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July 18, 2011
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In Brief

Reserve boost to hit Hartford results

A $189 million after-tax asbestos reserve increase, resulting from The Hartford Financial Services Group Inc.'s annual review of its legacy asbestos liabilities, is among factors expected to lead the insurer to report about $24 million in net income for the year's second quarter, the insurer said last week in releasing its preliminary results. This compares with $76 million reported for the comparable quarter a year ago. Other factors that will impact results include current accident-year catastrophe losses of $447 million pretax and $290 million after taxes, said the insurer, which will report its earnings Aug. 3. This compares with the $229 million pretax and $149 million after-tax losses the insurer reported for catastrophes in 2010's second quarter.

More time to comply with 401(k) rule

The Labor Department said it will give employers with 401(k) and other participant-directed individual account plans more time to comply with a rule requiring the disclosure of fees and expenses of investment options offered by the plans. While the effective date for calendar-year plans remains Jan. 1, 2012, employers will have until May 31, 2012, to disclose fees and expenses to plan participants, the department said. Last month, the department said the information would have to be

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INDEX

AGENTS & BROKERS

Brokers reduce wholesaler rolls

Recent Aon move favors two firms, one of them Ryan's

By MICHAEL BRADFORD

CHICAGO—Aon Corp. has limited the number of wholesalers it uses to just two under most circumstances, continuing a trend among retailers to streamline their distribution networks.

And while many of Aon's peers have made such moves—though few as drastic—questions remain about whether restricting wholesale markets helps or harms insurance buyers.

Aon last month decided that all new and renewal business that requires a wholesaler would be first submitted to AmWINS Group Inc. or R-T Specialty L.L.C. Only if neither can provide coverage or "when the circumstances of the placement require involvement of a different wholesaler, will another wholesaler be approached," Aon said in an emailed statement.

AmWINS, based in Charlotte, N.C., was ranked the No. 1 wholesale broker by *Business Insurance* last year, based on $3.72 billion in 2009 premium volume. R-T Specialty is a wholesale brokerage unit of Chicago-based Ryan Specialty Group L.L.C., the holding company formed last year by Patrick G. Ryan, Aon's founder and former chief executive.

Aon, which at one time was willing to deal with more than 100 wholesalers, declined to discuss its decision, but a spokesman emphasized in a statement that the broker believes the move is a good one for its clients.

"Significant changes to the domestic wholesale marketplace have occurred in the last several years," the spokesman said. "Accordingly, we believe our clients will be best served going forward through a deeper relationship with a smaller group of U.S. wholesalers who are able to handle the full scope of coverages sought by our clients." Sources say Aon's move is the latest in a growing trend and goes beyond tradi-

See **WHOLESALER** page 31

AP PHOTO

READY FOR LIFTOFF

Insurers prepare for post-Shuttle space industry

By STUART COLLINS

The end of the NASA space shuttle program spells opportunity for space insurers and brokers as commercial ventures will take astronauts, equipment and even tourists into space.

See **SPACE** page 32

MERGERS & ACQUISITIONS

Validus cuts in on Allied World's bid for Transatlantic

AWAC purchase would add scale, casualty business

By SONJA RYST

NEW YORK—Validus Holdings Ltd. is looking to again play the spoiler after making an unsolicited bid for New York-based reinsurer Transatlantic Holdings Inc., which already was deep in acquisition talks with Allied World Assurance Co. Holdings A.G.

Bermuda-based reinsurer Validus' offer could spark a bidding war with Zug, Switzerland-based AWAC, experts say. When

Mr. Noonan

Validus announced its move last week, its offer was worth around $3.5 billion, compared with the $3.2 billion to which Transatlantic had agreed upon with AWAC.

"We will create a broadly diversified global reinsurance leader," Validus Chairman and CEO Ed Noonan said in a statement.

Transatlantic said in a statement that its board is considering the offer. It also advised stockholders to not take action and await the board's recommendation.

Validus operates in the Bermuda and London markets, and Transatlantic in the United States, Europe and Asia. Meanwhile, Validus writes mostly property catastrophe reinsurance, while casualty reinsurance constituted 71% of Transatlantic's net premiums written in 2010.

The day after news of the bid hit, Validus' stock fell 9.1% to $28.02 per share, while Allied World's increased 0.9% to $57.23, and Transatlantic's rose 5.1% to $51.54, compared with the previous day's close.

Validus has a history of such moves, having crashed a proposed IPC Holdings Ltd. acquisition by Max Capital Group Ltd. in 2009, eventually becoming the winning bidder (see story, page 35).

Analysts had mixed reactions to a Validus-Transatlantic deal.

"We had looked at Validus as being really in the absolute sweet

See **VALIDUS** page 35

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MOST POPULAR STORIES
Week of July 11, 2011

1. The five costliest disasters of 2011
2. First-half catastrophes caused $55B in insured losses
3. States can let large employers tap health insurance exchanges
4. XL lures Zurich execs for railroad underwriting unit
5. Marsh hires leader for industry specialization property practice
6. Insurance industry groups oppose plan to halt NFIP
7. Asbestos trust must use primary insurance before tapping excess
8. S&P puts AAA-rated insurers on negative review on default threat
9. Reinsurer Transatlantic weighs unsolicited Validus bid
10. HHS, Labor to ask employers about wellness programs

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Business Insurance (ISSN 0007-6864) Vol. 45, No. 28, is published weekly, except for combined issues the first and second week of July, the fourth and fifth week of August and no issue the last week of December, by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Email address change to customerservice@businessinsurance.com or mail to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. $5 a copy and $125 a year in the U.S. $130 in Canada and Mexico (includes GST). All other countries, $230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A.

EMPLOYMENT PRACTICES

Most companies work to protect gay employees

In absence of laws, employers impose anti-bias policies

By JUDY GREENWALD

Many employers have taken steps to protect gay employees in the workplace.

