wachovia Insurance Services Inc. ²	\$410,774,461	117.6%
10	9	USI Holdings Corp.	\$405,820,000	18.3%
11	10	Lockton Cos. Inc.	\$329,417,200 ³	14.0%
12	12	Hub International Ltd.	\$231,439,572	34.3%
13	13	Jardine Lloyd Thompson Group P.L.C.	\$205,882,560	22.4%
14	14	Alliant Resources Group Inc.	\$181,516,209	24.6%
15	17	ABD Insurance & Financial Services	\$133,399,000	11.3%
16	16	CBIZ Benefits & Insurance Services Inc.	\$128,917,717	-8.7%
17	21	Keenan & Associates	\$104,822,000	12.7%
18	20	Frank Crystal & Co. Inc.	\$99,136,000	6.6%
19	22	Meadowbrook Insurance Group Inc.	\$95,700,000	10.9%
20	27	The Leavitt Group	\$94,672,608	26.3%
21	25	Citizens Financial Group Inc.	\$86,375,000	7.0%
22	24	Commerce Insurance Services Inc.	\$85,484,000	3.8%
23	23	John L. Wortham & Son L.P.	\$82,126,000	-1.3%
24	30	Bollinger Inc.	\$80,400,000	14.4%
25	28	The NIA Group L.L.C.	\$74,960,000	1.9%
26	29	Fleet Insurance Services	\$74,605,000	6.1%
27	26	Hylant Group	\$74,445,541	-1.7%
28	34	Summit Global Partners Inc.	\$71,144,000	11.4%
29	35	UBOC Insurance Inc.	\$68,400,000	24.6%
30	32	J. Smith Lanier & Co.	\$68,209,193	8.2%
31	-	Regions Insurance Group Inc.	\$67,387,000	17.9%
32	47	Brooke Franchise Corp.	\$65,907,000	44.2%
33	33	Holmes Murphy & Associates Inc.	\$65,316,191	4.9%
34	39	Mesirov Financial	\$63,612,990 ⁴	18.8%
35	31	Brokerage Concepts Inc.	\$62,945,400 ⁵	-5.7%
36	36	Synaxis Group Inc.	\$59,966,343	2.7%
37	38	Allied North America	\$59,800,000	7.6%
38	45	The Hays Group Inc. dba Hays Cos.	\$59,500,000	22.7%
39	40	Compass Insurance	\$59,160,000	12.1%
40	42	Guaranty Insurance Services Inc.	\$58,965,256	17.7%
41	54	BancorpSouth Insurance Services Inc.	\$57,521,970	44.6%
42	41	The IMA Financial Group Inc.	\$54,571,315	4.3%
43	43	Tanenbaum-Harber Co. Inc.	\$54,108,381	8.5%
44	46	TD Banknorth Insurance Group	\$51,939,000	12.0%
45	48	Heffernan Group	\$50,352,295	15.7%
46	49	InterWest Insurance Services Inc.	\$50,299,095	20.6%
47	50	Neace Lukens	\$48,868,637	18.1%
48	44	Frenkel & Co. Inc.	\$46,565,632	-5.6%
49	51	Insurance Office of America Inc.	\$46,524,156	13.0%
50	88	Associated Financial Group	\$42,837,758	79.4%

2004 rank	2003 rank	Company	2004 revenue	% change
51	58	The Rutherford Cos.	\$42,690,596 ⁶	15.4%
52	-	Webster Insurance Inc.	\$42,206,601	6.2%
53	53	Marshall & Sterling Enterprises Inc.	\$39,957,543	-0.5%
54	52	Van Gilder Insurance Corp.	\$39,756,420	-2.8%
55	55	The Graham Co.	\$39,181,596	3.6%
56	57	Woodruff-Sawyer & Co.	\$38,950,000	4.4%
57	60	Barney & Barney L.L.C.	\$38,900,000 ⁷	10.4%
58	65	The James B. Oswald Co.	\$38,681,000	15.3%
59	62	Horton Insurance Agency Inc.	\$37,851,776	10.4%
60	63	Cottingham & Butler Inc.	\$37,369,000	9.9%
61	66	William Gallagher Associates Insurance Brokers Inc.	\$36,385,912	8.6%
62	59	The Treiber Group	\$36,108,301	2.2%
63	61	Jenkins Athens Insurance Services	\$35,922,284	2.4%
64	64	Hibernia Insurance Agency L.L.C.	\$35,191,800	4.5%
65	71	Capacity Group of Cos.	\$34,090,000	14.0%
66	-	Western States Insurance	\$33,213,944	22.6%
67	73	Trion	\$33,462,000	15.5%
68	67	The Mahoney Group	\$32,957,148	3.4%
69	68	Andreini & Co.	\$32,630,000	3.1%
70	69	McQueary Henry Bowles Troy L.L.P.	\$31,700,000	2.3%
71	82	Roger Bouchard Insurance Inc.	\$31,433,919	24.1%
72	75	Riggs, Counselman, Michaels & Downes Inc.	\$31,076,000	9.4%
73	85	Fringe Benefits Management Co.	\$30,987,076	27.7%
74	77	Eastern Insurance Group L.L.C.	\$29,982,661	8.6%
75	78	Bratrud Middleton Insurance Brokers Inc.	\$29,300,000	6.4%
76	76	The Loomis Co.	\$28,558,768	1.2%
77	79	Lawley Service Inc.	\$28,392,725	4.4%
78	86	Higginbotham & Associates Inc.	\$27,353,218	13.8%
79	81	Bowen, Mickette & Britt Inc.	\$27,341,000	6.6%
80	-	DeWitt Stern Group Inc.	\$26,920,080	41.5%
81	-	Starkweather & Shepley Insurance Brokerage Inc.	\$26,852,000	37.0%
82	84	Payne Financial Group Inc.	\$26,659,489	8.3%
83	80	R.C. Knox & Co. Inc.	\$25,793,935	0.0%
84	87	Charles L. Crane Agency Co.	\$25,467,000	6.4%
85	83	The Daniel & Henry Co.	\$25,111,000	0.1%
86	92	Lovitt & Touche Inc.	\$24,519,142	7.3%
87	98	Scott Insurance	\$24,510,000	18.1%
88	95	Haylor, Freyer & Coon Inc.	\$24,400,000 ⁸	10.0%
89	97	Parker, Smith & Feek Inc.	\$23,536,901	13.4%
90	94	Dawson Insurance Inc.	\$23,460,771	4.8%
91	89	Seitlin	\$23,392,728	-0.8%
92	-	Assurance Agency Ltd.	\$22,985,820	19.9%
93	99	North American Insurance Agency Inc. dba North American Group	\$22,892,915	12.5%
94	-	James G. Parker Insurance Group	\$20,830,000 ⁹	4.8%
95	-	Bolton & Co. Insurance Brokers Inc.	\$20,190,000	3.0%
96	-	Robertson Ryan & Associates Inc.	\$20,175,000	8.7%
97	-	Thilman & Filippini L.L.C.	\$19,748,600	13.3%
98	100	Fred A. Moreton & Co.	\$19,421,200 ⁹	-1.2%
99	-	Cobbs, Allen & Hall Inc.	\$19,006,850	21.2%
100	-	RJF Agencies Inc.	\$17,598,000	10.0%

Companies that derive less than 20% of revenues from commercial retail brokerage are not ranked. ¹ Includes Acordia Inc. and Wells Fargo Insurance Inc. ² Pro forma to include Palmer & Cay Inc., which was purchased May 2005. ³ Fiscal year ending 4/30. ⁴ Fiscal year ending 3/31. ⁵ Fiscal year ending 7/31. ⁶ Fiscal year ending 6/30. ⁷ Fiscal year ending 1/31. ⁸ Fiscal year ending 8/31. ⁹ Fiscal year ending 5/31.

Source: BI survey

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The value of contingent commissions

Contingent commissions as a percentage of gross revenues for the five largest publicly traded brokerages listed in the United States in 2003, the last year that all of the brokerages collected the commissions for the full year, and net income reported by the brokerages in that year. Commissions and net income in millions of dollars.

Brokers	2003 contingent commissions	% gross revenues	2003 net income
Marsh & McLennan Cos. Inc.	\$845	7.2%	\$1,543.0
Aon Corp.	\$169	1.7%	\$628.0
Willis Group Holdings Ltd.	\$83.0	4.0%	\$414.0
Arthur J. Gallagher & Co.	\$39.1	6.0%	\$146.2
Brown & Brown Inc.	\$33.1	4.1%	\$75.0

Source: BI survey and company reports

Commissions: RIMS president call for end of contingent pay

Continued from page 11

Those groups also question the legality of any industry agreement on brokerage compensation.

But Ms. Vinck, vp-risk management, benefits and safety for United States Marine Repair Inc. in San Diego, maintains that the time has come for contingent commissions to go.

Brokerages "had their opportunity" to receive contingent commissions with risk managers' blessings, she said. RIMS "asked for transparency in 1998. They didn't do it. Why would any risk manager agree

to that now?"

"I would really like to see a working group of brokers, insurers and risk managers develop a standard" that is transparent to risk managers, does not create conflicts of interest for brokerages and compensates them fairly, Ms. Vinck said. "I think the time is right for that."

Ms. Vinck said she would like to hold the first industry meeting on brokerage compensation this month.

Executives at three of the four largest brokerages—the exception is Aon Corp.—also say they would like to see the industry do away with contingent commissions. All four have abandoned contingent commissions as part of their settlements with state officials.

Mr. Plumeri said he does not understand how regulators could allow part of the industry to continue accepting the commissions.

"If you get paid by both sides—your client and your provider—then there is the perception of conflict, and I think that's bad," he said. "I don't know why it's OK from a regulatory point of view for people to accept them and publicly say they're going to accept them under the guise that 'as long as I disclose it, then it's OK.'"

Referring to how significantly contingent commissions prop up earnings at some brokerages and agencies, Mr. Plumeri suggested that "people in this industry continue to hold onto the past because they can't get their economics right" without those commissions.

Brokerages that have given up contingent commissions, though, are seeking other upfront compensation from insurers, higher fees from buyers, or both.

Mr. Plumeri's viewpoint, though, is not the prevailing opinion among brokerage and insurance industry representatives or even among state attorneys general and legislators.

For example, many large brokers of U.S. business have stated they will not stop accepting contingent commissions, including Acordia Inc.; BB&T Insurance Services Inc.; Brown & Brown Inc.; and Hilb, Rogal & Hobbs Co., which faces two shareholder lawsuits over how it generated contingent commissions.

"I think there's a place for them where there's not a conflict with the client and there's full transparency," said H. Wade Reece, president and chairman of Raleigh, N.C.-based BB&T. Laws already exist that bar bid rigging and other illegal acts associated with contingent commissions, he said.

"Per se, we don't believe there's anything wrong with contingent commissions," said Ken Crerar, president of the Washington-based Council of Insurance Agents & Brokers.

Noting that multiple brokerage compensation models are emerging (see story, page 39), Mr. Crerar said,

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See **COMMISSIONS** / page 26

Commissions: RIMS president proposes meeting to create compensation model

Continued from page 24

"I think the industry is ready for a multiple compensation model" that would include contingent commissions.

When those commissions are disclosed, "a conflict disappears," Mr. Crerar said. But if buyers are "not getting the answers they like, they can move on" to other brokerages, he said.

Many of the brokerages that have abandoned contingent commissions did so for the "opportunistic reasons" of attracting and retaining clients, said brokerage management consultant John Wepler, an executive vp with Marsh, Berry & Co. Inc.

of Concord, Ohio.

Contingent commissions are "healthy" for risk managers as well as intermediaries, Mr. Wepler said. If the commissions were eliminated, there would be less incentive for brokers and agents to help buyers control losses, which would lead to higher premiums, he said.

And the revenues the commissions generate for brokerages and agents help support a broader insurance distribution system for buyers, said Dave Evans, a senior vp with the Independent Insurance Agents & Brokers of America in Alexandria, Va.

Even the New York, Connecticut

If buyers are "not getting the answers they like, they can move on" to other brokerages.

Ken Crerar

Council of Insurance Agents & Brokers

and Illinois attorneys general, whose investigations have resulted in the largest brokerages abandoning contingent commissions, are not looking for the industry to

abandon the commissions altogether.

"The primary concern is full disclosure and transparency," said Richard Blumenthal, Connecticut attorney general. "There may be circumstances that justify these commissions, so long as they're fully disclosed and made known to consumers."

Mr. Blumenthal, though, said "there's a good argument that a broker should be working exclusively for his client and the client's interest, which makes compensation from the carrier somewhat problematic."

Among the nine state legislatures

that addressed the issue this year, none banned contingent commissions, and the disclosure requirements they imposed were minimal, according to the Property Casualty Insurers Assn. of America.

The National Assn. of Insurance Commissioners' model law on contingent commissions is stronger, as it would require brokerages to fully disclose their contingent commissions even if they waive their fees for buyers.

But regulators do not see a need to eliminate contingent commissions, said Joel Ario, an NAIC vp and the insurance administrator of the Oregon Insurance Division.

Smaller brokerages "don't have the ability to leverage contingent commissions in the same way" that the larger brokerages could because of the volume of business they produce, Mr. Ario said.

A more pressing issue than the fate of contingent commissions could be whether industry representatives legally could meet to discuss them.

Those who oppose ending contingent commissions said an industry meeting designed to create a standard brokerage compensation system would squarely impact brokerage competition and, therefore, run afoul of federal antitrust laws.

Referring to a standardized compensation model, a PCI spokesman said, "The advantages of a competitive marketplace go down the drain in a situation like that."

The CIAB's Mr. Crerar concurs. "We want each firm to form its own competitive (compensation) model."

Legal experts said an industry meeting on contingent commissions does pose potential antitrust problems, but they also said there could be ways around that.

"You don't want a substantial part of the industry agreeing on how to set price," and brokerage compensation is "a pretty significant component of price setting," said insurer attorney Mark S. Radke, a partner with LeBoeuf, Lamb, Greene & MacRae L.L.P. in Washington.

The industry still could be considered as colluding on brokerage compensation, even if RIMS were involved in the process, Mr. Radke said.

The issue could boil down to whether the limited antitrust exemption the industry has under the McCarran-Ferguson Act would allow such a meeting, said Warren S. Grimes, a law professor at Southwestern University in Los Angeles.

If the act does not provide an exemption for such a meeting, "it certainly would be an antitrust violation," he said.

Mr. Blumenthal, the Connecticut attorney general, agreed that an insurer agreement on brokerage compensation "could raise problems." But he suggested that those problems could be resolved if an insurance regulator sanctioned the meetings.

The problem with that idea is that "every regulator will want to do it" for political gain, Mr. Radke said.

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Soft P/C market, lack of targets slowing pace of M&A

Sharp drop in broker consolidation not led by contingent commissions

By MARK A. HOFMANN

The contingent commission controversy is playing a role in slowing broker mergers and acquisitions, but not the leading role, say market observers.

Instead, more familiar characters—a softening property/casualty market and a shrinking pool of attractive targets—appear to be playing the major roles, even if the con-

tingent fee issue is generating more drama, say brokerage M&A experts. That's making would-be acquirers consider partners in non-property/casualty areas, which creates other issues.

Following investigations of broker compensation since last fall, many but not all brokers have ceased accepting contingent compensation, prompting questions about replacing the lost income (see

story, page 11).

The M&A drop is pronounced. An analysis by SNL Financial of Charlottesville, Va., and Concord, Ohio-based Marsh Berry & Co. Inc. found 81 deals were announced between Jan. 1 and June 15 of this year. During the same period in 2004, 128 deals were announced, nearly a 37% decline.

"There are several things that are impacting the M&A marketplace, one of which is (New York Attorney General Eliot) Spitzer and the attack on contingent income," said Bobby Reagan, president and chief executive officer of

Reagan Consulting Inc., an Atlanta-based agency consulting firm.

"Secondly, it is a softening property/casualty marketplace. Both of these are having an impact on the appetite for acquisitions and the pricing for acquisitions. On the other hand, there is a material appetite for acquisitions and there is a decreasing supply of large, quality acquisition opportunities. Our experience would suggest that supply and demand is tending to push pricing up while the softening commercial property and casualty marketplace and the concerns

about contingent income would be dampening the market to some extent," Mr. Reagan said.

"You are seeing moderating results" in agencies' financial records, said Rob Lieblein, president and managing principal with WFG Capital Advisors L.P. in Harrisburg, Pa. "You are seeing the impact of rates flowing through most organizations. There are 10%, 15%, 20% rate declines in some lines. There are certain expectations—buyers are buying future cash flow, not current cash flow," he said.

John Wicher, a principal of John



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Why M&A has slowed

Broker market observers cite the following:

Scarcity: Fewer "quality" acquisition targets

Softening market: Revenue growth harder to achieve

Contingent concerns: Loss of contingent income reduces profits

Wicher & Associates Inc., a San Francisco-based investment bank, said, "Ultimately, I think insurers will develop other, non-volume based arrangements as rewards for placing the correct risk in the correct market at the correct rate." An industry plagued by "burnt markets" ultimately hurts the insurance buyer, he said.

Higher commissions?

"The gray area of the industry" is whether brokers will get higher standard commissions, said Mr. Lieblein.

"I don't think there is a doubt that it has had some impact on the competitive positions of those people who are not accepting contingent income," said Mr. Reagan. He added, however, "That impact has been lessened by attempts to renegotiate compensation by raising commission income. If an organization that has sworn off contingent income is looking at an acquisition, they most likely factor in additional commission income. So, the net effect is that it is having some impact—for the buyer as to the earnings they're going to be able to generate off an acquisition." For sellers, future earnings will determine the total payout, so it is important to them to have "assurance the revenue stream will be there."

"The deals end up being more like marriage than acquisitions," said Mark Dwelle, an equity analyst with Ferris Baker Watts in Richmond, Va. "The deal becomes how the pie is going to grow, not how we carve up the existing pie. The discussion on contingent commission probably doesn't rise to the table."

"When the market's soft and a firm has struggled with generating organic revenue growth,

M&A: Scarcity of targets, softening markets contribute to slowdown

Continued from page 28

their ability to increase earnings through squeezing out inefficiencies is limited, and consequently the only way to grow earnings is by acquiring revenue," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C., a Chicago-based insurance brokerage consulting firm. "Some of the historically active acquirers will have to acquire to grow their revenues."

But a "real issue" is "the inventory's shrinking." As a result, would-be acquirers confront "a real difficulty" in retaining "discipline in only buying quality," he said.

"Sometimes the best deal is the one you never do," said Mr. Cunningham.

"Scarcity is driving the M&A

market," said Mr. Wicher. "Public brokers have set double-digit growth objectives, which are sandwiched between zero to 5% organ-

ic growth. Strong sellers, when exposed to highly qualified buyers, should realize full value. This said, deals will continue to be generally cash-flow positive to the buyer, i.e., sellers need to adopt reasonable expectations."

"I think there are fewer high-quality targets," said Paul Vredenburg, senior vp at Marsh Berry & Co. Inc., the Ohio-based management consulting firm for the financial services industry. Through mid-June, 1,308 agencies have been acquired in total since the Gramm-Leach-Bliley Act broke down barriers among financial services sectors in 1999.

"That's a lot of agencies," he said.

"I would still describe the environment as active," Timothy Korman, executive vp-finance and administration for Glen Allen, Va.-based Hilb Rogal & Hobbs Co. HRH has long followed a growth-by-acquisition strategy, and Mr. Korman said he believes personally that fewer high-quality firms are coming to market than a year ago.

"I would not be surprised" if total announced acquisitions in 2005 were fewer than in 2004, which was "a record year," said Mr. Lieblein. "Long-term, I think you will continue to see significant acquisition activity. The soft market will force many of the smaller firms to say it makes sense to tie into a larger firm," he said. But some large firms are looking "at a lot of agencies, and they are passing on them."

"We're not seeing a significant slowdown because of the contingent commission issue," said Mr. Vredenburg. "In our opinion, there is a slowdown in the process because it has created a lot more awareness and analysis by the sellers."

But mergers aren't based solely on economic considerations, he pointed out. Other issues, such as corporate culture also influence acquisition activity, said Mr. Vredenburg.

An area where property/casualty brokers are seeking merger partners is in benefits, but this presents challenges of its own, say observers.

"As a general statement, I think there is a strong interest in the P/C brokers in the accident and health area," said Mr. Wicher. He said that's particularly true where there's an opportunity to acquire expertise in 401(k) and other defined contribution programs. "The challenge is there are very few high-quality benefits brokers that become available."

Similar buyers but fewer deals

Announcements of agent/broker M&A in the first half have dropped

Purchaser	Jan. 1 - June 15, 2005	Jan. 1 - June 15, 2004
Bank/thrift	18	31
Insurance broker/agency	40	68
Insurance underwriter	17	21
Other buyer	6	8

Source: SNL Financial and Marsh Berry & Co. Inc.



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Big doesn't equal best in broker productivity

Ranked by 2004 brokerage revenues per employee, the largest firms are frequently outperformed by smaller brokerages.

World's 10 largest brokers	Revenues/employee	Most productive brokers	Revenues/employee
BB&T Insurance Services Inc.	\$204,805	AirSure Ltd.	\$461,462
Marsh & McLennan Cos. Inc.	\$177,179	Mid American Group Inc.	\$421,411
Hilb Rogal & Hobbs Co.	\$164,773	Capacity Group of Cos.	\$307,117
Wells Fargo & Co.	\$164,012	Frank Crystal & Co. Inc.	\$300,412
Arthur J. Gallagher & Co.	\$161,531	Thesco Benefits L.L.C.	\$299,982
Brown & Brown Inc.	\$161,179	Alliant Resources Group Inc.	\$264,614
Jardine Lloyd Thompson Group P.L.C.	\$160,375	Aviation Insurance Services	\$263,636
Aon Corp.	\$146,851	Bollinger Inc.	\$263,607
Willis Group Holdings Ltd.	\$139,557	Tanenbaum-Harber Co. Inc.	\$251,866
Alexander Forbes Ltd.	\$121,001	Hirsch Wolf & Co. L.L.C.	\$250,000

Source: BI Survey

Broker pay scandals place risk managers in the spotlight

By MICHAEL BRADFORD

Risk managers are finding themselves with a little more weight to throw around when dealing with their brokers and are enjoying a higher profile in the wake of insurance industry investigations into contingent commission arrangements.