This largely reflects society in general, as demonstrated by New York state's new law approving gay marriage, which takes effect on Sunday, July 24. Six states now allow gay marriage.

Federal law, meanwhile, still does not recognize sexual orientation as a protected class, although many anticipate it will ultimately become protected under Title VII of the Civil Rights Act of 1964 (see story, page 34).

Many employers have adjusted their policies to discourage discrimination against gays, and often are ahead of local laws in this respect, observers say.

87%

As of March, 87%, or 433, of companies in the Fortune 500 had introduced policies that protect their lesbian, gay, bisexual and transgender employees from discrimination.

As of March, 87%, or 433, of the Fortune 500 companies have introduced policies that protect their lesbian, gay, bisexual and transgender employees from discrimination. In addition, 229 firms, or 46%, have nondiscrimination policies that include gender identity, according to the Washington-based Human Rights Campaign.

Chartis Inc. updated its antidiscrimination policy last year to add gender identity and expression in addition to its protection for sexual orientation, said Victoria Martin, New York-based chief diversity officer for the unit of American International Group Inc. "Our goal is to promote an environment where everyone has the opportunity to develop and advance," she said.

Having such a policy, she said, drives performance, helps retain talented people and lets job applicants know the company "is a great place to work, because we are an inclusive workplace," Ms. Martin said.

Sophisticated employers have "truly embraced a culture of nondiscrimination that goes beyond the standard laundry list of age, gender, race, nationality, and does not tolerate discrimination or harassment for any reason," said Diana L. Hoover, a partner with law firm Hoover Kernell L.L.P. in Houston.

In the city of New York, which prohibits gender discrimination for employment, most employers "have taken a proactive approach" in addressing the issue, said Jerrold F. Goldberg, a partner with law firm Greenberg Traurig L.L.P. in New York.

This also is true elsewhere, observers say.

"Even in a state like North Carolina, which has no protection for sexual orientation, most of the employers I know have voluntarily adopted policies prohibiting discrimination based on sexual orientation and prohibiting harassment based on that as well," said Robin E. Shea, a partner with Constangy, Brooks & Smith L.L.P. in Winston-Salem, N.C. "I suspect that's probably the case with most large employers everywhere, whether it's because they operate in multiple states" or "just because it's the right thing to do."

Richard D. Tuschman, a partner with law firm Duane Morris L.L.P. in Miami, said, "I'm seeing quite a number of employers adopt policies that prohibit sexual orientation discrimination, whether or not it's prohibited in all areas in which the employer does business.

"First of all, it's the right thing to do; and because of state and local laws, it's the safe thing to do as well," he said. "Generally, there's increasing acceptance of gays and lesbians, and I think employers' policies and practices reflect that increased acceptance."

To a large extent, "It's sort of accepted as another reality of the employee workforce," said Michael C. Schmidt, a partner with Cozen O'Connor P.C. in New York.

Gregg M. Lemley, a shareholder with Ogletree, Deakins, Nash, Smoak & Stewart P.C. in St. Louis, said, however, "Employers have not been as good as they should have been" when changing their policies about expressly adding sexual orientation to the list of protected categories.

"That being said," clients Mr. Lemley works with also "under-

See **BIAS** page 34

PROPERTY/CASUALTY INSURERS

AP PHOTO

Despite efforts to hold off flooding from the surging Souris River, water poured through a breached levee in Minot, N.D., in late June. Efforts to extend the National Flood Insurance Program progressed in Congress last week.

House passes measure to extend NFIP

Five-year extension, private market study among key provisions

By MARK A. HOFMANN

WASHINGTON—Insurance industry groups say they hope the U.S. Senate follows the House's lead and passes legislation to extend the National Flood Insurance Program through Sept. 30, 2016.

The program has been extended piecemeal and allowed to lapse several times in recent years as the House and Senate could not agree on what the NFIP should and should not cover. The result was repeated market disruptions as the program could not issue new policies.

But the House approved the bipartisan Flood Insurance Reform Act of 2011 on a 406-22 vote last week after defeating an amendment that would have killed the program next year. Insurer and business groups, including the Risk & Insurance Management Society Inc., had sent a letter to House leaders early in the week opposing the amendment.

Among other things, the reform bill, which enjoys the support of the Obama administration, would extend the program for five years beyond its current Sept. 30 sunset. It also would require studies of possibly giving the private insurance industry a greater role in flood insurance, and reducing subsidies for the program.

New York-based RIMS hailed the vote.

"We're pleased with the vote in the House and anticipate eventual passage in the Senate because this maintains an important risk financing tool for our members," said John Phelps, RIMS board liaison to the external affairs committee.

"Although we believe certain improvements to the program can and should be made, elimination of the program was not in the best interests of commercial insureds who rely on flood coverage through the program," said Mr. Phelps, who also is director-business risk solutions at Blue Cross and Blue Shield of Florida Inc. in Jacksonville.

Ron Hayes, risk manager for the Calcasieu parish school system in

See **NFIP** page 34

LIABILITY & LITIGATION

Excess insurer wins dispute over asbestos

By MIKE TSIKOUDAKIS

CINCINNATI—An excess insurer does not have to pay asbestos-related claims until all the relevant primary policies have been exhausted, a federal appeals court ruled.

In *Federal-Mogul U.S. Asbestos Personal Injury Trust vs. Continental Casualty Co. et al.*, a three-judge panel of the 6th U.S. Circuit Court of Appeals in Cincinnati ruled that umbrella coverage provided by a unit of CNA Insurance Co. does not kick in until all three primary insurers have paid out their limits.

Southfield, Mich.-based Federal-Mogul filed for Chapter 11 protection in 2001 after it was overwhelmed with asbestos-related injury claims.