The investigations by New York Attorney General Eliot Spitzer and others of business steering and broker compensation has caused senior management at many organizations to take greater notice of their risk management departments.

Risk managers say the high-profile investigations have caught the attention of their bosses, prompting executives to ask for details on how their companies' brokers are compensated and whether they are among those cited for wrongdoing. In many cases, senior management has been comfortable allowing their risk management departments to make the call on whether changes in broker relationships were needed, risk managers report.

And the fallout from the investigations that have made "transparency" the year's most-used buzzword is giving risk managers the opportunity to demand—and get—more disclosure from their brokers.

"What it did was light a fire under the industry," said Ellen Vinck, vp-risk management, benefits and safety at United States Marine Repair Inc. in San Diego and president of the Risk & Insurance Management Society Inc. "It's given us the opportunity to step forward and say, 'This is what we would like to have going forward.' Let's look at how the business model operates, and can we do it better?"

Ms. Vinck and RIMS are in discussions with insurance industry executives on compensation issues (see story, page 11).

"I don't know that it's changed the day-to-day risk management practices," said John W. Lambdin, assistant treasurer and director of insurance at Weyerhaeuser Co. in Federal Way, Wash. "However, it has put insurance in the headlines, so the visibility of what we do is much higher."

Management at many organizations has taken notice of the Spitzer investigation, and executives have turned to their risk managers for an accounting of how the fallout affects their companies.

"They read quite a bit, and Spitzer made a lot of headlines," Nick Hensgen, vp of risk management at ResCare Inc., said of his company's management. Management showed concern over the investigations and was interested in ResCare's arrangement with its broker, he said, but did not suggest changes.

When news of the investigations broke, "I got a lot more questions from the board" and chief financial officer regarding compensation of the broker for the Louisville, Ky.-based provider of services for people with mental disabilities, Mr. Hensgen said.

Risk managers in many instances say the controversy has prompted a vote of confidence from their senior

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Risk managers: Broker pay scandals help increase the profile of risk management

Continued from page 34
managers.

"When this first broke, I went forward to our senior management team and let them know how it affects the organization," said Michael Liebowitz, director of risk management at Bridgeport Hospital & Healthcare Services Inc. in Bridgeport, Conn. After briefing management on how he planned to handle the broker relationship, "they were fine with that," said Mr. Liebowitz. "I was not told that we ought to look at other brokers, as some of my colleagues were."

Lauren F. Farley, risk manager for the City of Newport Beach, Calif.,

said city council members were aware of the issues generated by the Spitzer investigation but "did not ask for any changes." She said no changes were made to its fee-based broker relationship that predated the Spitzer investigations.

New York-based Marsh Inc., one of the brokers at the center of the controversy, is one of several brokers used by Weyerhaeuser. "We did get questions" from senior managers wanting to know "what Marsh does for us," Mr. Lambdin said.

"They are very aware of what's going on," Mr. Lambdin said of his management, but he noted that

they are comfortable with the risk management department's handling of the relationship.

Risk managers, meanwhile, are seizing the opportunity to demand more from their brokers.

"The Spitzer investigations made us stand up and take notice of what brokers are doing," said Mr. Liebowitz. "There's a lot more due diligence and following what brokers are doing."

Among the changes Mr. Liebowitz has asked for in his relationship with his broker, Marsh, is a closer connection between risk management and insurers on his account. "I've asked to meet with

underwriters, and that all correspondence that goes to the broker goes to me, too."

Mr. Liebowitz also has told his broker that "if I want to, I will audit your files and your files should be identical to mine. It's now, 'This is what I want you to do, and I will be watching you all the way.'"

The response from Marsh, he said, has been positive. "They are more than happy to oblige me."

Mr. Lambdin said he expects brokers will be much more forthcoming about their compensation.

Weyerhaeuser always has requested a summary of how its brokers are compensated. Mr. Lambdin

said, "I think there were probably some contingent deals that were not as transparent in the past as they will be in the future. Now, because of Spitzer, brokers will be much more diligent to reveal everything."

"We've said, 'Look, everyone needs to get paid,'" said ResCare's Mr. Hensgen, of his relationship with his broker, Lockton Cos. Inc. in Kansas City, Mo. "We just want to understand who is getting paid."

ResCare's agreement with Lockton states that the broker must divulge any income related to its account apart from that paid by the policyholder as well as any commission paid out by Lockton to wholesalers or others involved in ResCare's account, Mr. Hensgen said.

"The Spitzer investigations made us stand up and take notice of what brokers are doing."

Michael Liebowitz
Bridgeport Hospital & Healthcare
Services Inc.

Leslie Seabrook, director of risk management at Emeritus Corp., a Seattle-based operator of assisted living communities, "recognized a long time ago how contingency fees worked" and avoided them in her contracts with brokers.

Ms. Seabrook, whose broker is Lockton, said she asks for "an annual evaluation of hours worked" and an accounting of what "actually goes into their files. I've asked them to drill down to the details as much as possible" regarding the hours and services provided by the brokerage.

Even as risk managers have gained some leverage in their dealings with brokers who are eager to show greater transparency, there are other issues that need to be addressed, according to Ms. Vinck of U.S. Marine Repair.

"We still have brokers with conflicts of interest with their subsidiary units," she said. "Have all the brokers settled with Spitzer and it's business as usual? How about their subsidiary reinsurance units," surplus lines, claims and third-party administrator subsidiaries? Ms. Vinck asked.

There remains a lack of transparency regarding transactions among brokers and those subsidiaries, she emphasized. Risk managers need to know if the service providers their brokers use are in fact their own units and whether they are providing the best deal, Ms. Vinck said.

"I think all brokers need to disclose to an insured if they are handing anything off to a related company, whether it is wholly owned or a joint venture," she said.

"I hope we're not going to let the fire die down," Ms. Vinck said. "We need to keep stoking it until all of these issues are resolved."

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DISCOVER RE

London market debates proposed compensation models

By SARAH VEYSEY

Since most major brokers have abandoned contingent commission arrangements, the London market remuneration models suggested by brokers to replace contingent commission revenues have been the subject of fierce debate.

Groups representing underwriters have objected to several models that they claim would alter the "agency relationship" between buyer and broker. In addition, the Assn. of Insurance & Risk Managers last month

said brokers should be compensated only by buyers and called for automatic disclosure of broker pay.

Broker compensation in the United States is in flux, though some degree of standardization is expected to emerge (see story, page 39).

Brokers have argued that they perform extra services for underwriters when placing business at Lloyd's of London and in the London company market, both of which operate on a subscription basis (see box).

Underwriter groups, however, contend that charging insurers for

these services contravenes the long-held principle that a broker is the agent of the buyer.

Aon Ltd., the U.K. arm of Aon Corp., in December announced plans to charge between 1% and 4% of premium, depending on line of

business, for specialty risks placed in the London market. But it met opposition from underwriters and agreed in May to shelve those plans.

Aon's initial proposal was a catalyst for the Lloyd's Market Assn. and the International Underwriting Assn., to set up a task force, known as the Beazley group, comprising Lloyd's underwriters, company market underwriters, broker representatives and legal advisers, to discuss brokers' proposed models and, where possible, develop alternatives.

Tony Medniuk, chairman of the IUA and chief executive officer and chief underwriting officer of London-based Global Aerospace Underwriting Managers Ltd., said the debate about brokers' London market remuneration has centered on the "basic principle (that the) broker is the legal agent of the insured."

"No one is in any doubt that London market brokers do perform functions that wouldn't be performed elsewhere," said Bill Rendall, head of underwriting and claims at the LMA. But, if brokers' remuneration for performing those services is expressed as a charge on underwriters, then buyers are left feeling that the "broker is working for two masters," he said.

Following an agreement with the Beazley group, Aon announced it would detail on London market slips all the payments it receives when

placing business in London. No fixed percentage of premium for classes will be set; instead charges will be agreed on a case-by-case basis.

The model proposed by the task force was acceptable to Aon, said Jonathan Palmer-Brown, chairman of the specialty division of Aon Ltd.

Meanwhile, other brokers have announced new compensation plans.

In March, London-based Heath Lambert Group said it would charge insurers a flat fee of 1% of premium to cover the costs of services it provides for insurers. The flat-rate model, a "broker insurer services commission," will apply across all lines of business except some specialized captive and public authority business, Heath Lambert said.

Graham Barr, managing director of U.K. broking at Heath Lambert, said that despite some underwriters' skepticism, the brokerage was sticking to its charge and has determined that a flat 1% was appropriate to cover the costs of placing business.

In April, Marsh Ltd., the U.K. arm of Marsh Inc., said it would seek to charge underwriters a commission of 0.75% of premium when placing specialty business in the Lloyd's and London company markets. In addition, Marsh said it would negotiate premium discounts of 1% to 2%

Continued on next page



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What brokers want

Main features of proposed London market compensation models:

Aon Ltd.: No fixed percentage of premium to be charged as commission for services. Three information boxes will appear on underwriting slips under the heading "fee/brokerage," and will detail whether the placement is subject to a fee agreed with the buyer, what percentage of premium the retail or wholesale broker will receive as commission, and what percentage of premium is paid by insurers to London market brokers placing business in the subscription market.

Heath Lambert Group: Charges insurers a flat-rate 1% "broker insurer services commission" for services it provides to underwriters.

Marsh Ltd.: Will negotiate with insurers to obtain a 1% to 2% reduction in premiums to reflect the benefit they receive from the Marsh network. This discount will be reflected in higher fees charged to buyers. For some specialty business placed in London, Marsh will charge underwriters a commission of 0.75% of premium for services it provides on that business.



[End to end]

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Continued from previous

from U.K. insurers and offset the reductions with higher fees on clients.

Several London market sources said that Marsh was now close to agreeing on a model with the Beazley group similar to that agreed by Aon.

A Marsh spokeswoman said, however, that the broker was still in discussions on its original model.

At the AIRMIC annual conference in June, outgoing Chairman Andrew Cornish, head of insurable risk at Windsor, England-based Centrica P.L.C., stated the association's belief that brokers should be compensated by buyers alone and not by underwriters. He also called on brokers to automatically disclose all compensation they receive without having to be asked. Under current Financial Services Authority regulations, brokers must inform corporate insurance buyers about their compensation only if asked.

Mr. Cornish said the models being proposed by brokers may be acceptable "interim" solutions, but that in the long run, AIRMIC wished to see a shift to remuneration of brokers only by buyers and automatic disclosure of all compensation.

"Fundamentally, we feel that if there remains the position in the longer term whereby insurers and the buyers are remunerating the brokers, that there is the potential for conflicts of interest to arise again," he said. "We appreciate that it is not simple to go from where we have been to that place, and that will take

Additional services

Functions brokers frequently perform in the London market

- Collection and allocation of premium
- Calculation and collection of premium taxes
- Issuance of draft and final policy wordings
- Storing of claims information
- Communication with underwriters' lawyers and loss adjusters
- Collection and payment of underwriters' legal fees
- Arrangement of indemnity payments on losses

some time," Mr. Cornish noted, but he said AIRMIC considered a deadline of Jan. 1, 2007, as feasible.

The overall cost of risk should not be altered, so a model whereby the buyer compensates the broker should not cost more, he said.

In response to AIRMIC's call, London-based Jardine Lloyd Thompson Group P.L.C. announced that by the end of 2005, it would automatically disclose all earnings on large risks placed primarily in the London and Lloyd's markets (See story, page 49).

JLT noted that for some small to midsize business, on which it competes with regional brokers who are still accepting contingent commissions, JLT may accept contingent commissions from insurers.

Two-tiered system likely in U.S.

Large brokers drop contingents, smaller brokers don't

By JUDY GREENWALD

Major U.S. brokers that no longer accept contingent commissions are likely to develop their own new compensation models, at least in the immediate future, though some standardization may develop, say observers.

It remains an open question, though, as to whether Marsh & McLennan Cos. Inc., Aon Corp., Willis Group Holdings Ltd. and Arthur J. Gallagher & Co. will be able to fully replace the funds lost by forgoing contingent commissions. Hardest hit was Marsh, which generated \$845 million in contingent commissions in 2003, the last full year before the brokerage stopped accepting them.

Meanwhile, insurance buyers will face an apparently two-tiered system in which the major brokers no longer accept contingent commissions but smaller brokers do. Some observers believe this can cause confusion.

U.S. broker compensation differs from that in the United Kingdom, where remuneration models suggested by brokers to replace contingent commission revenues have been fiercely debated, with underwriter groups objecting that some

models would alter the "agency relationship" between buyer and broker (see story, page 38).

Referring to the U.S. market, Ken A. Crerar, president of the Washington-based Council of Insurance Agents & Brokers, said, "They're going to be compensated for their services. How that evolves, I think, is still an open question" as well as an evolving issue.

Michael G. Cherkasky, president and chief executive officer of Marsh & McLennan, said that since abandoning contingent commissions last year, Marsh has met with clients to determine what it should charge for its services.

New York-based Marsh announced in March it was abandoning unprofitable accounts and moving to a standardized rate card with insurers that includes higher upfront commissions. As a result, some Marsh clients are seeing an increase in traditional commissions, but "many are not seeing any increase," said Mr. Cherkasky.

The client meetings have focused on "cost structures and the value proposition of Marsh. We've talked a little about unbundled services, and 'let's look at what you appreciate about Marsh,'" Mr. Cherkasky said.

Gregory C. Case, Chicago-based Aon's president and CEO, said compensation "will ultimately be driven by the kind of benefit you bring to your client, whether that's in the form of fees or commissions." Linking performance to adding value and helping clients succeed is "an equation I love," he said.

A New York-based Willis spokesman said it is critical now for brokers to articulate to clients not only their remuneration, but "what it is we do."

J. Patrick Gallagher Jr., president and CEO of Itasca, Ill.-based Arthur J. Gallagher, said in a statement, "Right now is not the time for us to be commenting on the model we are seeking to develop."

Observers say major brokers can recoup their lost revenues in three basic ways: increase premium-based commissions, increase fees and reduce expenses.

"There's a variety of angles that's going to fill the contingent commission void," said Steven Ader, a director at Standard & Poor's Corp. in New York.

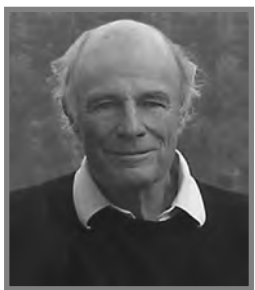
One of the strategies is to discuss raising the premium-based commission level with insurers, say ob-

See U.S. MODELS / next page



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Policymakers, industry reps weigh disclosure model measures

By MEG FLETCHER

In the wake of the broker compensation crisis that erupted last fall, organizations representing state regulators and legislators crafted separate model language to protect insurance buyers by requiring producers to disclose the details of compensation arrangements.

Subsequently, several states adopted their own versions of those models, although the pace of adoption has slowed recently as legislative sessions end and other issues, like finite reinsurance, take the spotlight.

While some industry observers are concerned that the lack of uniformity in disclosure laws nationwide will make compliance more

difficult and costly, others don't believe it will be much of a problem.

Regardless, a compensation disclosure requirement for producers who take money from both insurers and buyers is "the emerging national standard," said Joel Ario, Oregon's insurance administrator and the vice chair of the National Assn. of Insurance Commissioners' Bro-

ker Activities Task Force.

Since October 2004, 17 states have introduced 32 bills or regulations on broker disclosure issues, according to the NAIC. In addition, three state insurance departments—New Jersey, Washington and Wisconsin—have issued bulletins clarifying the treatment of these issues under existing law.

About half of those measures have been enacted, primarily through legislation in states including Arkansas, Connecticut, Georgia and Texas. Meanwhile, Oregon and Nevada have implemented regulations, according to various sources.

At least 13 states as of late 2004 already had laws, regulations or bulletins on disclosure by producers, according to the NAIC.

As a result, "I do believe that there is self-policing by brokers," said Marsha Harrison, regulatory affairs counsel for the National Assn. of Mutual Insurance Cos. in Indianapolis. Brokers "have probably gotten a little paranoid" about the idea of Eliot Spitzer and his allies looking over their shoulders, she added.

The key controversy facing policymakers earlier this year was whether to adopt the NAIC's proposed model amendments to the

Producer Licensing Model Act, which it adopted in December 2004 and reaffirmed last month, or whether to use what several industry sources describe as the less-stringent version adopted in March 2005 by the National Conference of Insurance Legislators (see chart).

Most industry representatives preferred the NCOIL version.

While associations' legislative tallies differ, the Independent Insurance Agents & Brokers of America Inc. has found that "no state has enacted the NAIC model and states that have taken action have followed the narrower and cleaner NCOIL alternative," said Wesley Bissett, senior vp-government affairs and state relations for the Alexandria, Va.-based organization.

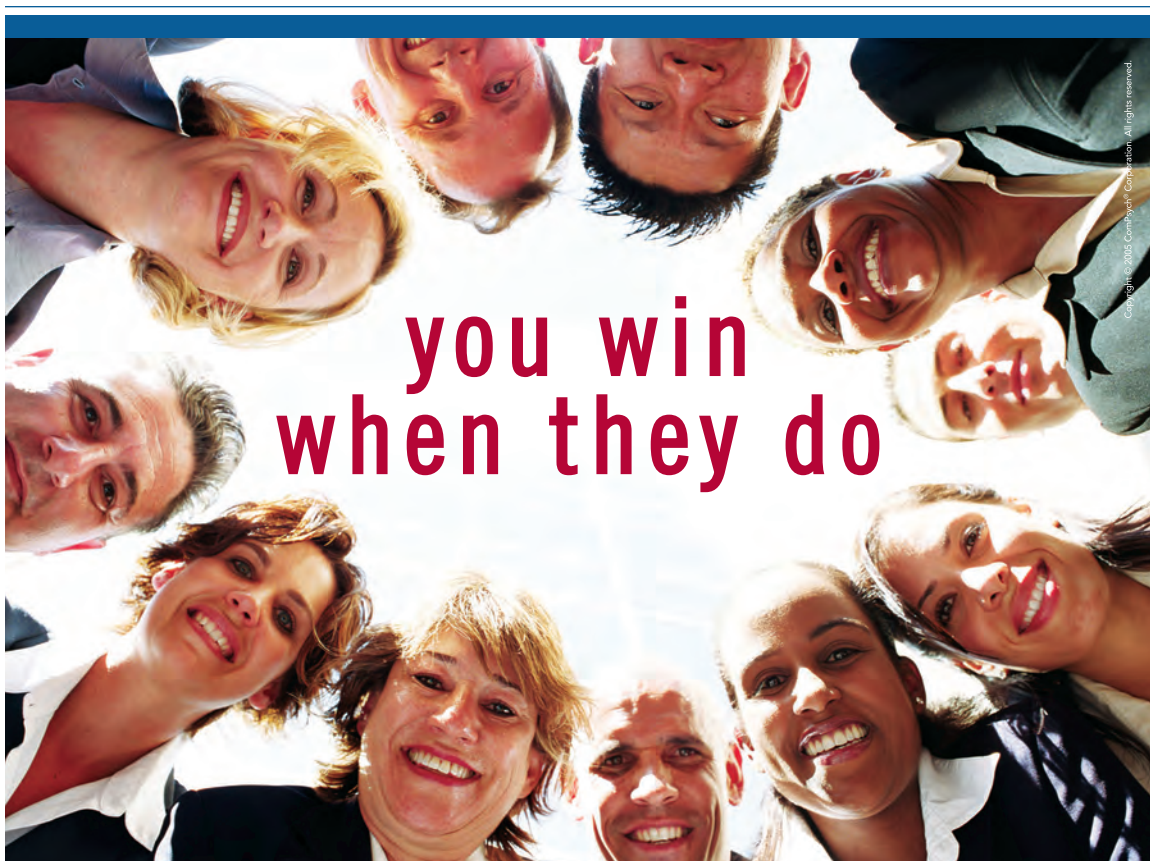
"Most (measures) are closer to NCOIL," agreed Mike Koziol, assistant vp and counsel to the Des Plaines, Ill.-based Property Casualty Insurers Assn. of America.

NCOIL's model is "ideal" because it is "a measured and appropriate response," said Stephen Ziezezenski, vp and associate general counsel with the Washington-based American Insurance Assn.

See DISCLOSURE / page 42

NAIC and NCOIL producer compensation models

Issue	NAIC model	NCOIL model
Who must comply?	A producer or its affiliate who receives compensation from the buyer—or "represents" the buyer—in placing new or renewal insurance in the voluntary or residual markets. Exclusions include managing general agents and wholesale brokers.	A producer or its affiliate who receives any compensation from the buyer for the initial placement of insurance in the voluntary market. Exclusions include managing general agents as well as producers whose sole compensation for the placement is derived from commissions, salaries and other remuneration from the insurer.
What must be disclosed?	The amount of compensation from the insurer or other third party. If that amount is unknown, the producer must disclose the method for calculating it and "a reasonable estimate" of the amount.	The method and factors used in calculating the compensation from the insurer or other third party.



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U.S. models: Two-tiered system

Continued from previous page

servers. Nik Fiskien, managing director and analyst at Little Rock, Ark.-based Stephens Inc., said that for 2006, brokers are "going to get roughly 70 to 75 cents back for every dollar of contingents lost, in the form of a higher commission level. And then, potentially in calendar year 2007, they could make up the balance" by further increasing commissions "should the business carry a favorable loss ratio."

No formal announcements have been made on this issue yet, however, and other observers did not provide specific numbers. "We have yet to see the result of what will happen with those discussions," said Adam Klauber, managing director at Chicago-based Cochran, Caronia & Co.

A spokeswoman for the Hartford, Conn.-based Hartford Financial Services Group Inc. said in cases where brokers no longer participate in contingent commission programs, commission rates are "based on a variety of factors."

For Fortune 500 companies, which often work on a fee basis, brokers are "looking for ways to better cost out, or appropriately price, their services," though it is still too early to determine if it will result in appropriate compensation, Mr. Klauber said.

But observers say a broader shift to fee-based business is unlikely. "Larger clients have already shifted their business to a largely-fee based format," while smaller clients "have no incentive to do so," said Mark Dwelle, an analyst with Richmond, Va.-based Ferris, Baker Watts Inc.

"Some uniformity will emerge" among the major brokers just because they deal with a limited number of insurers that are likely to develop "some method that they're comfortable in paying, and will probably

encourage," said Mr. Dwelle.