The Federal-Mogul U.S. Asbestos Personal Injury Trust was created to bear liability for the claims under the bankruptcy plan. The trust holds three primary liability policies with insurers Travelers Indemnity Co., Globe Indemnity Co. and Liberty Mutual Insurance Co., according to court documents.

Federal-Mogul sought a declaratory judgment from a federal judge in Detroit, arguing that its umbrella policy with Continental requires the insurer to defend the trust against asbestos claims after the policy through Travelers had been exhausted, which was the only primary policy named in the umbrella policy's coverage schedule.

However, the federal judge rejected Federal-Mogul's argument and dismissed the suit. In a ruling last week, a three-judge panel of the 6th U.S. Circuit Court of Appeals in Cincinnati agreed.

The appeals court panel ruled that Continental had no duty to defend the trust because under its "defense, settlement, supplementary payments insuring agreement," the policy was not triggered since coverage remained under two other primary insurance policies.

For the umbrella policy to be triggered, the "claims must not be covered by either Travelers or any other underlying insurance collectible by the trust," the appeals court panel ruled.

INTERNATIONAL

Most E.U. insurers pass Solvency II stress test

By SARAH VEYSEY

FRANKFURT, Germany—The vast majority of European insurers and reinsurers remained financially "robust" in a test of their ability to withstand various economic shocks, but up to 10% failed to meet their minimum capital requirement under Solvency II, the European insurance regulator said.

In addition, experts say insurers need to make certain they are ready for the risk-based capital regulatory framework in whatever shape Solvency II comes into force, which is slated to begin in 2013.

The Frankfurt, Germany-based European Insurance and Occupational Pensions Authority said 221 insurance and reinsurance groups and companies in the European Union, the European Economic Area and Switzerland—with a market share of about 60%—took part in the study testing their ability to maintain minimum capital levels despite macroeconomic shocks that include inflation, interest rates, credit and insurance risks.

The exercise was intended to test the market's resilience to such shocks and how its capital position would change as a result of such events, EIOPA Chairman Gabriel Bernadino said this month.

Participating insurers' aggregate solvency surplus was €425 billion ($606.18 billion) before EIOPA applied the stress test scenarios.

Under a scenario of adverse macroeconomic deterioration, including interest rate and equity risks, the group's surplus fell to €275 billion ($392.23 billion) and 10% would fail to meet their minimum capital requirements under Solvency II, according to EIOPA.

10%

Up to 10% of European insurers and reinsurers failed to meet their minimum capital requirement under Solvency II.

Under a stress test to gauge insurers' reaction to inflation, their combined surplus fell to €367 billion ($419.35 billion) and 8% of participants would fail to meet minimum capital requirements under Solvency II, the insurance regulator said.

Mr. Bernadino declined to name companies that failed to meet the minimum capital requirements under the stress tests and pointed out that Solvency II still is a prospective regime that has yet to be finalized.

Still, the Brussels-based Comité Européen des Assurances, which represents insurers and reinsurers in Europe, said the results demonstrate the insurance industry's ability to withstand even severe economic shocks.

"It should also be borne in mind that the stress tests were based on an interim model" of Solvency II, CEA Director General Michaela Koller said in a statement. "The CEA has been and continues to submit technical feedback to EIOPA and the European Commission to finalize the details of the Solvency II regime."

Because Solvency II rules have not been finalized, it is difficult to gauge the full significance of the stress test results, said Philippe Guijarro, an actuarial partner at PricewaterhouseCoopers L.L.P. in Edinburgh, Scotland.

While it may be comforting that up to 92% of insurers met the minimum capital requirement in the test, regulators are likely to require insurers to have even more capital—enough to ensure that bankruptcy occurs no more than once every 200 years with a 99.5% probability that insurers could meet their policyholder obligations for the next year, Mr. Guijarro said.

In addition, he said the stress test scenarios were "relatively light" in the intensity of the macroeconomic shocks.

While some companies may have considered the stress tests to be an "exercise in futility" because Solvency II is not yet finalized, the results likely will generate further discussion and industry lobbying

See **STRESS** page 31

CATASTROPHES

2011 disasters prove costly for insurers

Economic losses hit first-half record

By SONJA RYST

Catastrophes worldwide caused an unprecedented $260 billion in economic losses during the first half and $55 billion in insured losses, Munich Reinsurance Co. and the Insurance Information Institute Inc. said last week.

The first-half insured losses are more than double the amount during the comparable period last year and more than four times the 10-year average, Munich Re and the III said during a webinar.

There were $220 billion in economic losses in 2005, when Hurricane Katrina hit. That was the previous record year for economic losses, the German reinsurer and New York-based trade association said.

The March 11 earthquake in Japan contributed $210 billion to the economic losses so far this year.

"It's been a momentous first half of the year—one for the record books," said Robert P. Hartwig, III president and chief economist, in noting earthquakes in Japan, New Zealand and Chile and a string of U.S. tornadoes during recent months.

AP PHOTO

Homes in West Springfield, Mass., were hit by a tornado on June 3. Disasters worldwide this year have caused $55 billion in insured losses.

La Niña, characterized by unusually cold temperatures in the Pacific Ocean, "is driving the extreme losses this year, but there's increasing evidence that there's also a contribution of global warming," said Peter Hoppe, head of Munich Re's Geo Risks Research/Corporate Climate Center. While there have been many La Niña events in past decades, he said none has created such extreme events as this year.

Carl Hedde, Munich Reinsurance America's head of risk accumulation, listed events such as wildfires in Arizona; blizzards in the Midwest; tornadoes in Joplin, Mo., and Tuscaloosa, Ala.; and the deadliest U.S. thunderstorm season in more than 50 years.

In the United States, where insurance penetration is relatively higher than other parts of the world, 100 events in the first half of 2011 produced $27 billion in overall losses and $17.3 billion in insured losses, which Munich Re and the III said are well above the 10-year averages of $11.8 billion and $6.6 billion, respectively.

"The total is still climbing" for the number of insured losses from natural disasters in the United States, Mr. Hedde said during the webinar presented by Munich Re and the III and available on Munich Re's website.

Mr. Hartwig said despite projections of 16 named storms for the current hurricane season vs. a 9.6 annual average, "there's no question at all about whether insurers or reinsurers can meet their obligations."

Errors & Omissions

A chart on page 16 of this week's issue, "Largest Privately Owned Brokers," contains several errors, including details on brokerage revenues and the ranking of the brokerages. Due to *Business Insurance*'s printing schedule, the chart on page 16 could not be changed. A corrected version of the chart is on page 32.

HEALTH CARE REFORM

Big companies may tap state health exchanges

By JERRY GEISEL

WASHINGTON—States have the authority to decide whether large employers can purchase coverage through new state health insurance exchanges starting in 2017, according to health care reform regulations issued last week.

The exchanges are a pivotal part of the Patient Protection and Affordable Care Act. Starting in 2014, they will be available to individuals, especially those eligible for federal health insurance premium subsidies, and employers with 100 or fewer employees. But until 2016, states can limit employer participation in the exchanges to organizations with up to 50 employees.

Starting in 2017, states can open the exchanges to employers with more than 100 employees, according to the Department of Health & Human Services regulations.

However, the rules give states the authority to define the conditions, such as number of employees, under which larger employers can buy coverage through the exchanges.

"The scope of the term 'qualified employer' is expected to vary among states and over time," according to the regulations.

"What is a large employer could well vary by state," said Paul Dennett, senior vp-health care reform with the American Benefits Council in Washington.

The regulations do not address whether employers with early retiree health care plans could obtain coverage through the exchanges or the extent to which employers could pay a share of retirees' premiums.

Additionally, the proposed regulations do not yet provide guidance on employers' reporting responsibilities in situations where employees apply for coverage through the health exchange.

For example, employees with employer-provided health coverage may be eligible, if certain conditions are met, for federal health insurance premium subsidies to purchase coverage through the exchanges.

Employees will be eligible for the subsidies if the premium their employers charge for coverage exceeds 9.5% of family income and the employees' adjusted gross income does not exceed 400% of the federal poverty level.

In that situation, the employer providing health coverage would be liable for a penalty of $3,000 for each employee receiving the subsidies to purchase coverage in an exchange.

The exchange receiving an employee's application would need information about the employer-provided coverage and its cost. The format that employers would have to follow to provide the information also has not yet been provided by regulators.

"There is much more guidance to come," said Frank McArdle, a principal with Aon Hewitt Inc. in Washington.


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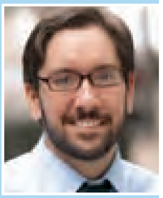
Mid-Market EXECUTIVE

Helping C-level executives at midsized firms overcome critical risk and benefits challenges

Welcome to Mid-Market Executive, *Business Insurance*'s new section featuring insights, analysis and solutions targeted at executives for midsize companies.

While *Business Insurance* has long provided news and analysis on issues of concern to professional risk and benefits managers, this new section of the magazine will address the critical risk and benefits concerns faced by executives who frequently deal with broad financial and operational issues, in addition to risk and benefits management.

Ms. Wojcik



Mr. Dunning

The coverage will be led by Senior Editor Joanne Wojcik and Associate Editor Matt Dunning. If you have questions or suggestions concerning the new coverage, Ms. Wojcik can be contacted at *jwojcik@businessinsurance.com* or 303-278-7444; Mr. Dunning can be contacted at *mdunning@businessinsurance.com* or 212-210-0143.

Contingent commissions back in the spotlight

Health reform law creates emphasis on broker volumes

By JOANNE WOJCIK

Some call it the "dirty little secret" that health insurance brokers have kept from their clients, but now health care reform regulations that limit insurer administrative expenses are bringing to light the lucrative extra compensation that agents and brokers have been pocketing for decades.

Pressure to meet new minimum medical loss ratio requirements that cap administrative expenses also is prompting health insurers to not respond to brokers that do not bring them large volumes of business, which could limit some smaller brokers' ability to fully shop the market on behalf of their clients, industry sources say.

Meanwhile, brokers that bring more business to certain insurers are getting special treatment and, in some cases, additional compensation, potentially creating an incentive for them to steer business to those insurers regardless of employers' best interests, those sources say.

Health insurance agents and brokers historically have received bonuses based on the volume of business they produce, but such pay will be significantly reduced under the Patient Protection and Affordable Care Act.

'There are a lot of brokers around the country that make their living on contingent commissions.'

Patrick J. Haraden, Longfellow Benefits

In a letter sent June 2 by Washington-based America's Health Insurance Plans to the National Assn. of Insurance Commissioners, AHIP urged regulators to exclude broker commissions from insurer administrative expenses. An NAIC task force indicated it would support such a move, but the NAIC's Executive Committee chose not to take any action during a July 12 public conference call.

In response to the MLR regulations, which took effect Jan. 1, some insurers began breaking out commissions that had been embedded in premiums and requiring brokers to seek fee-based compensation from their clients.

Other insurers, such as Jacksonville-based Blue Cross and Blue Shield of Florida Inc., have been "tiering" brokers based on volume, technology adoption and willingness to "partner" with the insurer by allowing underwriters to accompany them on sales calls to employers, said Jon Urbanek, group vp, sales, distribution and local presence.

Those who make the cut become eligible for production bonuses to help cover some of their fixed expenses, he said. But other types of overrides and bonuses "are going away. They are going to be really hard to do in the new world of mandatory MLRs," Mr. Urbanek said.

Historically, benefits brokers have been compensated with commissions, fees and bonuses. The commissions either are a percentage of the premium or, in the small-group business, a fee per employee per month. Brokers also have been eligible for bonuses based on the volume of business they bring to a particular insurer.