But while there may be some standardization on the insurer side by 2006, "on the client side, I don't think you'll see a lot of uniformity," said Mr. Klauber. "It's going to be very specific, client by client," as to how much will be paid and how, he said. "I don't think there'll be as much uniformity on the risk manager side as there will be on the carrier side."

The degree to which brokers will be able to recoup lost revenues is unclear. Mr. Ader said the loss of the contingent commission revenue "translates nearly 100% into the net income line," and despite the measures taken, it could lower profitability.

Meanwhile, insurance buyers are working with some brokers who do not accept contingent commissions and others who do. Mr. Crerar said, however, "There's always been a two-tiered system to some extent," in the sense that major brokers' contingent commission agreements were based essentially on volume, while smaller brokers' contingent commissions have been based on profitability and account retention as well.

But now there is even more of a divergence. "It's almost like a tale of two cities," said Mr. Ader. "I think confusion is probably a good word for it," said the Willis spokesman.

However, H. Wade Reece, chairman and president of Raleigh, N.C.-based BB&T Insurance Services Inc.—which accepts contingent commissions only when it acts as an agent of the insurer—said it remains unclear how the industry will deal with a two-tiered system. "Today, it's happening, and business continues to go on."

Gavin Souter and Regis Coccia contributed to this story.

Disclosure: Models differ

Continued from page 40

"The NCOIL model is far better than the NAIC model," because it is clearer and more balanced, said Patricia A. Borowski, senior vp with the Alexandria, Va.-based National Assn. of Professional Insurance Agents.

The NCOIL model is a "well-reasoned and limited statutory remedy," Ms. Harrison said.

The Washington-based Council of Insurance Agents & Brokers disagrees, and favors the NAIC model. "We support broad disclosure because agents and brokers as professionals have nothing to hide," said Joel Wood, senior vp-government affairs. "The NCOIL model would only require disclosure for a small fraction—perhaps 6% to 7%—of commercial placements... (which) seems to us a pretty narrow response" to the challenges posed to the industry, he added. "Frankly, we are very surprised at the enmity for the NAIC model shown by other producer groups," he said.

Mr. Ario said the NAIC considers the NCOIL model as a more limited version. The regulation he promul-

gated in Oregon is based on the NAIC model, but it applies to compensated producers without mention of producers that otherwise purport to "represent" customers.

Despite the difference of opinion about the preferred model, there was no support among industry representatives contacted for banning contingent commissions.

There was some disagreement about the impact of states' differing commission disclosure measures.

"This is an extremely serious problem," said CIAB's Mr. Wood. "As agent groups beat back transparency efforts in many states, we expect that insurance carriers may fill the breach with disclosure requirements of their own" in agency contracts. It will lead to "a confusing situation" and "clients will ultimately pick up the tab," he said.

The IIABA's Ms. Bissett disagreed: "All of the state enactments have been relatively modest to date, so this has not been a problem so far."

"Uniformity is not an issue in this area and should not be," said PCI's Mr. Koziol. "Rather, the goal should be improved regulation."



1 Marsh & McLennan Cos. Inc.

Transparency will be the key to Marsh & McLennan Cos. Inc.'s future success and will restore any trust that clients have lost in the world's largest commercial insurance brokerage, according to its senior executives.

Open and honest dealings with its clients, insurers and all other entities will pervade the brokerage and shape its business model, helping to eradicate the taint that has smeared MMC and its brokerage unit, Marsh Inc., since it was sued by New York Attorney General Eliot Spitzer last October.

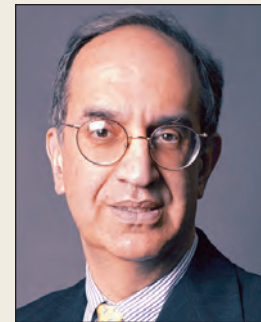
Insurance buyers will be able to see the true value that Marsh adds when it is selected to place coverage, and they will be willing to pay the cost—which in many cases will be increased—to access that value, the executives say.

So far, most of Marsh's clients appear to trust the brokerage, observers say. But that faith, which

Marsh & McLennan Cos. Inc.

2004 gross revenues: **\$12,180,000,000** ↑ 5.3%

2004 brokerage revenues: **\$10,365,000,000** ↑ 8.3%



Michael G. Cherkasky, president/CEO

was severely tested when Mr. Spitzer filed fraud charges against Marsh last year, has yet to be restored fully. The brokerage will face trying times over the next several months as it struggles to regain its reputation and revenues, they say.

More than any other brokerage that has been embroiled in the scandal over compensation practices in the past nine months, Marsh has had to face damning and embarrassing revelations about its former business practices.

Personnel sweep

Client steering and bid-rigging practices orchestrated within Marsh's powerful Global Broking unit, which were unveiled by Mr. Spitzer in his months-long investigation into the New York-based brokerage, have caused huge disruptions. Those include sweeping management changes at Marsh, about 5,000 layoffs, and an agreement to pay \$850 million to settle with Mr. Spitzer and other states' attorneys general.

Out went Chief Executive Officer Jeffrey W. Greenberg, an industry veteran and a member of the one of the insurance industry's most prominent families, and in came Michael G. Cherkasky, a former prosecutor and executive at security consultant Kroll Inc., who now leads MMC.

Several other leading Marsh executives also stepped down, including Roger E. Egan, the former president of Marsh, who several months later emerged at Integro Ltd. That start-up has lured several senior Marsh staff away from the troubled brokerage, as have other established rivals of Marsh.

"We have lost some people that we would have preferred not to lose," said Mr. Cherkasky.

However, given the problems that Marsh has faced over the past nine months, the brokerage has retained a "remarkable" number of employees, he said. "We think that we've done a good job of keeping the people that we want to keep," he added.

Adding to Marsh's problems has been the task of replacing lost contingent commission revenues—which totaled \$845 million in 2003—which it gave up as part of

its settlement agreement.

But it has been restoring clients' trust that has been the main concern of Marsh's management since it settled with Mr. Spitzer in January. To that end, Mr. Cherkasky has met one-on-one with more than 800 clients since he was named president and CEO of MMC in October.

Over that time, the tone of the meetings has changed, he said.

"The response has changed since October. Then it was, 'Are you going to survive?' but now it is, 'If anybody is going to get transparency right, it's you,'" Mr. Cherkasky said.

Through the meetings conducted by Mr. Cherkasky and other senior executives, Marsh has been able to reassure clients that the practices that led to Mr. Spitzer's charges will not happen again. "We think clients are feeling very, very comfortable with how we have changed this organization and the protocols that we have put in place," Mr. Cherkasky said.

'Dealing with the aftermath'

The problems at Marsh were not sufficient to make a big impact on its growth in 2004. Marsh reported risk and insurance services revenues of \$7.39 billion in 2004, a 7.6% increase over 2003. Total brokerage revenues increased 8.3% to \$10.37 billion.

The brokerage does appear to have prevented an exodus of clients, but it still has a ways to go before it will be fully recovered, observers say.

"Right now they continue to be in a stabilization phase," said Brian R. Meredith, an analyst at Banc of America Securities in New York. "They are trying to solidify their customer relationships and keep their retention rates solid," he said.

Generally, Marsh seems to have been successful in retaining the clients that they want to retain, Mr. Meredith said.

"Risk managers still believe that Marsh is the preeminent insurance broker in the world," he said.

According to Banc of America research, most Marsh clients value the relationship that they have built with Marsh and they are sticking with the brokerage, Mr. Meredith said.

Now, though, more risk managers appear to be using multiple brokers than prior to the outbreak of the compensation scandal, he said. In addition, buyers are now more likely to put their programs out to bid with other brokers, but Marsh is still managing to keep the business in many cases, Mr. Meredith said.

"The storm has passed, and now they are dealing with the aftermath," said Cliff Gallant, an analyst at Keefe, Bruyette & Woods in New York. "The franchise will be tested, there will be a movement in clients, and we'll find out how much clients like Marsh," he said.

However, most clients likely will stay with Marsh, as its resources enable it to "add significant value to the insurance transaction," Mr. Gallant said.

As part of its efforts to ensure that the abuses that were detailed in Mr. Spitzer's complaint do not recur,

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56BIM

July 18, 2005

Continued from previous page

Marsh has stopped accepting contingent commissions and will disclose all of its remuneration to its clients. Like other brokers, though, it is still exploring ways in which it can charge insurers for the services that it provides for them in the London market (see story, page 38).

Transparency issues

Marsh has committed to transparency and will fully disclose its compensation in writing before a policy is bound, said William A. Malloy, who replaced Mr. Egan as president of Marsh.

"We've raised the professional standards and the duty of care at the firm," said Mr. Malloy, who prior to his promotion was president and CEO of Marsh's Europe/Middle East region.

Also, Marsh has increased training efforts to ensure that its employees are aware of the brokerage's professional standards and compliance rules, Mr. Cherkasky said.

"We are training people in the highest standards of professionalism that we think will be the standard for brokers," he said.

In addition, for its global clients, Marsh is committed to its newly introduced "G5" standards, Mr. Malloy said. Those clients will be serviced by brokers who will be empowered to determine the appropriate way to handle those large accounts, Mr. Malloy said. And those brokers will abide by a set of service standards that are appropriate for those clients, he said.

The G5 initiative, which will be rolled out next year, is being led by Thomas G. Leahy, a Marsh managing director, and it has an implementation team of 25 of the brokerage's senior executives.

The initiative will commit Marsh to upholding five standards for placing business for global clients. They are:

- Global expertise to handle complex risks.
- Global risk solutions and innovations.
- Global insurance market access.
- Global service excellence.
- Global resources, including the coordination of empowered teams and resources.

There will not be a separate organization to handle large accounts, in the same way that Global Broking had been formed specifically to place large-account business, Mr. Malloy said. But the client executives who handle those accounts will not be up against a bureaucracy that hampers their placement of global business, he said.

Although Global Broking has been disbanded, Marsh still will seek to use its large resources to benefit clients, Mr. Cherkasky said.

"What really worked in Global Broking was the discipline of placement. We want to maintain that discipline," Mr. Malloy said.

Paying more?

In addition to higher professional standards, some clients of Marsh will see increased fees or commissions.

In the absence of contingent commissions, Marsh will in some cases seek additional payments

from policyholders to reflect the services it provides, Mr. Cherkasky said. To achieve that, some of the services may be provided on an unbundled basis, he said.

Marsh will face challenges trying to make up the loss of its contingent commission income, said Mr. Meredith of Banc of America Securities. In addition to cutting costs, the brokerage will have to increase its conventional commissions and fees, and that will be tough to achieve while they are concentrating on retaining business, he said. They may be able to push through increases later this year and next year, though, he said.

The challenges that Marsh faces already were apparent in its 2005 first-quarter results. Revenues from

the risk and insurance services segment dropped about 11% to \$1.75 billion in the quarter; contingent commission revenues declined by \$179 million to \$32 million in the quarter. These revenues represent what MMC was owed on 2004 contracts with various insurers.

"We believe that with greater transparency we can do more things for (clients) in the risk business," Mr. Cherkasky said. "There is a reason to be with this global full-service company," he said.

For example, Marsh brokerage clients may also benefit from advice on currency risks from Mercer or advice on background checks and other security risks from Kroll, he said.

And Marsh is now in a better po-

sition to cross sell its services as the new management team across the organization is working together more closely, Mr. Cherkasky said. "Some of the silos that existed in the past have been broken down because of the new management," he said.

Other changes

Although MMC has announced it will retain most of its units, it has sold or announced the sale of other units where it believes its ownership could be seen as a conflict of interest.

MMC Capital, its former private equity fund manager that directed investments in the insurance and financial services industry, was sold

to its management in May. Also in May, MMC announced that it was seeking "strategic alternatives" for its wholesale brokerage units, Crump Group Inc. in Dallas and Price Forbes Ltd. in London.

The brokerage has also seen the return of a former executive, John T. Sinnott, a former head of Marsh, who has returned as a vice chairman of MMC.

Mr. Sinnott, "is a tremendous resource for us," Mr. Cherkasky said.

He will not have an operational role but he is participating in client meetings and offering advice to the brokerage unit's management.

On July 8, MMC's stock closed at \$29.40 a share, with a 52-week high of \$47.35 and a 52-week low of \$22.90.

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2 AON

Aon Corp.

A year of turmoil at Aon Corp. has culminated in changes in business practices and leadership at the Chicago-based insurance brokerage.

In March, Aon agreed to a \$190 million settlement with the attorneys general in Connecticut, Illinois and New York of charges that the company steered business to insurers paying contingent commissions that were not fully disclosed to clients. The brokerage ceased accepting such commissions last October and made that practice permanent under the settlement (*BI*, March 7).

Aon in April announced the hiring of Gregory C. Case as its new president and chief executive officer (*BI*, April 11). Mr. Case joined Aon after a 17-year career at McKinsey & Co., where he led the consulting firm's financial services and global insurance practices. He takes over day-to-day management from Aon's longtime CEO, Patrick G. Ryan, who has become executive chairman and is focusing on relationships with major clients and business development.

While observers initially expressed skepticism of Mr. Case's qualifications, he has followed Aon for 10 years. And, in his first 100 days at Aon, Mr. Case has literally been around the world to better understand Aon and its clients. As of mid-July, Mr. Case said he had visited offices in at least 10 countries and spoken with Aon's leaders and

hundreds of Aon clients.

Providing valuable service to clients is Mr. Case's main priority for Aon, whether they be risk managers, benefit managers or reinsurance clients.

Sharpened focus

"As I look at the landscape and I look at what Aon has, I believe we are extremely well positioned to help serve our clients. And that will be our primary focus. On day one, day two, day three, what we are about is helping our clients truly understand better the risks they face and how to mitigate them," Mr. Case said.

Following the investigations of brokerage practices, Aon is committed to ensuring transparency, but that's not enough by itself, he said. "Transparency and client advocacy are very important and critical and are a primary focus for us, but they shouldn't be confused with value added," he said.

In the industry in the last year, "it's been very much a big fanfare around compliance and not around value added," Mr. Case said. "My focus and Aon's focus is value added. That's not to diminish in any way" the importance of transparency, though, he said.

For their part, Aon clients generally have not wanted to rehash the company's past problems, Mr. Case said. He declined to say how many clients Aon has lost in the past year but said account "retention is very strong and new business generation is good."

"It's less about the past year and much more 'Help me understand risk year round and not just when there's an RFP. Help me build real

Aon Corp.

2004 gross revenues: \$10,172,000,000 4.3%

2004 brokerage revenues: \$6,902,000,000 2.5%



Gregory C. Case, president/CEO

capability in my organization and not just execute a transaction. And finally, be a world-class broker for me," he said.

"The more sophisticated the clients, in terms of their risk understanding, the higher the expectation" that Aon will "work beyond a basic transaction," Mr. Case said.

Operating units

Aon's three main operating divisions are brokerage and risk services, consulting and underwriting. Aon's total revenues in 2004 surpassed the \$10 billion mark for the first time, led by a 2.5% increase in brokerage revenues, to \$6.90 billion. That ranks Aon as the second-largest insurance broker in the world.

Its units also are among the top

players in their fields, as represented in various *Business Insurance* rankings.

Aon Re Global is the world's largest reinsurance intermediary, which *BI* estimated had \$945 million in gross revenues in 2003.

Aon Consulting Worldwide comprises the company's diverse consulting practices, including employee benefits, human resources and management consulting. Its \$869 million in 2004 benefit consulting revenues ranked it as the third-largest benefit consultant.

Swett & Crawford Group, Aon's wholesale operation, was the world's largest last year, with an estimated \$267 million in revenue. Aon is exploring the sale of Swett & Crawford, though, because the brokerage's civil settlement "creates restrictions that we believe do not allow us to serve our clients in the best way possible for them," Mr. Case said. He wouldn't say whether Aon is close to announcing a deal, but he said "there's been a tremendous amount of interest."

In 2004, Aon sold its majority stake in claims administrator Cambridge Integrated Services Group Inc. to a Singapore-based technology company, Scandent Group. Aon also sold its 9.8 million shares in Bermuda-based Endurance Specialty Holdings Ltd. to Goldman Sachs & Co. for \$320.5 million. Aon had contributed \$227 million, or about 19%, of the insurer's startup capital in 2001 and was a founding shareholder, along with Zurich Financial Services and other investors.

Growth plans

While much of Aon's growth has come through acquiring other brokers, Mr. Case is expecting more organic gains in the future.

The building blocks are "client focus, operating discipline and talent," he said. "We'll certainly look to augment what I believe is a phenomenal team. But we'll also step back and ask, 'Where can we invest in ways that will help our clients?'"

Aon's workforce declined 11.3%

since last year, to 47,000 employees, largely due to information technology outsourcing and the sale of Cambridge and U.K. claims operations as well as some employee attrition.

So far, Aon has not lost any senior management in recent months and it continues to try to attract talented professionals, Mr. Case said. In May, Aon hired Steve McGill, former chief executive of London-based Jardine Lloyd Thompson Group P.L.C., as CEO of its global large corporate risks unit. Mr. McGill, who left JLT last fall after that broker issued a warning on reduced profits, reports to Dick Verbeek, chairman of Aon's global large corporate unit.

While some observers suggest brokers will struggle to find ways to replace the income lost from contingent compensation, Mr. Case said revenue will follow good service.

Aon has "struggled with organic growth for some time," and acquisitions will go on "at a much slower pace."

**Gretchen Roetzer
Fitch Ratings**

"I am very comfortable if we add value and help clients succeed, that that will be directly linked to our performance. That's an equation I love. Our performance is driven by our clients' benefit," he said.

"This isn't, to me, about replacement. It's about, are we adding value to our clients in an effective way? And if we are, we're going to do great financially, and if we're not, we shouldn't do great financially. And I believe we can," Mr. Case said.

Aon also negotiates standard commission rates with underwriters and is seeing some increases in those now, he said.

In 2004, Aon collected \$132 million in contingent commissions before ending those arrangements as of Oct. 1. In 2003, Aon's contingent commissions totaled \$169 million.

Under its settlement with the attorneys general, Aon agreed to establish a fund to make restitution totaling \$190 million to clients whose accounts generated contingent commissions between Jan. 1, 2001, and Dec. 31, 2004. Aon was unable last week to estimate how many eligible clients have opted into the settlement.

Gretchen Roetzer, a lead analyst at Fitch Ratings in Chicago, said she sees the appointment of Mr. Case as a positive but notes that Aon "has had a lot of moving parts in the last year." She said the broker has "struggled with organic growth for some time" and believes acquisitions for Aon and other major brokers "will still go on but at a much slower pace."

Elements that Mr. Case said make Aon distinctive include a primarily owned global network, product


Continued on next page

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July 18, 2005

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placement capabilities, intellectual capital and privileged relationships.

For example, Aon's placement capability in the United States, Bermuda and Europe "helps us create innovative and effective solutions," he said.

"Intellectual capital is when you have ideas or insights that will help a client change their performance. That means their income statement improves or their balance sheet strengthens. That's a very high bar," noted Mr. Case. "Intellectual capital is something to be guarded and invested in and delivered to clients in an effective way. It's something I believe we have but we also plan to invest in quite heavily in coming years, and it's going to be driven by client need."

Global capabilities

Other capabilities where Aon believes it has an edge include its reinsurance risk modeling and its global account management system, a policy-tracking database that Aon shares with clients. "We're the only player in the world who can let corporate clients, large corporate clients who have risks around the world, understand all the policies they have and keep track of those policies," Mr. Case explained.

Ms. Roetzer said "the clients are still there" for Aon, even though more risk managers are shopping their accounts. "What business moves is still a question," she said.

"We take every client very seriously. I value our clients' relationship above all else. Clients make good decisions based on the information they have. Get the full facts, get transparency and understand that Aon has a set of capabilities that are distinctive in the brokerage world and a commitment to bring those to clients in a way that I believe is unique," Mr. Case said. "Time will tell whether we can get that done, but that is, without apology, our focus, and we will put everything we can behind that effort."

Aon's stock price closed at \$25.50 on July 8. Its 52-week high was \$29.44; its low was \$18.15.

—By Regis Coccia

avoided a lawsuit and did not have to make a public apology for the brokerage's actions.

With its settlement behind it, Joe Plumeri, chairman and chief executive officer of Willis, is now focusing on growing the brokerage in a "post-Spitzer" landscape that includes greater transparency and no contingent commission income.

But according to Mr. Plumeri, Willis is already ahead of the curve on that.

"Our biggest challenge is execution," he said. "We've already built our culture here. Everybody knows what the place is and everybody knows what our vision is. We haven't changed our tune."

Indeed, since Mr. Plumeri joined Willis five years ago, he has imple-

mented a client advocacy model and strategy throughout the company, the centerpiece of which is a commitment to understand each client's individual need and to customize a solution to solve that need. To do that, Willis is committed to delivering its global resources and services at a local level.

Also part of Willis' client advocacy strategy is the company's commitment to describe to clients, in simple language, the service and value it provides and how it is compensated for that. The strategy also calls for the confirmation of all insurance placements with clients prior to placing coverage.

Because Willis had these practices in place before its settlement with Mr. Spitzer, it has not had to make

drastic changes to its business strategy or set a new vision for the company.

"I don't know if there's anything that we do today that we haven't done before, to be quite honest with you," Mr. Plumeri said.

This strategy, coupled with Willis' profitability, also is allowing the company to weather the loss of contingent commissions better than others, according to Mr. Plumeri.

"Morale (at Willis) is probably the best in the industry, with everybody we talked to seeing tremendous opportunities for growth," wrote Brian R. Meredith, an analyst in Banc of America Securities' equity research group, in a research brief sent to investors. "Willis is the only

one of the top three brokers that has a strategy—its client advocate approach. Aon and Marsh are still developing a strategy, which gives Willis a leg up when marketing to clients currently," he said.

Despite the loss of \$14 million in contingent commissions in the fourth quarter of 2004, Willis' brokerage revenues grew 10% to \$2.21 billion for the full year, while profits increased 3.1% to \$427.0 million. In all, Willis collected \$71 million in volume and profit-based contingent commissions in 2004.

"This company rallies around its company's flag, I think, better than any company I've seen," Mr. Plumeri said. "I think you can at-

Continued on next page

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tribute a lot (of Willis' growth) to that. People all over the world are very collegial; they work together very, very well for the best interest of the client."

With that said, Willis continues to cooperate with ongoing investigations into its business practices in 19 different jurisdictions. Mr. Plumeri noted, however, that he hasn't heard much from any of the state authorities recently.

"I'm a Yogi Berra fan, so 'It's never over until it's over.' We're cooperating with everybody, doing whatever we're asked to do, but right now, there's nothing that I would say is hot and ready to burst," he said.

Willis did set aside an additional \$20 million in the first quarter of 2005 to resolve further potential legal claims.

Ultimately, "I don't know what's going to happen," Mr. Plumeri said. "I feel good about the way we run the business. I felt good about the way we ran our business before" Mr. Spitzer's investigation.

That investigation, however, found that Willis unlawfully deceived its clients by steering business to insurers paying it the highest contingent commissions, by unnecessarily running business through its own wholesale brokerage operation to derive additional commissions, and by leveraging its retail business to obtain reinsurance brokerage business.


"I've said publicly that I thought ...contingents were more of a conflict than they were illegal," he said. "But you've got to move on and I think we did it in the most acceptable...way possible."

Moving on

With the elimination of contingent commission income, Willis is now negotiating with London underwriters' new compensation models. Willis has reached "pleas-

Willis Group Holdings Ltd.

2004 gross revenues: **\$2,275,000,000** 

2004 brokerage revenues: **\$2,205,000,000** 



Joe Plumeri, chairman/CEO

ant conclusions" with most of its underwriters in the United States, Mr. Plumeri said.

"All I want to do is to be able to get paid fairly for what we do," he said. "At the end of the day, the client still has to pay us. They're the ones who pay us and we'll go from there."

In the meantime, Willis laid off 4% of its workforce or about 500 individuals earlier this year, as a means to generate savings. Most of those employees did not directly serve accounts.

"Given the loss of contingent commissions, and given the \$51 million we had to put in the restitution fund, clearly it's not business as usual," Mr. Plumeri said. "We had to find ways to create some savings."

Rather than further layoffs, savings will now come from getting the greatest efficiencies from the resources Willis has, and a big part of that is investments in technology,

he said.

Willis also intends to grow via new business production.

To do that, Willis has hired more than 250 new "client-facing" employees in all levels within the company since the middle of last October.

"So far, the hires have adapted well to the Willis culture and have produced some new accounts," Mr. Meredith noted in his brief. "That said, it will take time—at least a renewal cycle of six months to a year—to see the real impact of the hiring."

Willis' plans for growth will have to come without the help of its wholesale brokerage operation—New York-based Stewart Smith Group—which it sold to Charlotte, N.C.-based American Wholesale Insurance Group Inc. in February for an undisclosed sum.

Stewart Smith was the world's fifth-largest wholesale brokerage in 2004 based on \$1.0 billion in 2003 premium volume. The unit generated \$74.7 million in 2003 revenues.

"I think Stewart Smith is noncore for the future, and I don't think we should be in the wholesale business," Mr. Plumeri said. "I think the wholesale business should be in the wholesale business."

Mr. Plumeri said that Willis is going to concentrate on its retail brokerage operations, including its reinsurance brokerage and primary brokerage businesses.

"What we're going to do at Willis is grow our business by opening retail accounts. That's the way we're going to grow our business. That's our future," he said.

In the first quarter of 2005, revenues rose 1% to \$669.0 million, while profits dropped 51.4% to \$72.0 million in the wake of the loss of contingent commission revenue and costs relating to the settlement.

While Mr. Plumeri noted he is proud that the brokerage posted revenue growth in the quarter,

"there's no way in the world you can ever compare 2005 to 2004. Comparing this year to last is like comparing an apple to a kumquat. You just can't do the two."

On July 8, Willis' stock closed at \$32.69 a share, with a 52-week high of \$42.50 and a 52-week low of \$30.50.

—By Sally Roberts



Arthur J. Gallagher & Co.

Dotting Arthur J. Gallagher & Co.'s latest annual report are boldfaced figures that illustrate the insurance brokerage's 2004 successes.

But this year, the contingent commission controversy produced other notable figures: a \$35 million reserve for resolving all related litigation, which includes the \$27 million of promised restitution to clients under a settlement with the attorney general and director of insurance in Illinois.

The settlement not only contributed to a 2005 first-quarter loss but also could hurt some of Gallagher's future results as well as its ability to make acquisitions, because the brokerage agreed to stop collecting contingent commissions, brokerage analysts say. Those commissions totaled \$39.5 million last year, \$33.8 million of which Gallagher's retail brokerage operation generated.

But J. Patrick Gallagher, president and chief executive officer of the Itasca, Ill.-based brokerage, said Gallagher is working on minimizing the financial impact of that revenue loss.

On the strength of brokerage revenues of \$1.33 billion in 2004, Gallagher again ranks as the world's fourth-largest commercial insurance brokerage.

The 10.2% revenue gain from 2003 is Gallagher's smallest in seven years, as many lines of coverage softened last year. The softer market and a 13.8% spike in employee headcount to 8,204 also combined to drop Gallagher's brokerage revenue per employee 3.2% to \$161,531 in 2004.

Still, Gallagher's brokerage revenue growth outpaced the three largest brokerages' and ranked fourth among the top 10.

And, more significant for Gallagher, it boosted net earnings 28.9% to \$188.5 million last year, marking its second-largest earnings increase over the last five years.

"It was a good performance in a difficult year," as Gallagher met its revenue and profit expectations amid distractions created by the contingent commission controversy and an investment lawsuit, said John B. Keefe, an equities analyst with Ferris, Baker, Watts Inc. of Washington.

A jury in February ruled against Gallagher's investment unit, AJG Financial Services Inc., in a licensing dispute with South Jordan, Utah-based Headwaters Inc. over its technology for creating synthetic fuel.


After the jury awarded Headwaters \$175 million, Gallagher settled and took a \$131 million pretax charge in the first quarter (BI, May 2, Feb. 21).


"2004 was a great year—up until Oct. 14," said Mr. Gallagher, referring to the date that New York Attorney General Eliot Spitzer filed suit against Marsh & McLennan Cos. Inc. and ignited a legal firestorm against the world's largest brokerages over their practices in driving up contingent commission revenues. Settlements that Gallagher and the three largest brokerages have reached with various attorneys general bar the companies from accepting contingent commissions.

Referring to the controversy, Mr. Gallagher acknowledged that "it is distracting, what's going on in the world right now." But he said that Gallagher had its share of successes last year:

- Revenue grew at a faster rate in Gallagher's 23 retail brokerage nich-

Arthur J. Gallagher & Co.

2004 gross revenues: **\$1,521,600,000** 

2004 brokerage revenues: **\$1,325,200,000** 



J. Patrick Gallagher Jr., president/CEO

es than it did in the company's general retail brokerage business.

Seventy-five percent of Gallagher's business now falls into those niches. Mr. Gallagher said he expects the brokerage eventually will expand to 30 or 35 niches and that 90% of its business will fall into those specialty areas.

- The Gallagher Bassett Services Inc. claims management operation continued to grow.

"The Gallagher Bassett business had a very robust year of growth," said Adam Klauber, a managing director with Cochran, Caronia Securities L.L.C. of Chicago.

The unit—the nation's largest property/casualty third-party administrator—boosted revenues 16% to about \$350 million in 2004, according to Mr. Gallagher.

Mr. Klauber also noted that Gallagher Bassett's 16% pretax income margin was "extremely high" for the industry, which reflected the unit's ability to attract new clients and perform more services for existing clients without driving up internal costs.

Meanwhile, Gallagher Bassett also is growing its insurance company outsourcing business, Mr. Gallagher said.

- Gallagher's record acquisition

Continued on next page

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Continued from previous page

push brought in "wonderful talent," Mr. Gallagher said. The 19 acquisitions fell nearly equally into Gallagher's retail; wholesale, excess/surplus and reinsurance; and employee benefits consulting operations.

Through the first six months this year, Gallagher made seven acquisitions. It also merged its two U.S. reinsurance intermediary operations to form Gallagher RE Inc. and increased that unit's professional staff through some reinsurance asset acquisitions.

Gallagher, meanwhile, sold two operations earlier this year. Both were medical claims management units.

Impact of probes

During the first quarter this year, revenues from brokerage and risk management operations rose 11.6% to \$316.9 million. But charges for its contingent commissions and investment settlements fueled a \$74 million loss. Gallagher reported \$38.9 million in earnings during the same period last year.

Despite the distractions the contingent commissions controversy has created for Gallagher, its reputation has not suffered measurably, brokerage analysts agreed.

"It still has one of the best reputations in the broker and insurance market," among both investors and clients, Mr. Klauber said.

"Gallagher and others have taken nicks here and there, but there's no long-term damage to the company's core reputation," Ferris, Baker's Mr. Keefe said.

But the long-term financial impact of losing that contingent compensation is an issue Mr. Gallagher is working on minimizing.

Gallagher's retail brokerage-generated contingent commissions represented less than 2.6% of brokerage revenues last year, but total contingent commissions represented nearly 21.0% of net earnings.

Mr. Gallagher said he is negotiating with insurers for alternative, up-front payments to replace the contingent commissions. Possibilities include higher premium commissions and fees for services the brokerage provides insurers.

"We still need to be paid for the work we're doing" for insurers, Mr. Gallagher said. "CEOs at insurers are not unresponsive to that."

Replacing the contingent commissions, though, still could leave Gallagher at a disadvantage in the acquisitions market, brokerage analysts said.

"I think it's going to make it tougher" for Gallagher to compete for acquisition targets that continue to accept contingent commissions and are being courted by other brokers that accept that form of compensation, Mr. Klauber said.

While Gallagher is "a disciplined acquirer," a competing suitor in that situation "can afford to pay more money, especially for a larger property of up to \$25 million in annual revenue," Mr. Klauber said.

But Mr. Gallagher disagreed with that evaluation.

He noted that in valuing past acquisitions, Gallagher discounted their contingent commissions, "because they were contingent."

Indeed, "under our new business model, their income may be more stable" than it would have been under the older model, Mr. Gallagher said.

He also noted that under the Illinois settlement, Gallagher can allow an acquisition to accept contingent commissions for up to a year after it is purchased. And, because Gallagher is attempting to replace its contingent commissions, its acquisitions' profits should not be reduced once they stop accepting contingent commissions, Mr. Gallagher said.

Gallagher still faces more than 20 inquiries and subpoenas from various state attorneys general and insurance departments, 12 class action lawsuits and one shareholder

derivative suit against its board of directors over contingent commissions.

Mr. Gallagher, though, said he hopes the Illinois settlement could serve as a global settlement for all of the state investigations and class action litigation. "We're hopeful that they'll see Illinois did a good job. It's a distracting situation, and it's fluid," he said.

"I'd like to get to 2006 and say we have a clean slate," Mr. Gallagher said.

But, he added, "I don't know if we can get there."

On July 8, Gallagher's stock closed at \$27.51 a share, with a 52-week high of \$34.12 and a 52-week low of \$25.42.

—By Dave Lenckus

5

WELLS
FARGO**Wells Fargo & Co.**

Coming off a successful year, Wells Fargo & Co.'s Acordia Inc. insurance brokerage operation is looking at further growth opportunities across the middle market it aims to serve and, significantly, its parent company's base of banking customers.

While Acordia's business prospects appear bright, there is a shadow cast in the form of a lawsuit brought earlier this year by West Virginia Attorney General Darrell V.

McGraw Jr., charging that Acordia and its Acordia of West Virginia Inc. subsidiary violated state antitrust and consumer protection laws by accepting contingent commissions from insurers for steering business their way.

Unlike the world's four largest brokers and some others, which have ceased taking contingent commissions, Acordia continues to accept this form of compensation. While not commenting on the pending suit, Acordia has emphasized its policy of disclosing its compensation from insurers.

With Acordia and its other insurance operations, Wells Fargo ranks fifth on the *Business Insurance* rank-

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ing of the world's largest brokers with 2004 brokerage revenues of more than \$943.7 million, a 17.9% increase from the \$800.5 million the company posted in 2003.

"Acordia had one of the best years we ever had," said Kevin W. Conboy, Chicago-based Acordia's president and chief executive officer.

Wells Fargo & Co.

2004 gross revenues:
\$1,041,029,000

2004 brokerage revenues:
\$943,728,000



Kevin W. Conboy,
president/CEO
Acordia Inc.

"We continued to build on our sales culture" and expanded activities.

The cross-selling business with Wells Fargo that the companies hoped to achieve when the bank acquired the broker in 2001 was particularly robust, growing 34% in 2004 from 2003, Mr. Conboy said. Late in 2004 and early this year, Acordia added 20 dedicated producers to work on cross-selling opportunities with the bank and to educate Wells Fargo bankers on some of the possibilities.

"We match the dedicated producer up with the bank footprint and we try to match the producer's ex-

pertise up with the local bank's customer areas," Mr. Conboy. "I would say we've got the best team in place that we've ever had."

Among Acordia's various operations, the Minneapolis-based Risk Finance Group, which focuses on errors and omissions, directors and officers, employment practices liability and environmental risks, "has been a phenomenal success," Mr. Conboy said. "We have gained some considerable new customers as a result of our Risk Finance Group."

Through the Risk Finance Group, "We've picked up a lot of environmental opportunities across the country," said Scott Isaacson, senior vp and chief marketing officer at Acordia. That area of business, he said, is a natural tie-in to the bank's activities.

The company also is looking to expand the regional reach of its Acordia National third party administrator operation. While it has historically been Southeast focused, the company opened a Las Vegas office earlier in 2005. The company has plans to expand the operation further on the West Coast.

On the international front, earlier this year, the HLA Global international brokerage network in which Acordia participates was restructured, expanding its reach and giving Acordia access to new customers, Mr. Conboy said.

"We now have capabilities through strategic partnerships in 90 countries," added Mr. Isaacson.

The broker's American E&S excess and surplus lines operation "had a fantastic year last year," Mr. Conboy said, while its Acordia Re intermediary business "continues to grow quite nicely with significant growth coming out of Latin America right now." Acordia expects its reinsurance business in Brazil to increase 150% in the next two years.

Acordia's employee benefits business continues to be successful, and the broker was poised in early July to roll out a new health product

aimed at helping ease the pain employers face with rising health care costs.

Acordia's alternative market activities have slowed with the softening market, and likely won't see significant growth this year, Mr. Isaacson said. On the property/casualty side, "We expect that the softening market will continue for at least the balance of '05, probably continuing into '06," he said.

Acquisition activity cooled a bit in 2004, with Acordia making five deals.

"On the acquisition side, we didn't do as many deals as we historically have, but I don't think that's all bad given the market," Mr. Conboy said.

"It has been a very competitive market," Mr. Conboy said. "But we continue to look and pursue acquisitions."

Regarding the compensation issue, Mr. Conboy said Acordia has seen few customers questioning its continuing to accept contingent commissions. "In terms of a broad-base across all our customers, there hasn't been a significant number," he said.

"There appears to be a dividing line between the largest brokers and the balance of the market," said John W. Wicher, principal at San Francisco-based John Wicher & Associates. "Right now the middle market brokers have clearly made a decision that contingent commissions are appropriate with disclosure."

"We took a pretty aggressive stand with respect to disclosure," said David J. Zuercher, executive vp and head of the International, Correspondent Banking and Insurance Services Group at Wells Fargo in San Francisco.

The broker has seen an opportunity to gain new business and add sales professionals as a result of some of the disruption at other firms, Mr. Conboy said.

Looking forward, with an entrepreneurial-driven sales culture focusing on locally run operations supported by a parent with the financial strength of Wells Fargo, "I think our business plan looking ahead is just phenomenal," Mr. Conboy said.

"A lot of our business opportunities will come out of the bank," Mr. Isaacson said. "We've just scratched the surface of that."

On July 8, Wells Fargo's stock closed at \$61.27 a share, with a 52-week high of \$63.38 and a 52-week low of \$56.12.

—By Rodd Zolkos



Jardine Lloyd Thompson Group P.L.C.

Following a difficult year in which profits fell and its chief executive departed, Jardine Lloyd Thompson Group P.L.C. is focused on streamlining management and taking advantage of growth opportunities.

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tapped former Chief Executive Ken Carter to act as executive chairman after the abrupt departure of CEO Steve McGill in December. Mr. Carter will serve in that role for up to two years until JLT can name a

Jardine Lloyd Thompson Group P.L.C.

2004 gross revenues:
\$883,506,000*

↑ 21.2%

2004 brokerage
revenues:
\$857,844,000*

↑ 22.4%



Ken Carter,
executive chairman

*British pound=\$1.8330 (2004), \$1.6341 (2003)

new top executive.

Mr. McGill's departure swiftly followed a JLT warning last year that quicker-than-expected market softening and less demand for risk consulting would reduce its profits for 2004.

For 2004, JLT's total gross revenues increased 8% in its home currency, to £482 million (\$883.5 mil-

lion) from £446 million (\$728.8 million) in 2003. Brokerage revenues, which comprise commissions and fees from placing insurance and reinsurance as well as consulting services, grew 9%, to £468 million last year from £429 million in 2003. In dollars, the increase was more than 22%, to \$857.8 million from \$701.0 million, ranking JLT as the world's sixth-largest brokerage.

JLT restated profits for 2004 due to a mandate that E.U. public companies adopt International Financial Reporting Standards for 2005. The group's after tax profits last year fell 19.7% to £59.0 million (\$108.1 million) from a previously restated £73.5 million (\$120.1 million) in 2003.

The revenue improvement re-

flected increases in employee benefits business, a major area for JLT, as well as acquisitions in North and South America.

JLT's main acquisitions in 2004 included two reinsurance units majority-owned by Heath Lambert Holdings Ltd.: Corredores Colombianos de Reasegueros S.A. in Colombia and Intermediario de Reaseguro S.A. de C.V. in Mexico. JLT also acquired two retail brokerages based in Peru.

Wholesale unit launched

In January, JLT formed a London-based wholesale unit, Lloyd & Partners Ltd., to place U.S. business internationally. The unit is headed by John Lloyd, a founder of JLT, and it

handles risks including cargo, casualty, health care, professional liability and property business oil and gas, power, professional liability and property.

Mr. Carter said he sees "big growth prospects in the U.S." in the next year or so. "There are not many parts of the business that we're not working flat out for more opportunities," he added.

Jardine Lloyd Thompson L.L.C., JLT's Houston-based U.S. division, earlier this month announced a re-branding of its Corporate Risks Division to reflect a broader focus on clients outside the Fortune 1000. The U.S. division serves targeted business sectors, including aviation, construction, employee benefits, energy and marine, health care, pri-

vate equity and banking.

The investigations of brokerage compensation practices by New York Attorney General Eliot Spitzer have led JLT to cease accepting contingent compensation for U.S. business and certain large accounts. But the brokerage said this month it will continue to accept volume- or profit-based contingent pay for regional U.K. accounts where it competes with brokers that still receive such compensation.

JLT in a statement said it will fully disclose such commission arrangements. In any full year, such commissions are likely to account for about £2 million (\$3.47 million) of the company's pretax profit, a

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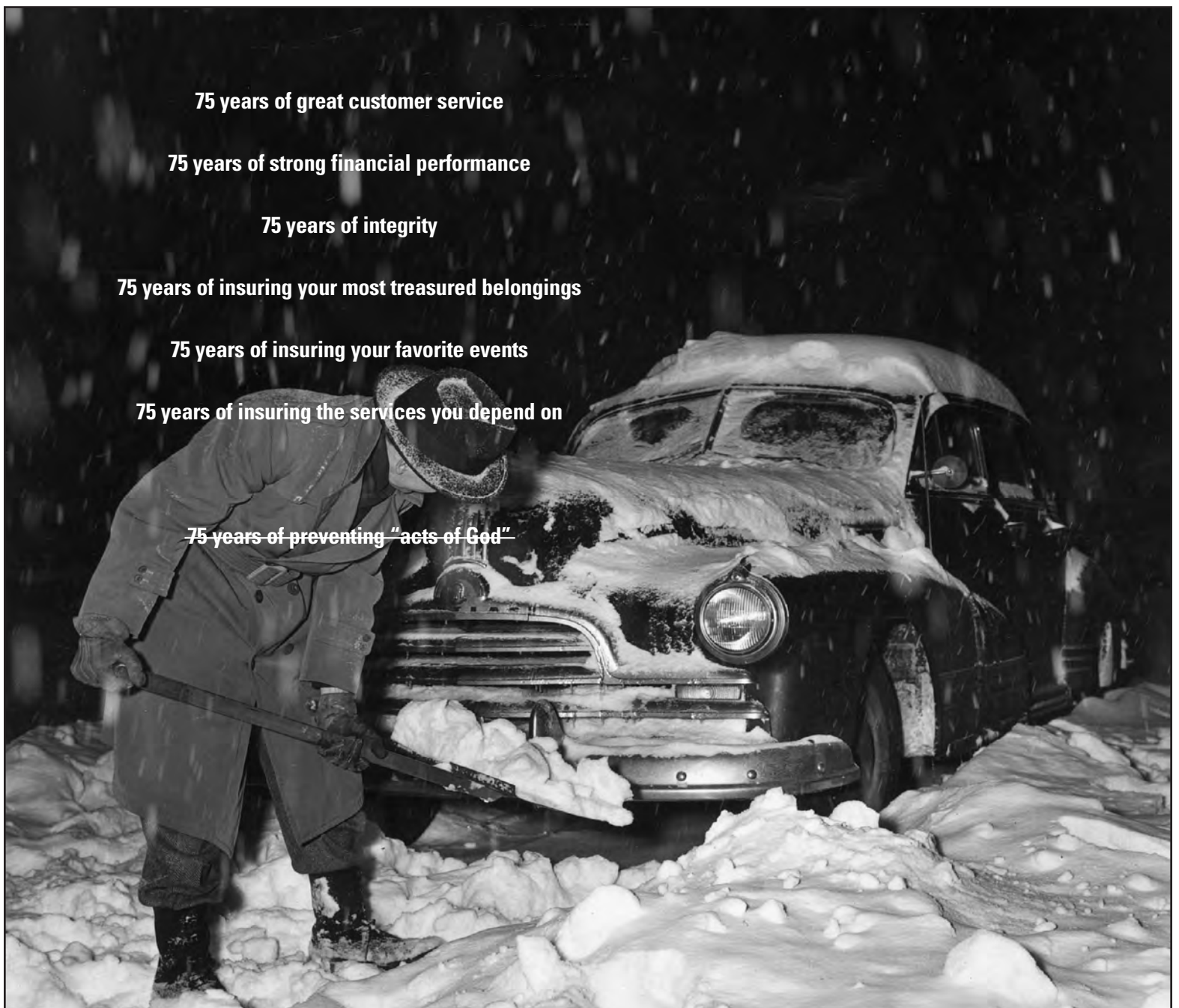
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spokesman noted. JLT reported to *Business Insurance* that its contingent commissions in 2004 totaled less than 2.5% of total revenue, or about £11.1 million (\$19.26 million).