By law, health insurers are required to furnish every employer with 100 or more employees with a Form 5500 that shows commissions and bonuses paid to the broker servicing the account. But many employers pay little attention to the information on this form. Because employers with fewer than 100 employees and municipalities aren't required to file Form 5500, they generally don't know what their broker is paid unless they ask, sources say.

"There are a lot of brokers around the country that make their living on contingent commissions," said Patrick J. Haraden, a principal at Longfellow Benefits in Boston.

As health care costs have increased, so has broker pay, as it generally has been a percentage of premiums, others say.

"I have known those in the industry who have jokingly referred to 'trend is their friend,'" said Catherine Sims, a vp at IMA of Colorado Inc. in Denver.

While some industry sources say this compensation model has

See **BROKERS** page 33

Private insurance exchanges target wide range of employers

By JOANNE WOJCIK

While the Department of Health and Human Services issued regulations last week to guide states in building health insurance exchanges to serve small employers starting in 2014, private exchanges targeting small, midsize and even large employers already are cropping up across the country.

This month, Minnetonka, Minn.-based Medica Health Plans and Detroit-based Blue Cross Blue Shield of Michigan launched private exchange platforms that enable employers with 50 or more employees in those states to use a defined contribution approach to fund health benefits while also giving employees access to an online marketplace of numerous health plan options.

In April, Lincolnshire, Ill.-based Aon Hewitt Inc. announced it was developing a private health insurance exchange to serve employers with 1,000 or more employees beginning in 2012.

Another independent, HealthPass New York, has been serving employers with two to 50 employees in New York since 1999.

"The whole health care reform debate has stirred the pot a bit and accelerated innovation in the private sector," said John Naylor, vp of sales and account service at Medica.

"We've heard from health plans that they need a way to offer more customized, individually tailored benefits to their employer clients who are looking for more choice in a tough economy," said Abir Sen, CEO of Minneapolis-based Bloom Health, which launched a private exchange platform in 2009 to allow employers to limit their health care liability while giving more choice to their employees.

See **EXCHANGE** page 32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Opinions

EDITORIAL

Flood legislation deserves approval

HALFWAY THERE—that's the best way to describe the importance of the U.S. House of Representatives' overwhelming vote last week to extend the National Flood Insurance Program through Sept. 20, 2016.

As we report on page 3, the bipartisan Flood Insurance Reform Act of 2011 provides a welcome extension, and creates several reforms as well. Perhaps the most significant of those reforms is a requirement that the federal government study whether the deeply indebted program should be at least partially privatized.

The fact that the House moved so decisively and so swiftly stands in welcome contrast to previous congressional inaction on the program. A longstanding disagreement between the House and Senate over whether the program should be expanded to require the NFIP to also offer wind coverage led to numerous short-term extensions or even lapses in the program in recent years.

Fortunately, that dispute didn't emerge this time. Heaping new responsibilities onto an already thinly stretched program would have made little sense, particularly because there's already a flourishing private insurance market providing wind cover.

What emerged this time around was a broad bipartisan realization that the NFIP needed a long-term fix. This was good news for risk managers, some of whom rely on NFIP policies as part of their financing strategy. Reforming and extending the NFIP for five years would provide a welcome element of certainty to those strategies.

An effort to abolish the program by next year in the name of fiscal restraint failed, as it deserved to. While we certainly believe there's a greater role for the private sector in the flood insurance market, even partially privatizing the NFIP will require a long-term process.

The White House recognized the importance of the program by endorsing the House bill before the measure came to the floor. The Senate should follow the House's lead as swiftly as possible and send a measure extending and reforming the NFIP to the president's desk.

We're not going to achieve the necessary goal of reforming the NFIP until the president has a chance to sign reform legislation, and there's no reason to keep him waiting any longer than necessary.

LETTERS

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SCHILLERSTROM

COMMENTARY

Work-at-home cases rattle employers

Employers were appalled when a New Jersey appellate court ruled recently that an AT&T manager's extended time sitting while on the job contributed to her death, entitling her spouse to workers compensation dependency benefits.

Cathleen Renner's dependents essentially claimed that the AT&T employee of 25 years worked herself to death by sitting at a desk, physically inactive for long periods. The June ruling in *James P. Renner vs. AT&T* revealed that a medical expert testified the she died of a blood clot and pulmonary embolism caused by sitting for long hours, although there were contributing factors such as obesity and her use of birth control pills.

ROBERTO **CENICEROS**
SENIOR EDITOR

It was the second recent workers comp appeals court decision I know of to rattle employers and involve employees working from home. While the New Jersey ruling in *Renner vs. AT&T* did not address issues arising from the claimant working from home, it offers an example of how employers are more likely to see workers comp cases involving mishaps occurring outside the traditional worksite. So employers should get ready for such claims.

In May, I heard speakers at the Risk & Insurance Management Society Inc.'s annual conference say that while employers will face more claims filed by workers whose primary place of doing their job is outside the traditional workplace, a lack of case law involving such workers comp claimants remains.

Then in June, Oregon's Court of Appeals ruled in *Mary S. Sandberg vs. J.C. Penney Co. Inc.* that the injury a salesperson suffered when she tripped over her dog while working at home arose from her employment.

You can imagine how that decision rattled employers and it represents early case law, at least in Oregon.

The ruling also should remind employers to consider appropriate risk management strategies as more employees work on the road and from home.

Fortunately, disability and workers comp professionals already are considering such employees.

The Disability Management Employer Coalition just released a white paper titled "Virtual Workforce: The Changing Face of Absence and Productivity in the Technological Age." It provides employer case studies ranging from worker home office ergonomic assessments to absence management issues.

While employers will see more cases involving remote workers, not all will involve at-home workers.