Mr. Carter said "there is now an ongoing demand for transparency in the market, and the bigger companies in the world are now much more inquiring of their broker's remuneration model."

Clients' interests "are paramount, and the broking industry should serve their clients in an open manner," he said.

In a statement, JLT said "the company will continue to argue for a level playing field in all segments of the market in which we operate—it is our objective that brokers are remunerated for the value they bring to their clients with total transparency."

"JLT has always concentrated on

its clients' needs, on operating without conflicts of interest and on full compliance with regulatory requirements," Mr. Carter said.

When discussing the group's strengths, Mr. Carter boasted that JLT is "flexible and nimble, and we react quickly to opportunities that present themselves," he said.

But, he added, "we will never be the biggest. We have always been focused as a group on identifying where we want to have leadership. We don't want to be drawn into a business environment where we are all things to all people."

JLT's main business areas are Risk and Insurance, which includes worldwide insurance, reinsurance and risk services business; and Employee Benefits, which comprises pension administration, outsourcing, benefit consulting and U.S. group marketing.

"JLT differentiates itself by deliv-

ering a superior service to our clients at all times, in those areas where we are or can be a market leader and doing that by employing the best industry professionals," said Mr. Carter.

In the past year, JLT has increased staff and named a new leader for JLT Risk Solutions, its largest division. Mike Hammond in April 2004 was hired as chief executive to lead the London-based division. Mr. Hammond previously was chief executive of Marsh U.K. Ltd.

Total staff increased 15.9%, to a current total of 5,349.

Mr. Carter suggested that the weak dollar and continued market softening likely will challenge the group's performance. Since February, "rates in most lines of business in which we operate have continued to fall and the dollar has remained weak. Although it is still early in the financial year, this downward trend leads us to view the year as a whole with continued caution," he said.

Jonathan Firkins, an equity analyst with London-based Cazenove, said the forecast for JLT is tough for the rest of 2005, but he suggested the broker could pick up new business.

"JLT has a good chance it could be the net beneficiaries of the fall-out with some of the brokers with Eliot Spitzer following his investigations," he said.

JLT expects to release its interim 2005 results around July 26.

On July 8, JLT's shares, which are traded on the London Stock Exchange, closed at £3.92 (\$6.81). The 52-week high was £4.24 (\$7.36) and the low was £3.33 (\$5.78).

—By Barbara Cockburn

BB&T Insurance Services Inc.

2004 gross revenues: 12.1%
\$701,494,700

2004 brokerage revenues: 12.4%
\$679,748,400



H. Wade Reece, chairman/president

acquisition and revamping internal policies and procedures in response to recent events in the insurance industry.

The Raleigh, N.C.-based company reported brokerage revenues of \$679.7 million in 2004, an increase of 12.4% over 2003, making it the world's seventh-largest insurance broker for the second consecutive year. The brokerage vaulted into the top 10 list last year due to its 2003 purchase of Birmingham, Ala.-based McGriff Seibels & Williams Inc.

Insurance income totaled \$152.3 million for the first quarter of 2005, an increase of 23.1% over the prior year period, primarily due to the company's acquisition of several insurance agencies during 2004, the largest of which was McGriff.

BB&T purchased McGriff in an effort to expand its reach nationally. In the past, BB&T's specialty has been service to small and midsize businesses and individual clients, but the McGriff acquisition has allowed it to compete for large-account business.

"It positioned them for being able to go from a strong regional broker to a strong national broker that could compete against anyone," said Jim Campbell, a principal and head of the bank consulting practice of Reagan Consulting Inc. in Atlanta. "And that's a pretty significant step."

Integrating the McGriff acquisition was the company's primary focus last year and the process has gone smoothly, said H. Wade Reece, president and chairman of BB&T Insurance Services.

"I think really their big challenge for 2004 was to integrate McGriff into their business and it appears that they've done that very well," said Wayne Walkotten, Grandville, Mich.-based senior vp for Marsh Berry & Co. Inc.

The company has also purchased dozens of midsize agencies in locations where its parent company, BB&T Corp., has numerous banking operations. "BB&T is clearly one of the leaders of the bank/insurance movement and have been since the beginning in the 1990s," Mr. Campbell said.

In 2004, BB&T did what they said they were going to do: digest their

acquisitions, said John Wicher, principal at San Francisco-based John Wicher & Associates, which provides merger and acquisition advisory and investment banking services to the insurance industry. "And I think they acquired some of the best assets and they haven't been bashful about being aggressive," Mr. Wicher said.

BB&T has also experienced extremely good organic growth over the last few years, with much of the growth coming in its employee benefits sector, Mr. Reece said.

The other national brokers have had difficulty maintaining organic growth, but BB&T has been able to do that through its strong sales force and referrals from its parent bank, Mr. Walkotten said. But they are not just relying on referrals from the bank, which is a positive, he added.

Analysts cited the company's strengths as its selectivity on the M&A front—focusing on quality assets—and its position as a subsidiary of a larger financial institution that has committed to the business of insurance and can provide the brokerage with access to capital and cross-selling opportunities.

Dealing with the ramifications of the regulatory investigations into insurance industry practices was another key focus for BB&T last year, Mr. Reece said. The company received about a dozen information requests from regulators. Responding to these requests was time consuming and took away from other activities, such as prospecting for new clients, he said.

The company revamped its fee structure in direct response to the controversy over contingent commissions, he said. As of Jan. 1, BB&T accepts insurer commissions only when the company is acting as the agent of the insurer and receives a commission solely from the insurer. If the company is accepting a fee from a client, there is no commission from the insurer, he said. This change has probably reduced BB&T's revenues by about 25%, although it is hard to estimate the entire loss at this point in the year, Mr. Reece said.

BB&T only accepts contingent commissions when it receives a base commission from the insurer and receives no compensation from the client. So when the company is acting as an agent on behalf of an insurer, the company would be eligible for a contingent commission, typically based on profitability, for accounts where it does not receive a commission or fee from a customer, Mr. Reece said.

The reaction from BB&T clients to media reports about the industry investigations has been to ask many questions, so the company spent a sizeable amount of time last year retraining employees and making sure they do a more accurate job of explaining the process to clients. This has been time consuming, but has made BB&T's fee disclosure process more complete and transparent, Mr. Reece said.

With regard to the insurance industry investigations, BB&T will stay within industry guidelines and ensure that its policies put customers first, Mr. Walkotten said.

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"I don't believe it had a negative impact on them," he said. "There's just no room within the culture to have some of the issues that other brokers have had."

Going forward, analysts say they expect the company to remain an active acquirer. BB&T wants to acquire agencies with revenues of \$5 million or more in Florida and the Northeast, said Mr. Walkotten, whose firm provides M&A consulting services for BB&T.

"The question is when they choose to move forward, not if," Mr. Wicher said. "I think it's an issue of timing, not an issue of ultimate appetite."

The key objectives for the company are continued growth, searching for good acquisition partners and client retention, Mr. Reece said.

"We're a service business," he said. "We're here for our clients. We can't let it get too complex. We have to keep that focus."

On July 8, BB&T's stock closed at \$40.72 a share, with a 52-week high of \$43.25 and a 52-week low of \$37.04.

—By Gloria Gonzalez

8

**Brown & Brown Inc.**

Brown & Brown Inc. doesn't expect to miss a beat while the company's chairman and chief executive officer recuperates from heart surgery.

J. Hyatt Brown is expected to return to his normal duties late this summer after undergoing heart bypass surgery in June. In the mean-

Brown & Brown Inc.

2004 gross revenues:
\$646,934,627 17.4%

2004 brokerage revenues:
\$638,267,398 17.1%



Jim Henderson,
president/COO

time, the Daytona Beach, Fla.-based brokerage continues its hunt for acquisitions and new clients as its organic growth remains sluggish.

Even as he recovered in a hospital bed, Mr. Brown wasn't far from his work.

Visiting the 67-year-old CEO at the hospital "was like walking into his office," said Jim Henderson, Brown & Brown's president and chief operating officer. Mr. Brown

had plenty of work-related questions and suggestions, to the point that Mr. Henderson realized he had to leave so his boss could rest.

During 2004, Mr. Brown steered Brown & Brown to brokerage revenues that reached \$638.3 million, up 17.1% from its 2003 brokerage revenues. The increase positioned Brown & Brown at No. 8 in *Business Insurance's* ranking of the world's largest brokerages.

Brown & Brown's total gross revenues, which include investment income and miscellaneous revenues, rose to \$646.9 million in 2004, up 17.4% from 2003.

Acquisitions lead growth

As is the norm for the brokerage,

acquisitions played a key role in its growth.

Brown & Brown acquired 29 agencies in 2004 with around \$100 million in total annualized revenues. Through late June of this year, the brokerage had picked up another 15 agencies, representing annual revenues of \$94.8 million.

The acquisition of Hull & Co. Inc. in Fort Lauderdale, Fla., was Brown & Brown's largest in the first half of this year. Hull & Co., which has 20 offices in nine states, generates around \$63 million in annual revenues.

The Hull & Co. purchase is one of several over the past year of agencies that is larger than companies Brown & Brown normally targets. The brokerage generally seeks ac-

quisitions that generate up to \$10 million in annual revenues, Mr. Henderson said.

Some larger agencies have become attractive targets as owners debate whether they want to continue through yet another soft market cycle, Mr. Henderson said. And agency owners in some cases are "baby boomers who may want to do something else," he said. Brown & Brown looks mainly for acquisition targets that offer a similar operating culture and talent, Mr. Henderson said.

Meanwhile, organic growth at Brown & Brown has continued to slow.

Mr. Henderson said organic growth was just under 5% in 2004. That's a dip from around 5.9% in

2003 and well off 12.0% in 2002.

"I think there will be continued pressure on it," Mr. Henderson said of internal growth. "In a hard market, we call that a placement market: the art is getting the business placed. In this cycle, the art is getting the opportunity. We are keeping our people focused on new business."

Among the opportunities for Brown & Brown in the current market are property accounts, Mr. Henderson said. "We want to expand our property business," which is not as soft as some liability lines, he said. "There are some good opportunities in retail and wholesale."

While Brown & Brown serves For-

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Continued from previous page

tune 1000 clients, its main focus is middle-market commercial and personal lines accounts generating less than \$2.5 million in annual premium, Mr. Henderson said.

Analysts say Brown & Brown is experiencing what a lot of others are going through in the current market.

"Organic growth has been under pressure within the industry in general," said Nick Pirsos, managing director of investment banking firm Sandler O'Neill & Partners L.P. in New York. "But they have bucked the tide better than many in their group," he said of Brown & Brown, because the brokerage's aggressive sales culture has led producers to come up with business that others are fighting for as well.

"It's a well-known fact that organic growth for the industry has throttled down sharply," agreed John Keefe, an equity analyst with Ferris, Baker Watts Inc. in Richmond, Va. The numbers related to organic growth posted by Brown & Brown are consistent with what the company has said it expected, he added.

Net income was up at Brown & Brown last year, but the rise was much less than in the previous year. Net income rose 16.8% in 2004 to \$128.8 million compared to a 32.7% rise in 2003.

In this year's first quarter, net income reached \$43 million, up

18.4% from the same quarter in 2004. Commissions and fees amounted to \$200.3 million during the first three months of 2005, a 22.2% jump from the year before.

Brown & Brown's first half results are scheduled to be released around July 18.

Keeping contingents

Brown & Brown is among several middle-market brokers that continue to accept contingent commissions in the wake of industry investigations that led some large brokers to discontinue those arrangements. The commissions, which Brown & Brown receives as part of profit-sharing arrangements, were down 5.5% to \$30.7 million in 2004, primarily because of the impact on insurers of four hurricanes that hit Florida last year.

Scrutiny over contingent commissions has been part of the controversy stirred by New York Attorney General Eliot Spitzer's investigation into the payments by insurers. Mr. Henderson said, though, that "not all are equal" when considering the arrangements.

"The agreements that we have are local-agent profit-sharing agreements," he said. The commissions are paid to Brown & Brown's individual units, he said, and last year, 157 insurers shared profits with 111 of those offices. Brown & Brown a year ago began disclosing compen-

sation arrangements in renewal statements, Mr. Henderson said.

No one should expect such commissions to be discontinued at Brown & Brown or other middle-market brokers, said Mr. Keefe. For many such brokers, "contingent commissions can make the difference in a successful year," he said.

Nevertheless, Brown & Brown has not been immune to the indus-

"It's a well-known fact that organic growth for the industry has throttled down sharply."

John Keefe
Ferris, Baker Watts Inc.

try investigations. The brokerage has received written requests and subpoenas seeking information from governmental entities in 18 states.

Mr. Henderson acknowledged that the investigations have caused some disruption, noting that Brown & Brown "is playing defense more than we ever have in our history because so many state regulators are inquiring" about compensation arrangements.

"There's no legal involvement currently from the feedback of those," Mr. Henderson said referring to the investigations. "We're still responding to inquiries" from various attorneys general and insurance commissioners.

He did note, however, that "there's been no new activity as of late, so hopefully the inquiries that have been initiated will be tapering off, but they are far from concluded."

Brown & Brown continues to cooperate with regulators and will adopt any disclosure standards that ultimately are required, Mr. Henderson said.

Meanwhile, the brokerage continues to defend itself in three policyholder lawsuits that also name other brokers. The suits charge the intermediaries with a number of actions related to alleged steering of business to insurers without considering the policyholders' interests and failure to disclose contingent commissions and other compensation.

Among Brown & Brown's operating divisions, the brokerage operation turned in the biggest percentage revenue gain. The division markets excess and surplus lines insurance and reinsurance and generates nearly all its income from commissions and fees.

Despite the division's 19.7% drop in contingent commissions last year to \$3.7 million, its revenues rose 31.3%, to \$41.6 million, from 2003.

The brokerage's national programs division recorded \$112 million in 2004 revenues, up 23.9%. Much of the growth in the division, which provides programs and services for a number of niche businesses, can be attributed to new acquisitions. The revenues from acquisitions helped offset the division's 77% decrease in contingent commissions to \$827,000 last year.

The retail division remains the top revenue generator, with a 15.6% increase to \$461.3 million in 2004 revenues. Contingent commissions rose in that division by 7.3%, to \$26.2 million.

Brown & Brown's western U.S. retail operations are seeing an encouraging return of insurers to underwriting certain risks, Mr. Henderson said. "All of a sudden, California comp is not an evil line," he remarked. "And some markets are writing construction" and taking on other risks they previously stayed away from, he said.

Changes were made to Brown & Brown's services division, whose offerings include third-party administrative services, consulting and managed health care services.

"Last year we sold our health care TPAs," said Mr. Henderson. "We had those operations since the early '80s. It's a great business, but that product line had become a commodity. There was no way to separate ourselves" from competitors, he said.

Brown & Brown kept two other TPAs that are "tied to other businesses," Mr. Henderson pointed out. "So there is a strategic relationship there and we can offer a more customized product" that distinguishes the TPAs from competitors, he said.

The jettisoned TPAs are partly responsible for a revenue drop of 6.2% to \$26.8 million in the services division last year.

"The piece we were really pleased with last year was that we were able to continue to search for and find really good businesses to join us," Mr. Henderson said. "There is a significant number of private enterprises in a very fragmented market; we have a unique ability to pick and choose those that fit our model."

On July 8, Brown & Brown's stock closed at \$44.88 a share, with a 52-week high of \$48.54 and a 52-week low of \$38.60.

—By Michael Bradford




Alexander Forbes Ltd.


Against the backdrop of controversy in the global insurance brokerage industry, South African broker Alexander Forbes Ltd. has concentrated on internal issues over the past year, such as shoring up its balance sheet, according to its chief executive.

But looking to the future, the turmoil created by the investigations of New York Attorney General Eliot Spitzer and others could provide growth opportunities for midsize brokers like Alexander Forbes, he said.

In an effort to guard against the abuses detailed in Mr. Spitzer's law-

Alexander Forbes Ltd.

2004 gross revenues:
\$757,170,000*  19.3%

2004 brokerage revenues:
\$635,861,700*  18.4%



Rael Gordon,
group CEO

South African rand= \$0.1611 (2004), \$0.1399 (2003); fiscal years ending 3/31.

suit, more buyers are seeking to use multiple brokers, and that gives midsize brokers a chance to compete for business rarely seen a year ago, said Rael Gordon, group chief executive of Alexander Forbes.

Those opportunities to win a slice of large account business are already arising and more will likely follow, he said.

Any added business, though, has not yet had much impact on the brokerage's results.

While the group's revenues grew modestly last year, they were dampened by the effect of the weak U.S. dollar and the softening of the insurance market, Mr. Gordon said.

The broker, whose fiscal year ends March 31, said that gross revenues for the year to March 31 were 4.70 billion rand (\$757.2 million), a 3.6% increase in its home currency over the prior year period.

For the year to Dec. 31, 2004, brokerage revenues were 3.95 billion rand (\$635.9 million), up 2.7% from the year earlier.

Mr. Gordon said that some strong business gains led to the increase in revenues but these, he said, were offset partially by the softening insurance market and the weak U.S. dollar. Between 15% and 20% of

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July 18, 2005

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Alexander Forbes revenues are in U.S. dollars.

The group's revenues from international risk services business declined 5% for the year ending March 31, to £111.1 million (\$209.9 million), while revenues from the group's African risk and insurance services grew 6% to 794 million rand (\$126.6 million).

After a period that included several acquisitions, including the 2002 purchase of U.K. actuarial and pension consulting firm Lane Clark & Peacock, 2004 was a year for the company to eliminate the bulk of its international debt and "clear the decks," said Mr. Gordon.

In July, Alexander Forbes announced two agreements with Johannesburg-based technology investment company VenFin Ltd., as part of this financial restructuring.

Under the first agreement, VenFin bought 114.8 million shares of new Alexander Forbes shares, giving it 24.96% of the enlarged share capital of the group. Alexander Forbes raised 1.16 billion rand (\$185.0 million) through the issue.

"We see it as a very positive move for credible midmarket players like ourselves."

Rael Gordon
Alexander Forbes Ltd.

Under the second agreement, Alexander Forbes bought back some bonds it issued and which were held by VenFin. Those bonds would have matured on Sept. 15, 2005.

Alexander Forbes said that buying back the bonds would remove the potentially dilutive effect of the bonds on the company's balance sheet in the event that the bonds decrease in value, among other things.

Neville Chester, a fund manager at Coronation Fund Managers in Cape Town, South Africa, said that as a result of the restructuring, Alexander Forbes' units are now "pretty well-placed to go forward".

The conversion of the bonds issued to VenFin has strengthened the company's balance sheet, he noted, and removed any potential uncertainty that may have existed about the company's financial strength.

In addition to strengthening the company's financial position in South Africa, Alexander Forbes last year addressed some concerns about the financial strength of its U.K. operations.

The company had previously had difficulty converting its balance sheet strength in South Africa to comparable strength in the United Kingdom, where much of its risk services business is based, Mr. Chester said.

In June 2004, the company transferred £19 million (\$34.0 million) of equity capital to the United Kingdom in order to pay off a loan granted by Merrill Lynch in the United Kingdom.

In all, during the year to March 31, 2005, Alexander Forbes repaid debt of 1.5 billion rand (\$239.3 million), it said.

In addition to the financial restructuring, Mr. Gordon said that last year the company had spent significant amounts of time and effort to comply with new regulatory requirements in the United Kingdom.

The London-based Financial Services Authority assumed regulatory responsibility for U.K. brokers on Jan. 14, replacing the previous self-regulatory regime.

Getting ready for FSA regulation "was a short term hurdle," noted Mr. Gordon, which involved compliance exercises and staff training.

He noted that an FSA deadline of Jan. 1, 2007, for the U.K. insurance

industry to achieve contract certainty at policy inception is "a challenge for clients, brokers and insurers."

"We all have a role, and we all have to work together," he said.

Many commercial brokerages are also being affected by the compensation scandal resulting from Mr. Spitzer's investigations.

Although it was not directly involved in the investigations, Alexander Forbes, like many of its peers, announced that from the start of 2005, it would no longer accept contingent commission payments.

The brokerage said that such commissions accounted for less than 1.5% of its annual revenues from risk services business.

Mr. Gordon said that although

the investigations had had a "negligible" impact on Alexander Forbes, their impact on the insurance brokerage industry as a whole was huge.

"It will lead to full disclosure (of fees and commissions) as the norm," he said.

The upshot of the investigations will likely be that more business will move from large global brokerages to midsize brokerages, such as Alexander Forbes.

"We see it as a very positive move for credible midmarket players like ourselves," he said.

The company likely will be able to make gains as clients shift from other brokerages that have been affected by the investigations in the United States, said Mr. Chester of

Coronation Fund. But so far, there hasn't been much movement from larger brokerages to smaller ones, he said. Such movements will likely occur around the Jan. 1 renewal, and it is then that observers will be better able to judge whether brokerages like Alexander Forbes have gained substantial numbers of new clients, he said.

Mr. Gordon said that Alexander Forbes was now being invited to pitch for business that previously it would not have been shown.

He said he thought that as well as many clients opting to change brokers, many will shift to a system of "split placements," using more than one broker for the placement of an

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organization's portfolio of risks.

Alexander Forbes does not have a U.S.-based retail brokerage operation, and does not intend to open one, preferring instead to partner with U.S. retail brokers to place business in international markets, Mr. Gordon said.

For much of its European insurance and risk services business, Alexander Forbes uses EOS RISQ, a European insurance broking and risk management consulting network.

In January 2005, Detmold, Germany-based Ecclesia GmbH, which specializes in health care business, among other things, joined the network, bringing the total number of members to six.

The network is always looking to expand, Mr. Gordon said.

Employee benefits has become an

increasingly important part of Alexander Forbes business in recent years and now makes up about 56% of the company's revenues.