That is the case in the New Jersey court decision involving Ms. Renner, the AT&T employee. Court records show she worked from home three days a week and went into the office twice a week.

Employers and workers comp observers who side with them expressed outrage over the court's ruling, arguing that just because Ms. Renner was working when she died doesn't mean her work caused the health problems leading to her death.

Several argued that her employer didn't strap her to a desk chair and force her to stay seated the entire time she was working, and that movement, such as getting up for a drink of water, is known to reduce the potential for blood clots.

Let it be a reminder that communications encouraging office employees to move about during the day also need to find their way to remote workers.

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PUBLISHED AT 360 N. Michigan Ave., Chicago, Ill. 60601-3806, Fax: 312-280-3174, *biweb@crain.com*. Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048-4947, Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; 21 St. Thomas St., London SE1 9RY, U.K. Fax: +44-(0)20-7457-1440; Fax: 312 280-3174. 77 Franklin St., Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704. $5 a copy and $97 a year in the U.S., $130 in Canada and Mexico (includes GST). All other countries, $230 a year (includes expedited air delivery). **FOR SUBSCRIPTION INFORMATION** and delivery concerns please email *customerservice@businessinsurance.com* or call 1-877-812-1587 (in the U.S. and Canada) or 1-313-446-0405 (all other locations.) Send subscription correspondence to Audience Development Department, *Business Insurance*, 360 N. Michigan Ave., Chicago, IL 60601-3806. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. **FOR REPRINTS** or reprint permission, please contact Lauren Melesio/Crain Communications at 212-210-0707 or e-mail *BusinessInsurance@reprints.crain.com*.

BROKER TRENDS & PROFILES

ROUTES TO GROWTH

BIGGEST BROKERS TAKE DIFFERENT ROADS TO SUCCESS

Acquisitions are again changing the landscape of the brokerage industry as firms strive to grow their business. While the pace of the mergers and acquisitions is not at the same level as the recent past, the deals that are being conducted today are significant in that they signal different strategic approaches being taken by various companies in the insurance brokerage sector.

Probably the most notable deal concluded in 2010 was Aon Corp.'s acquisition of Hewitt Associates Inc. The $4.9 billion cash-and-stock deal, which was completed in the fall, not only dramatically boosted Aon's benefit consulting and outsourcing resources, it moved the brokerage up to the No. 1 spot on *Business Insurance*'s ranking of the world's largest brokerages.

Aon, which has grown rapidly over the past 20 years through a series of large and small acquisitions, edged out longtime rival Marsh & McLennan Cos. Inc. based on pro forma numbers that recognize Hewitt's revenue for the full year for 2010.

Under *Business Insurance*'s policy, ranked brokers are requested to report acquisitions that exceed $100 million on a pro forma basis to show a full year of revenues, providing a better basis for comparison.

Marsh, which had held the No. 1 spot since the ranking began four decades ago, included its 2010 purchase of HSBC Insurance Brokers Ltd. on a pro forma basis.

The New York-based brokerage has also been in an active acquisition mode over the past year, though many of its acquisitions have included smaller firms that fit its strategy of building out its middle-market business. Long recognized for its large-account business, Marsh has also aggressively pursued a strategy of acquiring more middle-market business over the past couple of years.

Willis Group Holdings P.L.C. already had ramped up its middle-market business with the 2008 purchase of Hilb Rogal & Hobbs Co. While the deal presented some debt concerns that the brokerage had to address, Willis still managed to grow in 2010 and sees international business as a key growth area in the future.

Trend stories and profiles of the top 10 brokers begin on page 14.

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BROKER TRENDS

TOP 10 BROKER PROFILES

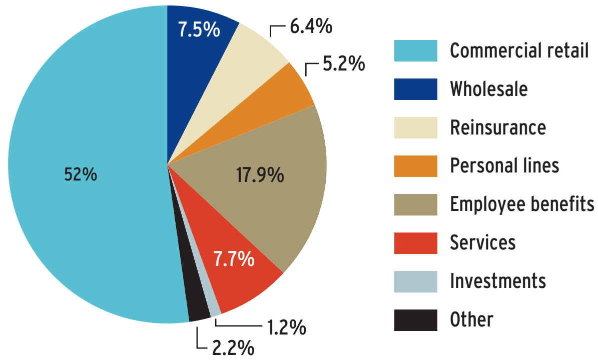
DATA snapshot

TOP WORLD BROKERS

VISIT the *Business Insurance* Research Center to access full searchable directories and directories in PDF and Excel formats.
WWW.BUSINESSINSURANCE.COM/DIRECTORIES