The company's employee benefits operations performed well both in Africa and internationally last year, according to Mr. Gordon.

The company recorded a 29% growth in revenue for its financial services business—its employee benefits unit—to £74.4 million (\$140.6 million) in the year to March 31, and a 58% growth in operating profit to £10.1 million (\$19.1 million).

The group said that African financial services business saw a 26% revenue increase last year to £34.2 million (\$64.6 million), while its U.K. employee benefits arm, Lane Clark & Peacock, reported a 33% revenue increase to £40.2 million (\$76.0 million).

He said that the company would

continue to look for suitable acquisitions—both of companies and teams—to boost this sector of the business.

On July 8, Alexander Forbes' stock closed at 1,332 rand (\$193.80) a share, with a 52-week high of 1,470 rand (\$213.88) and a 52-week low of 965 rand (\$140.40).

—By Sarah Veysey

10  HRH

Hilb Rogal & Hobbs Co.

Hilb Rogal & Hobbs Co. posted modest revenue gains in 2004 as it continued to expand through acquisitions.

The Glen Allen, Va.-based brokerage also realigned its sales force, which included the departure from the brokerage of poorer producers, as it progressed through the third year of a five-year strategic plan that emphasizes expansion in areas not traditionally associated with HRH. These include excess and surplus lines brokerage and the creation of a Midwest business region that grew in revenues from \$35 million to \$85 million during 2004.

But, despite such successes, HRH could avoid neither the continued softening property/casualty market conditions nor the contingent commission controversy that has rocked the brokerage industry. Controversy over the payment of con-

tingent commissions in its Northeast regional office led to the exit of HRH President Robert B. Lockhart a few weeks ago. The subsequent drop in stock price made HRH the target of a shareholder suit last month. In addition, HRH and Unum Life Insurance Co. of America each agreed to pay \$650,000 to settle a suit filed by Massachusetts concerning undisclosed commissions in violation of procurement contacts with the state.

Nevertheless, "we had the best year financially; we're at an all time high," said HRH Chairman and Chief Executive Officer Martin L. Vaughan III. "We accomplished that while meeting the challenges of the soft market and a lot of additional regulatory costs. We were pretty satisfied with those results."

Premium volume increased to about \$6.6 billion in 2004, an 11.9% increase over 2003. Brokerage revenues, which account for most of HRH's total gross revenues, rose 9.7% to almost \$609.7 million. However, that was not enough to prevent HRH from dropping two places to No 10 on *Business Insurance's* list of the world's largest brokerages.

Most of the revenue growth was derived from acquisitions, with organic growth accounting for less than 2% of the increase in revenues.

Revenues continued to grow in the first quarter of 2005, with total revenues—the bulk of which come from brokerage operations—increasing nearly 16% to \$183.3 million. According to HRH, \$37.3 mil-

Hilb Rogal & Hobbs Co.

2004 gross revenues: \$619,602,950

↑ 9.9%

2004 brokerage revenues: \$609,659,794

↑ 9.7%



Martin L. Vaughan III, chairman/CEO

lion came from contingent and override commissions, and of that, 92% came from standard contingent commissions maintained at the local office level. Override commissions are volume-based, whereas standard contingent commissions are based on the profitability of the business. HRH announced early this year that would continue accepting standard contingent commissions but allow override commissions to revert to standard commissions this year. In addition, HRH adopted a

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standard fee agreement for clients that pay fees and it will not accept contingent payments on that business.

Net income for the first quarter grew 14.4% to \$27.7 million compared to the same period a year earlier.

The 2004 results did not meet earlier expectations, said Mark Dwelle, an equity analyst at Ferris Baker Watts in Richmond, Va.

"Results did noticeably slow by the end of the year. Important within that, though, is just like most their peers, a big part of that slowing was legal and additional compliance costs," he said. Mr. Dwelle noted that all brokers had costs associated with Sarbanes-Ox-

ley Act disclosure rules. In addition, "everybody had attorney general investigation costs and even absent those, Hilb had a slightly less robust year than we were expecting at the outset."

So far in 2005 HRH's results "have been in-line for the first quarter," said Mr. Dwelle. "We're forecasting year-over-year growth of about 8% in 2005," he said.

"Their performance over the last 12 months, while self-inflicted, ultimately were below average relative to their peers," said Nik Fiskien, managing director and analyst with Stephens Inc. in Little Rock, Ark. "Basically, any time you cause such disruption in your sales force and you layer on top of that all of the movement in the industry, you're

obviously going to have fundamental problems," he said.

"They let go some underperformers," he added.

Mr. Dwelle said that the slowdown was continuing across the brokerage industry this year.

"Everybody saw slowing rates of internal growth and that's continuing on into the early stages of '05. I think where Hilb has done a much better than expected job is supplementing the declining organic growth with some quality acquisitions."

"We have very definitive detailed strategy—or a three-legged stool," said Mr. Vaughan. "The first leg is to develop new businesses, E&S reinsurance brokers and MGA businesses. The second leg is to contin-

ue the valuable client service we provide, particularly employee benefits and growing employee benefits and what we call the major accounts national practice groups," he said. "Our acquisition program is the last leg of the stool, a very aggressive and disciplined acquisition program."

HRH made eight acquisitions generating combined revenue of more than \$80 million last year. Among the larger acquisitions were Smith Bell & Thompson Inc., a Burlington, Vt.-based managing general underwriter; T.J. Adams Group, a Chicago-based broker; and Frank F. Haack & Associates, a brokerage and employee benefits con-

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COMMENTARY

Senior Editor Rodd Zolkos

Summer vacation a risk to be managed

There's probably no end to the ways risk management can be applied to everyday life, even by those who aren't obsessives. But there's likely no better place to look for risk mitigation opportunities than the summer vacation.

I'm sure there are a lot of you who have taken or will be taking vacations this summer, many, I'd suspect, seeing things my way. For all its benefits, travel, with its stresses, surprises and unexpected experiences, can be a classic risk-reward scenario. When you add vacation expectations of fun and relaxation to the equation, those risks can grow particularly complex.

There are those who routinely shape their summer vacations around anywhere they can get a cheap last-minute fare. You know the type. They're content to toss a few things in a bag and head off without benefit of advance lodging arrangements, let alone extensive research, a vacation agenda honed to perfection through numerous revisions, a veritable portable library of guidebooks and folders full of newspaper and magazine clippings related to the destination.

Poor fools. When they return to the office, they'll even claim they had a good time.

Then there are the rest of us, for whom the trip begins weeks before that first step toward the airport. It doesn't matter whether the destination is Chiang Mai or Sheboygan, it's making the necessary plans, purchases and preparations beforehand that guarantee the trip's success.

Isn't it? As a kid, our summer vacations were generally the classic family car trip: too many hours crammed in the Chevy Impala, a quick glimpse of that day's goal, dinner, maybe a dip in the motel pool and bed, with an early start on the same routine the following morning.

Dad might peruse the road atlas once or twice during the week before the trip. Aside from that, vacation risk management usually came down to checking the oil and the tread on the tires, tossing an extra fan belt in the trunk and making sure to remember the traveler's checks.

Ah, what sweet innocent times. These days, travel preparations can sometimes seem more like planning a lunar landing. It has to do, I think, not only with the ex-

panded opportunities available to us, but probably more so with the volume of information that exists. Anything's probably a lot less stressful when you aren't aware of everything that could go wrong.

Start with the airline reservation. Today's savvy traveler studies on-time percentages, ensures adequate connection times and checks online bulletin boards to gauge airlines' baggage handling performance.

The latter aspect opens a whole other line of risk mitigation, as the prospective vacationer weighs what can safely get lost and what essential items should be carried on. (That process, I believe, often accounts for travelers seen trying to shoe-horn wheeled steamer trunks into the overhead compartment as fellow passengers fill the aisle shooting increasingly angry glances and generating some real potential risk.)

Then there's the packing itself. I've written before about being a fan of books a buddy and I call "tales of incredible hardship." Among them, I've read a great deal about the race to the South Pole—Scott's tragedy and Amundsen's triumph.

And what's the takeaway from that story? That Amundsen sure knew how to pack, of course. Okay, he also knew to take dogs rather than ponies and motor sledges, picked a shorter route to the pole and had a few other things working in his favor, but you get the point.

So what to pack? Well, it depends on the destination, of course, but I think there's a pretty standard list of basics for anyone looking to manage risks on a summer vacation. It should probably include clothes for hot weather, clothes for inclement weather, bug stuff, various meds, a reliable hat, first-aid supplies, bug stuff, backup meds, something to pass for "dressy" if a nice meal opportunity comes up, bug stuff, an extra pair of shoes, bug stuff impregnated clothes, spare eyeglasses and maybe a little extra bug stuff.

Various portable consumer electronics and their chargers, and the adapters and assorted peripherals that go with them are a whole other category of packing fun. And don't forget the reading material.

All of this, of course, is why it's always a good thing when summer vacation travel season is finally over. It's nice to relax.

When he returns from vacation, Senior Editor Rodd Zolkos can be reached at rzolkos@businessinsurance.com.

Continued from previous page

sultant with offices in Wisconsin.

Thus far this year, it has announced four acquisitions generating annual revenues of more than \$9.8 million.

"We're always looking for the most cost efficient way possible to provide the highest level of service we can," said Mr. Vaughan. "We rolled out our new sales and sales management model in 2004," with an emphasis on creating a new heightened accountability for both team and personal performance, he said. HRH reduced its sales force by about 10%, but is experiencing increasing productivity and increasing capabilities and increasing morale, he said, noting that new business production rose about 15% in 2004.

About 100 producers left the brokerage as a result of the implemen-

tation of the new model. During 2004, HRH added about 50 new producers.

Mr. Vaughan said that HRH spent much of 2004 enhancing existing business while adding new practices.

"Clearly the greatest demands we see are in the area of risk management services, including identifying risk and including loss mitigation work and a heavy emphasis on claims advocacy," he said. "There's growing need for those customized services, particularly for clients that don't have in-house risk management staff."

He noted that in 2004, HRH added several new practices. These included a law firm practice, national marine insurance unit and a national aviation unit. The company also enhanced best practices for claims and loss control, he said.

"We're going to leverage the expertise over to the middle market as well," said Mike Crowley, who joined HRH in October 2004 as executive vp and national director of property and casualty. "It's not all just about big accounts."

Mr. Crowley, a former vice chairman of Savannah, Ga.-based Palmer & Cay, was one of several high-profile industry veterans to join HRH last year. Another was Peter Marcia, who became national director of employee benefits with the acquisition of Hobbs Co.

Carolyn Jones, HRH's senior vp, chief financial officer and treasurer announced her retirement in early 2005, but agreed to stay on until a successor was named.

"We hired a lot of new talent and made significant investment in new talent," said Mr. Vaughan.

But the brokerage continues to face investigations. "Obviously, every industry, including ours, goes through periods of change and regulatory review. Our commitment here at HRH is to constructively cooperate and engage ourselves with the inquiries and where it's appropriate, reach common resolutions."

"We're driving hard toward that end. Of course, when it's appropriate, we'll also defend those practices when we believe those practices are in the best interests of our clients," he said.

"We are committed to full disclosure and transparency and truthfulness to our clients. We realize the need for increased attention to compliance. To that end, we've formed a new business practices committee on our board," which will include a senior officer who will deal only with compliance," said Mr. Vaughan.

HRH's stock closed at \$35.75 July 8, down from its 52-week high of \$38.20 but above its low of \$30.77

—By Mark A. Hofmann

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Market reacts to London attacks with moderation

Low property losses, Pool Re coverage lessen likelihood of sharp rate increases

By SARAH VEYSEY

LONDON—The terrorist attacks in London earlier this month likely will not cause a surge in demand for terrorism insurance coverage, sources say, and underwriters are unlikely to impose dramatic rate hikes in the wake of the bombs on London's transportation network.

But companies will likely now re-examine their vulnerability to terrorist attacks and any potential loss exposures, they say. Although the events neither increase nor decrease the likelihood of future attacks, security remains a huge issue.

Three bombs exploded on London subway trains and one detonated on a bus during the rush hour

July 7, killing at least 54 people and injuring about 700.

Police said last week it was likely that the attacks were the work of suicide bombers.

Sources said that property losses from the bombs were expected to be low—possibly less than £20 million (\$35.17 million).

And any losses are not expected to have a dramatic effect on the insurance market, several brokers said.

Transport for London, which operates London's transportation network, has a Guernsey-based captive insurer, London Transport Insurance (Guernsey) Ltd., that sources say is expected to absorb much of the property losses.

In addition, the United Kingdom has a government-backed mutual terrorism reinsurer, Pool Reinsurance Co. Ltd.—funded by premiums charged to participating insurers



PHOTO: KRT

Londoners observe two minutes of silence at King's Cross station on July 14, one week after four bombs exploded within the city.

See BOMBINGS / page 59

U.K. work absences shorter but costlier

By BARBARA COCKBURN

Absence rates are falling among U.K. workers, but the cost of absences continues to increase, albeit at a slower rate, according to a survey.

The rising cost of employee absence highlights the need for employers to address the issue, employer and labor groups say.

The annual survey, "2005 Absence

Management: A Survey Of Policy And Practice," conducted by the London-based Chartered Institute of Personnel Development, found that each employee, on average, is absent due to sickness 8.4 days each year. That is a 0.3% reduction from 9.1 days in 2004.

More than 40% of public-sector organizations said that stress levels had risen in the past year, with levels highest in local government and health organizations.

The report also noted that there are differences in how the public and private sector manage absence. Public-sector organizations are less likely to use disciplinary measures to manage frequent absences and are less likely to restrict sick pay.

"Return-to-work interviews" allow employers to have frank and open talks with absent employees to discuss any underlying issues and identify any problems before they escalate. Employers view these as the most effective way of managing short-term absence across all sectors, with 71% of surveyed employers using them. Disciplinary procedures and line management involvement are also rated as being highly effective, according to the survey, with 64% of employers using those approaches.

The services provided by occupational health professionals are seen as effective, with 62% of organizations using such services for manag-

Absence costs mixed

Employers' average costs per employee per year

Public sector:
£645 (\$1,133), down 8.6%

Private sector:
£568 (\$998), up 6.1%

Source: Chartered Institute of Personnel Development

ence Management: A Survey Of Policy And Practice," conducted by the London-based Chartered Institute of Personnel Development, found that each employee, on average, is absent due to sickness 8.4 days each year. That is a 0.3% reduction from 9.1 days in 2004.

The survey found a marked difference between annual absence levels in the public and private sectors. Absence levels in the public sector were 10.3 days per employee, compared with 6.8 days in the private sector.

Of the 1,038 organizations surveyed, less than one-third of the respondents provided information about the cost of absence to their businesses. Based on that limited number of responses, though, the cost appeared to have increased 2.2% to £601 (\$1,056) per employ-

See ABSENCES / page 58

U.K. pension guaranty fund lays out proposal for switch to risk-based employer levies

By SARAH VEYSEY

LONDON—Employers and pension experts welcomed the Pension Protection Fund's proposal last week to move to a risk-based levy on employers within a year.

The board of the London-based PPF, which provides a partial guarantee of the pension benefits of workers whose employers become

insolvent, last week published proposals for the new levy, which would replace the current flat-rate charge on employers operating defined benefit pension plans in the United Kingdom.

When the fund was set up, the government said it would eventually shift to a risk-based funding approach, and employer groups have been lobbying for such a levy to be introduced as soon as possible.

Currently, defined benefit plan sponsors pay an annual levy of £15 (\$26.34) per employee or pensioner already drawing benefits and £5 (\$8.78) per deferred member. Under the new approach, though, U.K. employers offering defined benefit pensions would pay a levy that is 80% risk-based and 20% based on the plan's PPF-guaranteed pension liabilities. The changes are slated to take effect in April 2006, about one year after the PPF began operations.

In a statement, Lawrence Churchill, chairman of the PPF's board, said that the PPF "is keen to build on the broad industry support for a risk-based levy and is committed to working in partnership with the industry to develop and introduce a transparent and objective method for calculating a credible and robust risk-based levy which is both fair and proportionate."

The PPF's proposals are now in a public comment period that will run until Oct. 4. The PPF said it expected to publish its levy estimate for 2006/07 by November. Following that, there will be a four-week consultation period.

Proposed levy:

Current PPF levy:
Annual flat-rate charge of £15 (\$26.34) for every active member or pensioner of a defined benefit plan and £5 (\$8.78) for every deferred member.

Proposed risk-based levy:
■ 80% of the charge would be based on risk factors, including the level of underfunding of the plan and the risk of the employer becoming insolvent within the year.

■ 20% of the charge would be based on the level of benefits the plan would pay out if it were accepted into the PPF. A 5% increase might be added to this charge to reflect the volatility of pension fund deficits in any given year.

How it would work

One component of the new levy, which will make up 20% of the

See PPF / page 59

Updates

Amlin will not bid for Chaucer

Lloyd's of London company Amlin P.L.C., which manages multiline syndicate 2001 at Lloyd's, announced it will not make an offer for Chaucer Holdings P.L.C. Amlin said in June that it was in talks to buy Chaucer, which manages and contributes capacity to syndicates 1084 and 1176 at Lloyd's. In a statement last week, Amlin said, "Having completed its review of Chaucer, Amlin has concluded that sufficient value for its shareholders could not be created by proceeding with a transaction."

Satchell named ABI chairman

Keith Satchell, group chief executive of Dorking, England-based Friends Provident Life & Pensions Ltd., has been appointed chairman of the London-based Assn. of British Insurers. Mr. Satchell succeeds Richard Harvey, the group chief executive of London-based insurer Aviva P.L.C. Mr. Satchell previously was chairman of the ABI's financial regulation and taxation committee. He will be succeeded in that role by Andrew Palmer, group finance director of London-based Legal & General Assurance Society Ltd.

Middleton to head Marsh Ltd. in U.K.

Marsh Ltd. has appointed Sir Peter Middleton as its first-ever nonexecutive chairman in the United Kingdom. Sir Peter takes up the post for three years, effective July 1. He also is a member of Marsh's



Sir Peter

international advisory board. Sir Peter was a high-ranking civil servant. He joined London-based Barclays Bank P.L.C. in 1991 and was chairman of Barclays from 1999 to 2004.

Imagine Group CEO resigns

Imagine Group said that Brad Huntington has resigned as president and chief executive officer of the Barbados-based specialty insurer and reinsurer. The company gave no reason for his departure, and representatives of Imagine could not be reached for comment. Until a replacement is found, Chief Financial Officer Michael Daly and Chief Underwriting Officer Bob Forness will assume Mr. Huntington's duties, Imagine said in a statement.

Absences: Annual survey finds falling rates but increasing costs in the U.K.

Continued from previous page
 ing long-term absence. Rehabilitation programs are seen as another effective way of managing long-term absence, with 31% of employers using them, while 12% of organizations use some form of attendance incentive such as bonuses or prizes, according to the survey.

in the health and benefits practice at Mercer Human Resource Consulting, said the survey "represents a huge opportunity for employers to do something about absence levels. Employers in the public sector are not so robust as the private sector in their absence management."

A spokesman for London-based Unison, a trade union representing

public-sector workers said, "Employers need to face up to what's causing the rise in absence levels and put resources in place to help people at work. Generally in the public sector there is a problem of recruitment and retention because of the lack of resource. Many of the jobs are demanding both physically and emotionally and until this is

addressed (statistics) won't change." The Assn. of Insurance & Risk Managers last month launched a campaign to promote rehabilitation to encourage employers to be more proactive in looking after the well-being of their staff. "The U.K. could do better in this field, and the figures in the CIPD report underlines the case for rehabilitation," an AIR-

MIC spokesman said.
 Kate Groucutt, policy adviser at the London-based employer organization the Confederation of British Industry, said that stress is a major contributor to workplace absence and is of "increasing concern" to long-term absence.
 The survey can be found on the CIPD's Web site, at www.cipd.co.uk.

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LEGAL NOTICE

**UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK**

In re: Petition of Catherine Geraldine Reagan, as Foreign Representative of Sphere Drake Insurance Limited, formerly Odyssey Re (London) Limited, Subject of a Foreign Proceeding.

In a Proceeding Under Section 304 of the Bankruptcy Code Case No. 05-14610 (RDD)

NOTICE OF PRELIMINARY INJUNCTION AND REQUEST FOR PERMANENT RELIEF PURSUANT TO 11 U.S.C. § 304(b)

PLEASE TAKE NOTICE that on June 24, 2005, a verified petition (the "Verified Petition") for an Order Giving Full Force and Effect to a U.K. Scheme under Section 304(b) of the Bankruptcy Code and Granting Related Injunctive Relief was filed in respect of Sphere Drake Limited ("SDI") in the United States Bankruptcy Court for the Southern District of New York.

PLEASE TAKE FURTHER NOTICE that the United States Bankruptcy Court for the Southern District of New York has entered a preliminary injunction which:

ORDERS that effective July 12, 2005 and continuing until the date on which a final hearing can be held, all persons and entities are preliminary enjoined and restrained from (i) engaging in any judicial, quasi-judicial, arbitral, administrative or regulatory action or proceeding involving SDI or its property in the United States that is involved in the foreign proceeding, or the proceeds thereof, (ii) enforcing judicial, quasi-judicial, arbitral, administrative or regulatory actions, assessments, orders or any arbitration awards, and/or commencing or continuing actions or other legal proceedings to create, perfect, or enforce any liens, set-offs, or other claims against SDI or its property in the U.S., (iii) drawing upon letters of credit established by, on behalf of or at the request of, SDI, in violation of the provisions of the U.K. Scheme, or withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement in which SDI has an interest, in excess of amounts to which such parties are contractually entitled, in violation of the U.K. Scheme, and/or (iv) retaining assets of SDI in respect of the Scheme Business, thereby interfering with, and causing harm to, the Petitioner's efforts to administer and enforce the U.K. Scheme; provided, however, that the foregoing is without prejudice to the right of any party-in-interest to seek, upon notice and a hearing, to terminate or limit the terms of the preliminary injunction order; and

FURTHER ORDERS that every person and entity that has a claim of any nature or source against SDI and that is or becomes a party to any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which SDI is or was named as a party, or as a result of which a liability of SDI may be established, must place the Petitioner's United States counsel and co-counsel on the service lists at the following addresses: Lovells, 900 Third Avenue, New York, New York 10022 (Attn: Karen Ostad and Dina Gielchinsky), and Dreier LLP, 499 Park Avenue, New York, New York 10022 (Attn: Norman N. Kinell and Jonathan F. Linker), and take such other steps as may be necessary to ensure that such counsel receives (i) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, arbitrator, administrator, regulator or similar official having jurisdiction over such action or legal proceeding, and (ii) any and all correspondence or other documents circulated to parties named in the master service list; and

FURTHER ORDERS that pursuant to Federal Rule of Bankruptcy Procedure 7004(b), the form of this Notice and service of this Notice by mail and publication is adequate and sufficient notice for all purposes relating to the preliminary injunction.

PLEASE TAKE NOTICE that the Petitioner has requested that the Court enter a final order granting the relief requested in the Verified Petition.

PLEASE TAKE FURTHER NOTICE that you are required to submit an answer or motion if you contest the relief sought in the Verified Petition to the Office of the Clerk, Room 610, One Bowling Green, New York, NY 10004-1408 to be received by 4:00 p.m. (EST) on August 17, 2005, with a copy to Chambers. You must also serve a copy of your answer or motion on the Petitioner's counsel, Lovells, 900 Third Avenue, New York, New York 10022 (Attn: Karen Ostad and Dina Gielchinsky), and co-counsel, Dreier LLP, 499 Park Avenue, New York, New York 10022 (Attn: Norman N. Kinell and Jonathan F. Linker) so as to be received by 4:00 p.m. (EST) on August 17, 2005.

PLEASE TAKE FURTHER NOTICE that a hearing on the relief requested in the Verified Petition will be held on August 24, 2005, at 10:00 a.m. (EST), before the Honorable Robert D. Drain, at the United States Bankruptcy Court, One Bowling Green, New York, New York 10004-1408 in Room 610.

Dated: New York, New York • July 12, 2005
 LOVELLS • Attorneys for the Petitioner
 By: /s/ Karen Ostad
 Karen Ostad (KO 5596), Dina Gielchinsky (DG 6054), 900 Third Avenue, New York, New York 10022, (212) 909-0600 and-
 DREIER LLP • 499 Park Avenue, New York, New York 10022, Telephone: (212) 328-6100, Facsimile: (212) 328-6101, Norman N. Kinell (NK 0474), Jonathan F. Linker (JL 8894)
 Co-Counsel for Petitioner

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Bombings: Terrorism coverage market reacts with moderation to London attacks

Continued from page 57

that write commercial property insurance in the United Kingdom—that for 2005 will pay out above £75 million (\$131.89 million) per event up to £150 million (\$263.78 million) per year.

The pool covers property losses and resultant business interruption losses from terrorist events.

Personal accident losses will also likely easily be absorbed by the market, noted Stephen Grant, non-marine director at the London-based brokerage RFIB Group Ltd.

While the July 7 bombings are not expected to result in large financial losses, they do serve as a “wake-up call” for buyers and underwriters, said Mr. Grant.

“Only time will tell” whether the bombings will spark increased

demand for terrorism coverage, according to Justin Priestley of the special risk/counter terrorism team at Aon Ltd. in London. But companies likely will re-examine their potential exposures, he said.

Most large companies already have made a decision about whether or not to buy terrorism coverage, Mr. Grant said, but the attacks may prompt small to mid-sized companies to look again at their potential exposures.

There has been no change in rates for terrorism coverage or available market capacity since the London attacks, added Mr. Grant.

A spokeswoman for Hiscox P.L.C. in London said that the market “appears to be pausing to reflect.”

As of last week, there had not

been a surge of interest in stand-alone terrorism cover.

“Unfortunately, urban terrorism is becoming a fact of life.”

Thierry Van Santen
Federation of European
Risk Management Assns.

“It is very much business as usual,” according to Nick Davies, class underwriter for war and terrorism at Brit Insurance Holdings P.L.C. in London.

“We haven’t had a flood of

phone calls from clients or prospective clients (since the London attacks), but we’ve had some,” said Mark Drummond-Brady, a partner at JLT Risk Solutions, a division of Jardine Lloyd Thompson Group P.L.C., in London.

But the events have not generally had an effect on rates, he noted.

The March 2004 bombs in Madrid, in which more than 100 people were killed by bombs on commuter trains, had already highlighted the risk of terrorism on transport infrastructure, he added.

The London attacks will “inevitably mean that people look more closely at terrorism as a risk,” according to Tim Press, director of special risks at London-based broker Miller Insurance Services Ltd.

The events have put terrorism “back on the agenda,” he said.

Thierry Van Santen, chairman of the Federation of European Risk Management Assns. and executive vp in the corporate business risk management department at Groupe Danone in Paris, said he did not think the attacks would cause a huge increase of interest in buying stand-alone terrorism cover.

“Unfortunately, urban terrorism is becoming a fact of life,” Mr. Van Santen said, and businesses now tend to have a less knee-jerk reaction to events than in the past.

In addition, he said, for many risk managers the purchase of stand-alone terrorism coverage is not an option because it is deemed too expensive.

PPF: Levy proposal addresses plans' likelihood of insolvency

Continued from page 57

charge on employers, will be based upon the amount a plan would have to pay out if it were accepted into the fund.

Underfunding of pension plans is calculated by measuring the difference between a plan’s assets and liabilities and the market cost of the plan purchasing an insurance policy to cover its liabilities if it were forced to pay out benefits to the PPF level.

The PPF guarantees 100% of benefits to members already in receipt of a pension and 90% of benefits owed to members still working, up to an annual limit of £25,000 (\$43,962).

The PPF said it also might increase the level of a company’s PPF liabilities by 5% to reflect the volatility of pension fund deficits in any given year.

The risk-based portion of the levy, which will make up the other 80%, will take into account both the level of underfunding of a company’s pension plans and the risk of insolvency of the sponsoring employer, according to the PPF’s proposals.

The PPF said it would measure that insolvency risk by selecting a market calculation provided by a credit rating or scoring agency or a credit insurer. Employers will then be assigned to various insolvency-risk “bands,” the PPF said.

The PPF also proposed introducing a cap on levies—likely to be set at 3% of liabilities—in a bid to protect financially weaker funds from being forced to tap the fund.

Change would be welcome

The Confederation of British Industry said it would welcome the proposed shift to a risk-based system, particularly because the PPF’s proposals address the likelihood of insolvency rather than just the size of a plan’s funding deficit. The CBI expressed some concerns, though, that despite the risk-related elements of the funding method, the cost of the fund could eventually

escalate, placing more burdens on companies with pension funding deficits.

Jay Sheth, a policy adviser at the London-based CBI, said, “The principle that those who are at greater risk of making a call on the PPF should pay more is something we support and have been calling for since day one.”

And Mr. Sheth said the CBI supported in principle the idea of a cap on levies to protect weaker plans.

But he added that some CBI members had expressed concerns that initial government estimates that the overall cost of the PPF would be £300 million (\$527.55 million) per year are too conservative.

If the costs of the fund did spiral, he noted, the CBI would support exploring whether the benefits paid by the PPF were too generous and whether the cap on benefits guaranteed by the fund should be lowered, among other things.

Tim Keogh, a worldwide partner at Mercer Human Resource Consulting in London, said he believes a risk-based funding approach is the best way to penalize underfunding of pension plans. The proposals likely will be welcomed by financially strong employers, he noted.

The introduction of a risk-based levy that takes into account both pension funding deficits and the risk of sponsoring-employer insolvency will likely be a huge incentive for employers in a weaker financial position to address their pension deficits, said Chris Squirell, senior consultant and actuary at Aon Consulting in London.

And Stephen Yeo, a partner at Watson Wyatt Worldwide in London, said that while well-financed employers will likely welcome a levy based on the probability of becoming insolvent within a year, the burden on weaker employers may prove unaffordable.

The proposals can be viewed at the Pension Protection Fund’s Web site, at www.pensionprotectionfund.gov.uk.

PRODUCTS & SERVICES

Best updates version of loss control resource

OLDWICK, N.J.—A.M. Best Co. has released the second edition of its 2005 “Best’s Loss Control Manual,” which intends to provide a better understanding of industrial and commercial risks.

The guide is geared to risk managers and insurance underwriters, and it provides risk descriptions and inspection checklists for over 500 risk classifications. The manual is available on CD-ROM, which is released three times a year, and online, which is updated as soon as new information is available.

This second 2005 edition contains new risk classifications—such as acupunctureists, tanneries and tile and marble contractors. It also features revised classifications, including catering, rafting outfitters, and tree care services, among others.

To order the product, contact the Oldwick, N.J.-based Best’s customer service department at 908-439-2200, ext. 5742. To learn more, visit www.ambest.com/sales/lcmcdrom.

THOMCO adds coverage option for Head Start

KENNESAW, Ga.—Thompson Insurance Enterprises Inc., a managing general agent, has expanded its national Head Start program by adding professional liability coverage for various social service exposures that may be a part of Community Action Agencies.

Head Start is a government-funded child development program that can be a part of Community Action Agencies, which are locally controlled private nonprofits that are required to carry insurance coverage. Kennesaw, Ga.-based THOMCO’s Head Start Program provides custom daycare coverages, including teacher’s professional liability, sexual abuse and corporal punishment, among other types.

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For more information, contact Chuck Brady, president-professional liability division at 310-965-0697 or visit the company’s Web site at www.arrowheadpro.com.

Book provides insights on malpractice issues

NAPA, Calif.—A medical malpractice risk management guide edited by Dr. Richard E. Anderson, chairman and CEO of Napa, Calif.-based The Doctors Co., has been released.

The book, “Medical Malpractice: A Physician’s Sourcebook,” presents viewpoints of physicians, attorneys, insurance industry experts, researchers and academics as they consider questions about medical malpractice.

It features information on medical malpractice litigation; risk management for practicing physicians; and medical liability in obstetrics, gynecology and plastic and reconstructive surgery, among other topics.

The guide is published by Humana Press. To order a copy, contact Humana Press at 973-256-1699 or visit its Web site at www.humana-press.com. The book can also be purchased online through Barnes & Noble’s Web site at www.bn.com or through retailer Amazon.com at www.amazon.com.

MetLife offers dental plans smaller groups

NEW YORK—MetLife has introduced voluntary dental benefits plans for employers with 10 to 500 employees.

New York-based MetLife’s Voluntary Dental Benefit Plans are designed to be predominantly or fully funded by employees. The plans intend to offer flexibility to employers as they can select among a variety of options to meet their needs—such as options for deductibles, coinsurance, orthodontia and out-of-network reimbursement. In addition, employees will have access to MetLife’s network of nearly 80,000 dentist locations.

For more information, visit MetLife’s online at www.metlife.com.

HR management software product updated

BELLEVUE, Wash.—Ascentis Corp. has released a new version of its human resources management software, HROffice.

HROffice 6.5 includes more than 80 feature and functionality updates focusing on online leave management, employee communications and compliance management tools. Some of the product enhancements include the addition of specific compliance features for OSHA, COBRA and Sarbanes-Oxley.

The addition of employee communication features allows employees to determine their vacation availability and request leave online, as allowing managers to view and approve requests online.

More information can be found by contacting the Bellevue, Washington-based Ascentis at 800-229-2713 or on the Web by visiting www.ascentis.com.

The Products & Services column runs periodically. To submit an item for consideration, please contact Carrie Peinado at Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; or send e-mail to cpeinado@businessinsurance.com.

Blog: Workplace 'billboards' could bring liability risks for employers

Continued from page 3

But many others disagree. Blogs are characterized by fast, informal dialogue, said Ken Ebanks, an attorney with Covington & Burling in San Francisco. "You run the risk that people aren't going to think clearly and cautiously about what they're going to say in advance," he said.

The potential problems employees can create for their employers when they write about their jobs include defamation of co-workers, senior management or competitors; libel; sexual and racial harassment or discrimination; privacy violations; intellectual property infringement; the dissemination of proprietary information; securities laws violations; and stockholder lawsuits.

"Particularly if the employee's at work using the company's computer, you could be looking at potential tort actions, like intentional infliction of emotional anguish claims, or even an invasion of privacy claim if the blogger is disclosing harmful, embarrassing facts" and the employer knew, or should have known, what was going on and did not do anything about it, said W. Stephen Cockerham, an attorney with Hunton & Williams L.L.P. in Dallas.

"A lot of people take blogging as sort of a replacement for water-cooler talk," said Joseph P. Bradica, an attorney with Klehr, Harrison, Harvey, Branzburg & Ellers L.L.P. in Philadelphia.

Instead, said Scott McDonald, an attorney with Littler Mendelson P.C. in Dallas, "it's a lot like putting something up on a billboard on the highway."

"Once the blogs are out there, they're irretrievable," he said. "They're all over the place. They're forwarded and they can't be undone, so to speak, particularly where trade secrets or confidential information is concerned."

Attempting to prohibit them is probably infeasible, say observers.

Companies can prohibit the use of company time and equipment to write blogs. And, at least theoretically, they can prohibit employees from writing about the company on their own time and with their own computers.

But doing so has unpleasant connotations. "If employees perceive an employer is overreaching, they may be offended," and it could hurt customer relations as well, said Jonathan A. Segal, an attorney with Wolf, Block, Schorr and Solis-Cohen L.L.P. in Philadelphia.

"The key here is trying to strike a balance between the employees' desires to express themselves, and the

observers. First Amendment provisions, for instance, may protect blogging by workers in states such as California, as well as by state and federal employees.

Laws in states including California, Colorado and New York also prohibit firms from firing employees for engaging in any lawful conduct outside of work, say observers. If an employer considers an employee's writing on an issue of public concern unacceptable, but it has nothing to do with his job, he may be protected under state statute, said Vincent Alfieri, an attorney with Bryan Cave L.L.P. in New York.

Furthermore, blogging employees who are discussing work conditions with fellow employees may be protected under the National Labor Relations Act. Even if a company is not unionized, a blog may be considered equivalent to handing out leaflets and therefore would be protected under federal labor law, said Mr. Alfieri.

Employers also should be cautious about punishing employees who may be construed as whistleblowers. Whistleblowers should be reporting their complaints to either the company itself or the appropriate authorities, not on their blogs. Nevertheless, punishing employees for such activity at least suggests retaliation, which is illegal, say observers.

Observers also warn employers that coming down too hard on blogging can boomerang by elevating the blog from obscurity to unwanted prominence.

Some believe this may have been the case last year when Delta Air Lines fired a flight attendant for publishing risqué pictures of herself in her flight attendant uniform on her blog. The issue led to articles in Time magazine and elsewhere.

"Any time that an employer takes an action in response to employee conduct, it has to be aware that the response should be in proportion to the misconduct, and that highlighting it may have unintended consequences," said David W. Garland,

"It's a lot like putting something up on a billboard on the highway."

**Scott McDonald
Littler Mendelson P.C.**

employer's legitimate interest," said David Reis, chairman of the labor and employment group at Howard Rice Nemerovski Canady Falk & Rabkin in San Francisco.

Complicating the situation for employers struggling to address this issue is that this whole area is so new. "Some of the boundaries haven't been really fully worked through yet, because this is a new phenomenon," said Mr. McDonald.

Employers do not necessarily have a free hand in disciplining employees on this issue. While most workers are "at will" employees and, at least theoretically, can be fired by their employers with no repercussions, there may be legal restrictions on punishing employees for publishing certain material, say



Web logs, or blogs, are becoming more frequent in the workplace and can present liability exposures, but employment law experts say employers can take steps to reduce those risks.

co-chair of the employment and labor group at Sills Cummis Epstein & Gross P.C. in Newark, N.J.

Litigation in this area will increase, said Mr. Reis of Howard Rice. "There'll be more suits" as employers begin to react to blogs and terminate workers, he said.

But observers say the problems inherent in blogging can be avoided with a company policy or set of guidelines. Policies should remind employees to use their discretion and good judgment and to not write about private information, said Mr. Ebanks of Covington & Burling.

Companies also might consider providing an ombudsman for employees to go to on a confidential basis for advice, he said.

"Remind people this is something that does create a record out there in the world and could create liabilities," Mr. Ebanks said.

These guidelines do not necessarily have to be highly detailed, say some observers. Sun Microsystems' "policy on public discourse," for in-

stance, advises employees to not reveal secrets by stating simply: "It's perfectly OK to talk about your work and have a dialogue with the community, but it's not OK to publish the recipe for one of our secret sauces."

"We don't tell people what to say," said an IBM spokesman. The company guidelines are intended to remind employees that there are certain rules that "apply in any medium," he said. "We basically entered this with the premise we trust our people. We have smart people, and engaging in blogging in the blogosphere is ultimately the right thing and the best thing for us to do."

Yahoo's guidelines are intended "to make sure employees understand where the company is coming from," said a spokeswoman. They remind employees of other existing legal agreements, such as the nondisclosure agreements employees sign, "but they don't introduce any new legal parameters," she said.

Erie: Judge may reconsider ruling in retiree health care benefits case

Continued from page 4

At a time when health care costs are rising at a rate several times that of general inflation, benefit experts say the likely response of employers to such a mandate would be to reduce benefits of younger retirees to the level provided to older retirees. Typically, because of the availability of Medicare when retirees reach age 65, employers with retiree health care plans provide richer benefits to younger retirees than to older ones.

But Judge Brody, in the wake of a U.S. Supreme Court decision last month requiring courts, in many situations, to show deference to federal agencies' interpretation of law, now wants to reexamine her initial ruling.

In that high court ruling, the justices said that a federal court is required to defer to an agency's interpretation of law—even if it differs from what the court believes to be the best interpretation—if the particular statute in within the agen-

cy's authority to administer, the statute is ambiguous on the point of contention and the agency's interpretation is "reasonable."

In light of that ruling, Judge Brody has asked the Justice Department, which represents the EEOC in the litigation, and the AARP to file motions to ask her to reconsider her earlier ruling. Additionally, Judge Brody asked the Justice Department and the AARP to file motions with the 3rd U.S. Circuit Court of Appeals requesting the court to remand the case to her. The Justice Department earlier appealed Judge Brody's ruling to the appeals court.

A memo sent by Judge Brody's law clerk to attorneys representing the Justice Department and the AARP suggested that the parties tell the appeals court that Judge Brody has said she would like the "opportunity to re-examine her decision" in light of the Supreme Court ruling.

Benefit experts are encouraged at

the latest twist in what has become a long-running saga.

"We generally see this as a positive. It is encouraging that the judge

"We generally see this as a positive. It is encouraging that the judge wants to take another look" at the issue.

**Edwina Rogers
ERISA Industry Committee**

wants to take another look" at the issue, said Edwina Rogers, vp-health policy at the ERISA Industry Committee in Washington.

"This may be a new opening,"

said Frank McArdle, a consultant in the Washington office of Hewitt Associates Inc.

Still, experts note the issue is far from decided. Indeed, while Judge Brody likely will reexamine her initial ruling, there is no certainty she will reverse it, said Henry Saveth, an attorney with Mercer Human Resource Consulting in New York.

In fact, Laurie McCann, a senior AARP attorney in Washington, says the Supreme Court decision in the cable industry case provides another ground for upholding Judge Brody's initial ruling.

If Judge Brody reviews her decision, "We don't think the result will change," Ms. McCann said.

The issue goes back to August 2000 when the 3rd Circuit ruled that retiree health care plans are subject to ADEA. The EEOC initially embraced and enforced what has come to be known as the Erie County decision. The EEOC's adoption of the Erie County ruling—

named for the Pennsylvania county involved in the litigation—made longstanding and common retiree health care plan designs in which employers provide a lower level of benefits to Medicare-eligible retirees than to younger retirees vulnerable to legal attack.

The EEOC, though, later dropped enforcement of the ruling after business groups warned that its enforcement would result in employers cutting benefits for younger retirees or eliminating retiree health care coverage entirely. Erie County itself, in settling the suit, cut the benefits of younger retirees.

In 2003, the EEOC fashioned a rule to exempt retiree health care plans from ADEA and was just weeks away from publishing and making it final when the Washington-based AARP sued to block its implementation. The AARP believes such an exemption would give employers the green light to cut benefits for Medicare-eligible retirees.

Captive: Benefits funding

Continued from page 4

ing the program and is consulting with about a dozen other companies that now are examining the feasibility of captive benefits funding programs.

A catalyst that has fueled corporate interest in funding benefits through captives came six years ago, when Labor Department regulators said they would be more flexible in evaluating the arrangements.

Prior to that, the department said that to win its approval, such arrangements would have to be structured so that no more than 50% of the captive's business—including benefit risks—was related to its parent. That was a requirement few employers wanted to meet due to concerns about the potential financial hazards of taking on such large blocks of unrelated business.

But in 1999, while not abandoning the 50% rule, the Labor Department said it would no longer be an absolute prerequisite for approval for benefits funding arrangements.

The department said it would consider proposals if employers agreed to use top-rated primary insurers to write the policies, boost the benefits for plan participants and employ independent fiduciaries to see that all conditions would

be met, among other conditions.

Sun, like other employers before it, is following the blueprint. It is, for example, sweetening life insurance benefits in several ways. Among other things, Sun is reducing the premiums for coverage, improving an existing accelerated death benefit and adding a new benefit that would pay up to \$20,000 a year for up to four years to cover the educational expenses of dependent children who are full-time students at the time of a covered employee's death.

Sun is seeking approval under a special fast-track Labor Department review process. Fast-track review, in which the Labor Department must make its initial decision within 45 days of receiving an application and a final decision about 30 days after that, is available in situations in which the department has approved two substantially similar applications within the last five years.

In its application, Sun says it requests for a so-called prohibited transaction exemption is substantially similar to that of ADM, International Paper and Svenska Cellulosa Aktiebolaget, a Swedish-based paper, packaging and consumer products company.

Aetna: Preventive drugs deductible dropped

Continued from page 4

lower cholesterol to prevent heart disease would be eligible for more-generous coverage, the guidance notes. (BI, July 26, 2004).

While Aetna has had discussions with government officials about its plan, the Treasury Department has not expressly approved the drugs on Aetna's list as preventive medications. The department has asked to review Aetna's list as part of its policy development process.

Independent observers are praising Aetna for being the first insurer to develop a list of preventive medications and allow employers the option to waive the deductible for these medications in their HSA-linked high-deductible plans. Other insurers say they provide similar, generous coverage for preventive services, but have not yet developed an option for preventive prescription drugs.