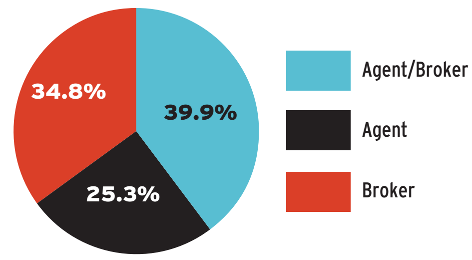
BUSINESS BREAKDOWN

Areas contributing to the largest brokers' overall revenue



AGENT OR BROKER

Business type of all companies listed in BI's directory



WORLD'S 10 LARGEST INSURANCE BROKERS

Ranked by 2010 brokerage revenues

RANK	Company/address	Phone/website	Chief executive	2010 brokerage revenues	% change	2010 employees	2010 offices	PERCENTAGE OF REVENUES*: Commercial retail	Wholesale	Reinsurance	Employee benefits	Personal lines	Services	Investments	Other
1	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 *www.aon.com*	Gregory C. Case, president/CEO	$10,606,000,000[1]	43.1%	59,100	500	44.8%	n/m	13.4%	18.2%	n/m	21.9%	0.7%	1.1%
2	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-6000 *www.mmc.com*	Brian Duperreault, president/CEO	$10,596,000,000[2]	7.7%	51,000	618	45.1%	n/m	9.2%	32.8%	n/m	12.8%	0.6%	-0.5%
3	Willis Group Holdings P.L.C. 51 Lime St., London, EC3M 7DQ England	44-203-124-6000 *www.willis.com*	Joe Plumeri, chairman/CEO	$3,300,000,000	2.8%	17,000	400	56%	4.8%	20%	14.1%	2.2%	1.9%	1.1%	n/m
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 *www.ajg.com*	J. Patrick Gallagher Jr., chairman/president/CEO	$1,789,884,000	4.6%	10,736	250	40.2%	11.8%	n/m	18.1%	1.2%	24.7%	4%	n/m
5	Wells Fargo Insurance Services USA Inc. 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 *wfis.wellsfargo.com*	Neal R. Aton, president/CEO	$1,649,538,000	5.7%	7,526	174	59%	0.9%	n/m	12%	9.8%	2.9%	1.8%	13.6%
6	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London, EC3N 2PH England	44-207-528-4444 *www.jltgroup.com*	Dominic Burke, group chief executive	$1,137,730,760[3]	18.8%	6,219	80	47.5%	7.2%	17.2%	17.4%	1.3%	7.8%	1.1%	0.5%
7	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 *www.bbt.com*	H. Wade Reece, chairman/CEO	$1,078,576,900	-0.3%	4,402	115	48%	25.8%	n/m	10.4%	8.7%	n/m	0.8%	6.3%
8	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 *www.bbinsurance.com*	J. Powell Brown, president/CEO	$966,917,112	0.2%	5,286	148	53.8%	14%	2.1%	17.6%	7%	4.8%	0.1%	0.5%
9	Lockton Cos. L.L.C. 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 *www.lockton.com*	David M. Lockton, chairman	$826,857,000[4]	8%	4,107	54	67.6%	5%	1.8%	24.2%	0.3%	n/m	1.1%	n/m
10	Hub International Ltd. 55 E. Jackson Blvd., Floor 14A, Chicago, Ill. 60604-4187	877-402-6601 *www.hubinternational.com*	Martin P. Hughes, chairman/CEO	$761,577,000	5%	4,900	255	57.5%	5.8%	0.5%	13.8%	21.3%	1%	0.1%	n/m

**Percentage of revenue may not total 100% due to rounding. 1 Pro forma to include a full year of Hewitt Associates Inc. 2 Pro forma to include a full year of HSBC Insurance Brokers Ltd. 3 British pound=$1.5452 (2010) fiscal year ending Dec. 31. 4 Fiscal year ending April 30.*