"The real tangible benefit is that Aetna has taken something undefined and they have defined it," said Jay Savan, health and welfare group leader in the St. Louis office of Towers Perrin. "You have a major carrier stepping out there and saying 'this is how we view it for our clients.'"

Employer demand for this type of

option does exist, observers say.

"I think for many employers this will make it easier for them to adopt HSAs," said Steve Wojcik, vp-public policy, for the Washington-based National Business Group on Health.

Aetna's plan may have drawbacks, observers say. There is a possibility that it could have an anti-consumerism effect if the waiving of the deductible makes employees less sensitive to price issues, consultants acknowledge. That would work against what is viewed as one of the most positive aspects of high-deductible linked HSAs: encouraging employees to be better health care consumers.

"That's a possibility, but it's more than offset by the concern that people take their preventive medications so they don't get sick," said Joe Martingale, national practice leader for health care strategy in New York for Watson Wyatt Worldwide.

Ms. Downey noted that the underlying features of the plan design apply to employee contributions even after the deductible is waived so financial incentives for good health care purchasing decisions still exist. Take, for example, a plan that waives deductibles for preventive prescription drugs but imposes

a 20% coinsurance requirement.

Given that brand name drugs are usually more expensive than generics, employees, with such a coinsurance requirement, would have an incentive to buy generic medication.

Another concern is that providing first-dollar coverage will increase the costs of the benefit plan, consultants say. The key question is whether or not the short-term increase will be followed by a long-term decrease in costs. "For a larger employer, paying a couple of dollars more per member per year might not be that much," Ms. Downey said. "The hope would be if people take their preventive medications, you would prevent future occurrences of these conditions."

Employers will have to consider whether they are willing to adopt an option that has not been officially sanctioned by the Treasury Department. "All indications are that on an informal basis (the Treasury Department is) relatively satisfied that the Aetna approach is feasible," said Jeff Munn, senior health care consultant in the Falls Church, Va., office of Hewitt Associates Inc.

Hurricane: Dennis property losses likely lower than first feared

Continued from page 1

speed, along with the location of landfall, made it a less severe storm than Ivan, according to a report from the ReAdvisory group of reinsurance intermediary R.K. Carvill (International Holdings) Ltd. While both storms were Category 3 hurricanes, Dennis' 120 mph sustained wind speeds were less intense than Ivan's and its diameter was smaller,

Ivan, he noted.

Boston-based AIR Worldwide, a wholly owned subsidiary of Insurance Services Office Inc. in Jersey City, N.J., predicted U.S. insured losses from Hurricane Dennis would fall between \$1 billion to \$2.5 billion.

Newark, Calif.-based modeling firm Risk Management Solutions Inc. estimated insured losses from

"The damage seems to be much less severe in scope than we expected," and "we are seeing the claims coming in more lightly," said Bud Trice, vp of catastrophe services at Crawford & Co., an Atlanta-based claims management firm, which dispatched a damage-assessment team to battered areas the day the storm hit Florida.

But "we are early in the season," noted Mr. Trice. "Even though hurricane season officially starts June 1, we don't really expect to see any major storms till Aug. 1," he said.

The Florida Hurricane Catastrophe Fund, the state-run reinsurer of last resort formed in 1993 in the wake of Hurricane Andrew, currently has "just under \$3 billion" in cash on hand to reimburse eligible insurers, though "it is too early to tell with Dennis or any of the other future storms what impact they will have" on the fund, a spokesman said.

A spokesman for Munich Reinsurance Co. last week said the German reinsurer expected its exposure to storm losses to be about 100 million euros (\$119.34 million), "plus or minus 30%."

Hannover Re Group of Hannover, Germany, is expecting a pre-tax net loss of between 20 million to 30 million euros (\$23.9 million to \$35.8 million) from the hurricane, according to a spokeswoman.

Converium Holdings A.G. in Zurich, Switzerland expects gross losses to be in the single digit millions of dollars range.

A Lloyd's of London spokeswoman said that the net loss to the market will likely not exceed £100 million (\$175.5 million). "We expect there to be a limited loss to the Lloyd's market from Hurricane

Dennis," she said. "Although Hurricane Dennis made landfall in the same region as Hurricane Ivan, losses are expected to be much lower with exposure mainly limited to property damage and business interruption."

"I don't think it's going to have a huge impact with commercial business," said Brian Schneider, director, of Chicago-based Fitch Ratings, in reference to Hurricane Dennis. "For the most part, the larger companies will be okay," but the smaller companies may have a difficult time with this storm season, he said.

According to Mr. Schneider, some smaller insurers are still recovering from the effects of last year's storms, and another overly active hurricane season "might make companies decide that the risk is too great," and spur them to "try to exit or try to reduce their Florida exposure."

In 2004, a series of severe hurricanes cost the insurance industry \$20 billion in losses.

The National Oceanic & Atmospheric Administration in Bay St. Louis, Miss., predicted 2005 will again be an above-average season for hurricanes in the Atlantic and Gulf of Mexico, forecasting that 12 to 15 tropical storms will develop, seven to nine of those reaching hurricane strength.

William Gray and his meteorological team at Colorado State University made similar predictions in a report issued in May, which stated that eight hurricanes will likely form off of U.S. shores this season.

Sarah Veysey contributed to this report.



Hurricane Dennis, which packed 120 mph sustained winds, hit the Florida Panhandle, causing damage to some properties.

leaving a narrower swath of debris.

"When prolonged winds occur over a very large geographic area, as in Hurricane Ivan, the number of claims can increase significantly," said Atul Khanduri, manager of wind risk modeling for catastrophe modeling firm AIR Worldwide Corp., in a statement. "Losses for Dennis would have been higher had the storm moved at a slower pace," Mr. Khanduri said. In addition, the area where the storm struck had fewer properties than the area impacted by Hurricane

Dennis would range from \$1 billion to \$3 billion. Oakland, Calif.-based EQECAT Inc. calculated damages of between \$1 billion and \$4 billion.

ISO last week was still collecting information from insurers on the storm, and a spokesman said it was "too early" to determine losses.

"In talking to broker colleagues around the country, we haven't heard about any major losses," said John Dempsey, a partner with Wilton, Conn.-based forensic accounting firm Dempsey, Myers & Co.

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Willis: Broker will defend itself in fraud case

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breaches of duty of Peter Foulger.” The signed letter was returned with a cover note saying that Willis’ “acceptance of legal responsibility is not intended to be an undertaking of full responsibility for the damages suffered by Pender and C&W” but a share of them which will be agreed to at a later date.

‘Agreement to agree’

The Court of Appeal, overturning an earlier court judgment which found the agreement binding, late last month declared that the parties had simply reached “an agreement to agree,” the ruling states.

“The court cannot make for the parties the agreement which they have not made for themselves,” Lord Justice Tuckey wrote in his ruling; thus, he reasoned, “the parties had not reached a binding agreement.”

“This will allow Willis to play a larger part in the litigation and to defend its position,” said Terry O’Neill, a partner in London law firm Clifford Chance, which is acting for Cable & Wireless.

London-based Willis declined to comment.

The trial over the underlying litigation, which Cable & Wireless and Pender filed last year, is set for Oct. 3.

In their suit, filed in London’s High Court, the companies claim

that five Cable & Wireless former employees personally profited from undisclosed and unauthorized related-party transactions, which took place between 1998 and 2003, while they were working for the company, according to court papers.

The litigation stemmed from an investigation into the captive’s business initiated by Cable & Wireless’ then-newly appointed chairman, Richard Laphorne, which was prompted by large third-party claims, according to Cable & Wireless statements.

Those claims included multimillion dollar losses arising out of the WorldCom Inc. and Global Crossing scandals, according to Iain Simpson, managing director of Thomas Miller (Isle of Man) Ltd., which took over the management of the captive—now largely in runoff—from Willis in September 2003.

Although Pender was initially set up in 1990 to write coverage for Cable & Wireless, it was expanded in 1998 to write associated third-party risks. By 1999, the captive was writing a “significant” amount of such risks, Mr. Simpson said.

Ownership at issue

At the heart of the litigation is Pender’s reinsurance program.

According to court papers, the captive, starting in 1999, entered into reinsurance arrangements with

certain reinsurers. Cable & Wireless and Pender claim that, without their knowledge and consent, these reinsurers were acting in a fronting capacity for Messenger Insurance PCC Ltd., court papers show. Messenger, a Guernsey-based protected-cell company, is owned and controlled by InsCom Investments Ltd., part of InsCom Group Ltd., court papers show.

In their suit, Pender and C&W claim that the five former employees named in the suit all had a direct or indirect beneficial interest in InsCom, which created undisclosed conflicts of interest, the papers state. Under the arrangement, the plaintiffs charge, those five individuals “made a secret profit and/or received secret payments by reason of their operation, management and control of (Pender’s) insurance program and reinsurance arrangements,” the papers state.

The plaintiffs also charge that Willis’ Mr. Foulger in 2000 was paid £100,000 (\$175,630) in the form of a share dividend by InsCom “as a bribe to induce him as a director and the underwriting manager of (Pender) to continue to cooperate in the dishonest arrangements (involving several other defendants) and/or to induce him” to keep quiet about the arrangements and reward him for “prior co-operation and silence,” court papers show.

Mr. Foulger could not be reached for comment.

Late News

Continued from page 1

WellPoint settles docs’ class action

WellPoint Inc. will spend up to \$198 million to settle a lawsuit related to its claims payment practices. As part of the agreement, WellPoint has agreed to pay \$135 million to the more than 700,000 physicians nationwide involved in class action lawsuits filed in federal court, as well as providing funds to a nonprofit health care foundation and for legal fees. If approved, the deal resolves two national lawsuits against WellPoint Health Networks Inc. and Anthem Inc., which merged last year. Other managed care companies previously settled the doctors’ suit.

Greenberg lawyers to meet with regulators

Former American International Group Inc. Chief Executive Officer Maurice R. Greenberg last week said that his lawyers will soon meet with regulators to discuss probes surrounding him, and to present position papers rebutting AIG’s recent earnings restatement, according to press reports. Mr. Greenberg, who resigned from AIG earlier this year amid mounting investigations of the insurer, made his comments at the annual shareholders meeting of C.V. Starr & Co., according to the reports, which cite unnamed attendees. At the meeting, the reports state, Mr. Greenberg defended a decades-old executive compensation plan—which AIG recently ended as part of its restatement—involving Starr and another longtime AIG affiliate, noting that the plan’s accounting had been approved by the board, legal counsel and AIG’s accounting advisors. Representatives of Mr. Greenberg’s legal team and AIG declined to comment on what was discussed at the meeting.

California court refuses bid to block comp change

California’s Supreme Court last week declined to hear a lawsuit aimed at scuttling a new permanent partial disability rating schedule adopted following reforms signed into law in 2004. The high court’s refusal to hear the writ of mandate *Votersinjuredatwork.org vs. Division of Workers Compensation* follows the court’s refusal last month to hear a similar case brought by the California Labor Federation. Opponents of the schedule argue it

will significantly reduce benefits.

No manslaughter in U.K. rail crash: Judge

A U.K. criminal court judge has thrown out a charge of corporate manslaughter against engineering firm Balfour Beatty P.L.C. arising from the fatal Hatfield rail crash in October 2000. The judge also dismissed individual manslaughter charges against five rail executives brought in connection with the crash, in which a train derailed after hitting a broken rail. The executives—three from Railtrack P.L.C. and two from Balfour Beatty—still face charges of violating the Health and Safety at Work Act 1974.

New York approves 5% comp rate hike

New York Insurance Superintendent Howard Mills on Friday approved a 5% average rate increase for workers compensation policies. The rate increase will be in effect for a year beginning Oct. 1, the insurance commissioner said in a statement. The New York Compensation Insurance Rating Board, which advises on rates, had requested a 16.1% increase but changed its recommendation following a public hearing.

Best puts Munich Re, units under review

A.M. Best Co. has put the A+ financial strength ratings of Munich Reinsurance Co. and its rated subsidiaries under review with negative implications. Best also placed under review its A rating of Munich Re unit American Re Corp. Group and American Re’s member companies. Best cited Munich Re’s recent announcement that it is reviewing American Re’s reserve position.

Enron settles suits over retirement plans

Enron Corp. has agreed to a \$356.3 million settlement of a U.S. Labor Department lawsuit and a private class action lawsuit filed over the alleged mismanagement of the former energy trader’s retirement plans, Labor Secretary Elaine L. Chao said. The lawsuits, filed in 2003, alleged that the company violated the Employee Retirement Income Security Act by failing to consider the prudence of Enron stock as an appropriate investment for the retirement plans and did nothing to protect the workers and retirees from extensive losses.

BI Stock Index [7/11 - 7/15]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at www.businessinsurance.com

Percentage change of *BI* Stock Index vs. key indicators

***BI* Stock Index**
2606.64 0.86

Dow Jones
10640.83 1.83

S&P 500
1227.92 1.33

Largest gains

Ambac Financial Group	5.40%
AEGON N.V.	4.95%
AXA-UAP Group	4.61%
PMA Capital Corp.	4.23%
St. Paul Travelers Cos. Inc.	3.57%

Largest losses

Tower Group Inc.	-4.76%
United HealthGroup Inc.	-4.20%
Markel Corp.	-4.18%
WellChoice Inc.	-3.86%
Aetna Inc.	-3.49%

Weekly change by market segment

Brokers	0.60%
Insurers/Reinsurers	0.70%
Managed Care Organizations	-2.08%

Source: FinancialContent Inc. (<http://financialcontent.com>)

At **BusinessInsurance.com**

New **Online Poll**: Do you agree with the proposition that commercial insurance brokers should never accept contingent commissions, regardless of the level of disclosure?

Items in the **Late News** column originally appeared in *BI*’s Daily News feature on www.businessinsurance.com. Visit the *BI* Web site to sign up to receive *BI*’s Daily News by e-mail.



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Countrywide: Mortgage bank diversifies into commercial lines brokerage services

Continued from page 1

bitaille Business & Insurance Services, has been tapped to run the commercial insurance division of CIS.

Mr. Borisoff is charged with expanding CIS' commercial business by opening branches in key cities across the nation.

"I thought about it for a long time," Mr. Borisoff said last week of joining CIS.

"The culture here is so service-focused and entrepreneurial, it's just something I wanted to be part of. It's just different than what people would think when they think of a bank-owned agency or a large public agency," he said.

Additionally, "you'd have to be crazy not to want to take advantage of the cross-selling opportunities and the relationships with (Countrywide Financial's) trading partners," he said. "That's a gold mine to an insurance broker."

Indeed, while CIS will be a general agency, it will be "mortgage banking-centric," said David Kuhn, president of the commercial lines division for CIG.

Mr. Kuhn joined CIG last September to spearhead Countrywide's commercial lines effort, which has included assembling a team of veterans from the commercial brokerage market.

"We will have some dedicated people who will just eat, sleep and breathe" homebuilders, mortgage bankers, mortgage brokers and real estate brokers, said Mr. Kuhn, who formerly was a regional president

Industry veterans to run new broker

Among the experienced talent Countrywide has hired for its unit are:



Brett Borisoff
Role: Runs commercial lines division of Countrywide Insurance Services Inc.
Previous job: President, Armstrong/Robitaille Business & Insurance Services.



David Kuhn
Role: Directs commercial lines expansion at Countrywide Insurance Group, Countrywide Financial's insurance holding company
Previous job: Regional president, St. Paul Cos. Inc.

for St. Paul Cos. Inc.

Because Countrywide is "intimate with those classes of business...we come to the table with a broad understanding of their business needs, and insurance is a nice additional...product and service we can provide them," Mr. Kuhn said.

He noted, though, that while residential and commercial construction will be "a good source of business" and "will drive the agency ini-

tially to get it off the ground and running," CIS is committed to building a general insurance agency.

While Countrywide Financial's well-recognized brand name and the cross-selling opportunities it provides will help differentiate CIS from other middle-market brokers, Mr. Borisoff said CIS needs to continue to attract high-caliber people to really be successful.

"We've been able to attract A players," he said. "These people want to join us, and that certainly is going to drive this agency."

In addition to Mr. Borisoff, other recent hires include: Mike Daoussis, who joined CIS in April from Lockton Cos. Inc. as senior vp of the national construction practice; Jody Smith, who joined the firm in June from Brown & Brown Inc. as a vp in the national construction practice; and Coralee Talmage, who joined CIS last week from PrideMark Insurance as senior vp and head of CIS' employee benefits practice.

CIS plans to grow the firm through key hires rather than through acquisitions, executives say. CIS currently has 15 employees and hopes to hire about 25 more by the end of the year.

With Mr. Borisoff now at the helm of the commercial lines division, the insurance brokerage is poised to expand.

"We're not looking to be in every major city," Mr. Kuhn said. "We're looking to be in locations where there is a significant Countrywide presence or opportunity with our trading partners."

This would include such cities as Las Vegas and Phoenix, where there is significant new construction taking place, and Chicago, where Countrywide Bank—Countrywide Financial's commercial bank subsidiary—has a meaningful presence, he said.

Mr. Kuhn would not comment on any revenue goals for the commercial lines operations except to

say, "So far, the success we're having is pretty exciting."

Observers have varying views about CIS' potential in the commercial market.

"What they are doing appears to be very much a horse of a different color, as it is a major expansion beyond their existing platform. Although they are in the business, the venture is, in effect, a de novo operation, as they do not have any commercial revenue," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago.

"It will likely be tough sledding to get this up and running, even if they are able to leverage some existing builder and developer relationships," he said.

But John M. Wepler, a senior vp with Concord, Ohio-based Marsh Berry & Co. Inc., said that, given the investigations taking place in the insurance industry and the resulting turmoil, it's an opportune time for Countrywide to move into the commercial brokerage marketplace.

"Because of the reputation Countrywide has from a branding standpoint, I think they can easily get into the door" of potential clients, he said.

And if Countrywide is committed to building an organic growth brokerage that is transparent and focused on customer needs and is willing to invest in the talent required to deliver on its value proposition to clients, "they can have considerable success," Mr. Wepler said.

Backstop: Support voiced on Capitol Hill for a less-broad, temporary program

Continued from page 1

that "I would be happy with any legislation" that would require greater assumption of risk by the private market. He also said that "an expiration would need some transition period."

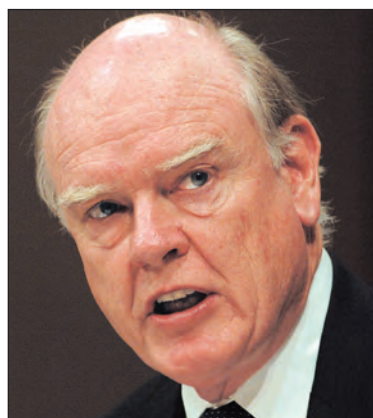
Senate Banking Committee Chairman Richard Shelby, R-Ala., said in an impromptu news conference after the hearing that he believes the committee will pass legislation creating some sort of backstop, albeit a narrower and temporary one. Sen. Shelby, who was one of 11 senators to vote against TRIA in 2002, said the committee could take up the issue in September.

"I am committed to delivering a bill to the House floor this year," said House Financial Services Committee Chairman Mike Oxley, R-Ohio, during his panel's hearing. To do otherwise would be "the height of irresponsibility," he said.

Backstop supporters liked what they heard from the two chairmen and other lawmakers.

"We are encouraged," Leigh Ann Pusey, senior vp-government affairs for the American Insurance Assn. in Washington, said after last week's hearing. Both hearings provided an "acknowledgement that you need a program in place," she said.

"I think there has been a marked shift in tone coming from the administration over the past two weeks," said Joel Wood, senior vp-



Treasury Secretary John W. Snow says a future terrorism program, to be acceptable to the White House, would have to be much narrower in scope.

government affairs for the Council of Insurance Agents & Brokers in Washington.

"Clearly, there's a willingness to actively engage with Congress over the contours of a federal role," Mr. Wood said. "Ironically, we're probably going to have to get well into the negotiation of Jan. 1 renewals in order for the political odds to stack up in favor of a significant

program.

"While it would make greater sense for Congress to address this issue today, the political environment becomes better the more dislocation is apparent, dislocation post-Jan. 1," Mr. Wood said.

A representative of the Coalition to Insure Against Terrorism, a Washington-based policyholder group, called the hearings a "a very positive development. Marty DuPoy, who is also vp-government relations for the Washington-based National Assn. of Real Estate Investment Trusts, said that both chairmen and the administration "expressed the need for continuing the program with some modifications, and doing so in a timely manner."

"As one whose first responsibility is to the buyers of insurance, I can tell you that the extension of TRIA is necessary if terrorism coverage is to be priced fairly—or even made available—to businesses," said Richard C. Bourne, a vp at Alexandria, Va.-based CIMA Corporate Insurance Management Inc. who has met with Treasury officials as a member of the National Assn. of Professional Insurance Agents. Like others, Mr. Bourne said he was encouraged by what he heard at the hearings.

"The quick resolution of any suggested refinements, or the extension of TRIA as it presently stands, will be key to the insurance con-



House Financial Services Committee Chairman Mike Oxley, R-Ohio, says he is committed to delivering a bill to the House floor this year.

sumers, as time is of the essence, since insurance policies currently in effect or newly placed insurance policies will not include the terrorism coverage in its present format after Dec. 31," he said.

"The debate has moved in the direction of what insurance companies and policyholder groups have argued," said Peter Lefkin, senior vp-government and external affairs

for Allianz of America Corp. in Washington. "It's not really a question of time; it's a matter of political will. And from what I've observed attending the two hearings, a bipartisan consensus is emerging, and opposition from (Treasury) seems to be declining."

"The hearings revealed widespread support for TRIA. Even Secretary Snow's testimony was encouraging," said Carl Parks, senior vp-government affairs for the Property Casualty Insurers Assn. of America. "The question resulting from the hearings seems to be not whether a terrorism reinsurance bill will be passed by Congress this year but what that bill will contain."

"To that end, the secretary said several of the Treasury Department's recommendations that accompanied the Treasury report are negotiable. Clearly, the hearings were a good first step toward crafting a bill that will protect policyholders from the threat of TRIA's looming expiration," Mr. Parks said.

"We're very encouraged by the hearings," said Mary Z. Seidel, vp and director-federal affairs for the Reinsurance Assn. of America.

"We appreciated Chairman Oxley's and Chairman Shelby's pledge to move a bill this year. If they want it to happen, it will happen. I'm going to trust their leadership on this," Ms. Seidel said.