Source: BI Survey
Researched by Kevin Edison

100 LARGEST BROKERS OF U.S. BUSINESS

Ranked by 2010 brokerage revenues generated by U.S.-based clients

2010 rank	2009 rank	Company	2010 revenue	% change
1	1	Marsh & McLennan Cos. Inc.[1]	$4,662,240,000	5.3%
2	2	Aon Corp.[2]	$4,242,400,000	59%
3	3	Willis Group Holdings P.L.C.	$1,650,000,000	-1.2%
4	4	Wells Fargo Insurance Services USA Inc.	$1,649,538,000	5.7%
5	5	Arthur J. Gallagher & Co.	$1,557,199,080	2.2%
6	6	BB&T Insurance Services Inc.	$1,078,576,900	-0.3%
7	7	Brown & Brown Inc.	$964,016,361	0.2%
8	8	USI Holdings Corp.	$632,249,000	0.7%
9	9	Lockton Cos. L.L.C.	$578,799,900[3]	9.5%
10	10	Hub International Ltd.	$510,256,590	-0.9%
11	11	Alliant Insurance Services Inc.	$357,303,988	1.5%
12	12	Leavitt Group	$183,640,000	-4.4%
13	14	Jardine Lloyd Thompson Group P.L.C.	$159,282,306[4]	18.8%
14	13	CBIZ Benefits & Insurance Services Inc.	$157,800,000	2.4%
15	15	Frank Crystal & Co. Inc.	$131,530,000	1.7%
16	16	Hays Group Inc., dba Hays Cos.	$117,200,000	5.2%
17	17	Bollinger Inc.	$116,391,174	9.7%
18	18	J. Smith Lanier & Co.	$105,020,193	0.3%
19	19	Regions Insurance Group Inc.	$99,494,406	-4.6%
20	20	John L. Wortham & Son L.P.	$96,587,439	n/m
21	21	Beecher Carlson Holdings Inc.	$92,787,282	-1.1%
22	22	Holmes Murphy & Associates Inc.	$92,453,487	0.8%
23	23	Mesirow Insurance Services Inc.	$87,495,570[5]	-1.7%
24	26	Neace Lukens Holding Co.	$86,014,197	2.9%
25	24	Hylant Group Inc.	$85,564,364	-0.5%
26	25	BancorpSouth Insurance Services Inc.	$81,611,594	-2.6%
27	28	Insurance Office of America Inc.	$80,812,270	4.2%
28	27	IMA Financial Group Inc.	$78,310,466	0.6%
29	29	Barney & Barney L.L.C.	$76,150,800	7.7%
30	NEW	Paychex Insurance Agency Inc.	$74,400,000[6]	26.8%
31	39	Integro USA Inc.	$72,603,000	27.6%
32	31	Heffernan Group	$71,465,000	5%
33	32	Conner Strong & Buckelew Cos. Inc.	$69,520,220	4%
34	35	Ascension Insurance Inc.	$68,621,000	16.3%
35	37	Woodruff-Sawyer & Co.	$64,556,118	9.8%
36	38	Cottingham & Butler Inc.	$62,882,000	8.7%
37	41	Higginbotham & Associates	$61,093,000	11.7%
38	40	Capacity Group of Cos.	$60,195,269	8.9%
39	34	Huntington Insurance Inc.	$58,662,450	-7.2%
40	36	Eastern Insurance Group L.L.C.	$55,817,803	-5.3%
41	42	Frenkel & Co. Inc.	$54,788,423	2.1%
42	48	Edgewood Partners Insurance Center	$52,582,000	14.9%
43	43	Associated Financial Group L.L.C.	$51,259,900	-1.5%
44	44	Western States Insurance	$50,619,825	-2.6%
45	46	Marshall & Sterling Enterprises Inc.	$47,321,215	1.7%
46	47	Horton Group Inc.	$46,200,205	-0.2%
47	50	First Niagara Risk Management Inc.	$45,493,508	3.6%
48	58	Assurance Agency Ltd.	$44,818,000	12.5%
49	54	Propel Insurance	$44,200,000	5.9%
50	57	Lawley Service Inc.	$43,384,542	7.1%
51	53	McQueary Henry Bowles Troy L.L.P.	$42,860,000	1.4%
52	52	William Gallagher Associates Insurance Brokers Inc.	$42,002,602	-1.3%
53	51	INSURICA Insurance Management Network	$41,404,809	-4.7%
54	59	Oswald Cos.	$41,382,000	5.9%
55	49	Mahoney Group	$41,113,272	-6.8%
56	55	InterWest Insurance Services Inc.	$41,069,587	-1.2%
57	56	Riggs, Counselman, Michaels & Downes Inc.	$40,278,744	-2.2%
58	45	BBVA Compass Insurance Agency Inc.	$36,648,121	-22.6%
59	60	Rose & Kiernan Inc.	$36,514,170[3]	-5.6%
60	NEW	Corporate Synergies Group L.L.C.	$36,000,000	2.9%
61	64	Bowen, Miclette & Britt Inc.	$35,800,782	-2%
62	82	Risk Strategies Co.	$35,773,098	25.9%
63	63	Old National Insurance	$35,737,161	-2.4%
64	68	Loomis Co.	$35,201,600	0.8%
65	69	Moreton & Co.	$35,076,000	3%
66	61	Andreini & Co.	$35,000,000	-7.9%
66	73	Sterling & Sterling Inc.	$35,000,000	7.7%
68	65	Graham Co.	$34,940,811	-4.3%
69	72	Payne Financial Group Inc.	$34,832,517	4.3%
70	71	Frost Insurance Agency Inc.	$34,574,231	2.9%
71	77	Scott Insurance	$34,251,000	6.9%
72	70	Parker, Smith & Feek Inc.	$34,157,000	1.5%
73	78	SilverStone Group Inc.	$32,348,000	5%
74	80	M3 Insurance Solutions Inc.	$31,738,600	6.4%
75	74	Starkweather & Shepley Insurance Brokerage Inc.	$31,680,000	-2.5%
76	75	SullivanCurtisMonroe Insurance Services L.L.C.	$31,101,000	-3.7%
77	90	People's United Insurance Agency Inc.[7]	$30,687,000	30%
78	NEW	Acrisure L.L.C.	$28,628,379	79.2%
79	81	Roger Bouchard Insurance Inc.	$27,723,742	-5.5%
80	85	Robertson Ryan & Associates Inc.	$27,413,244	3.9%
81	86	Haylor, Freyer & Coon Inc.	$26,220,356[8]	0.9%
82	84	Cobbs, Allen & Hall Inc.	$25,061,537	-6.5%
83	83	Lovitt & Touche Inc.	$24,657,930	-8.3%
84	88	Seitlin	$24,639,413	0.8%
85	76	Dawson Cos.	$24,587,582	-23.5%
86	NEW	J.W. Terrill Inc.	$24,205,705	2.6%
87	NEW	TWIW Insurance Services L.L.C.	$23,520,000	-3%
88	91	Precept Group	$23,300,000	3.1%
89	95	Brower Insurance Agency L.L.C.	$23,244,000	7.3%
90	93	Bankers Insurance L.L.C.	$23,016,260	3.9%
91	92	Daniel & Henry Co.	$22,501,000	0.6%
92	94	Momentous Insurance Brokerage Inc.	$22,400,000	1.8%
93	87	PSA Insurance & Financial Services[9]	$21,364,310[3]	-14.8%
94	96	Schiff, Kreidler-Shell Inc.	$21,302,000	5%
95	NEW	Johnson Insurance Services L.L.C.	$21,148,692	-0.7%
96	67	Van Gilder Insurance Corp.	$21,011,468	-41.8%
97	97	Bolton & Co. Insurance Brokers	$20,205,801	n/m
98	79	FBMC Benefits Management[10]	$20,125,938	-34.3%
99	100	AH&T Insurance	$19,028,504	2.7%
100	NEW	Benefit Controls Cos.	$18,850,000	7.4%

**Companies that derive less than 50% of revenues from commercial retail brokerage or employee benefits are not ranked. n/m=not meaningful. 1 Pro forma to include a full year of HSBC Insurance Brokers Ltd. 2 Pro forma to include full year of Hewitt Associates Inc. 3 Fiscal year ending April 30. 4 British pound=$1.5452 (2010) fiscal year ending Dec. 31. 5 Fiscal year ending March 31. 6 Fiscal year ending May 31. 7 Formerly R.C. Knox & Co. Inc. 8 Fiscal year ending Aug. 31. 9 Formerly PSA Financial Center & Affiliates. 10 Formerly Fringe Benefits Management Co.*

Source: BI Survey
Researched by Kevin Edison

Brokers continue with efforts to cap their own liability

Intense competition seen limiting spread of E&O limits

By MARK A. HOFMANN

Some brokers' efforts to get clients to agree to limit broker liability for professional errors have met with success, but the practice also has its critics.

The practice dates back more then two years ago, when Marsh Inc. began asking middle-market and large-account clients to sign agreements limiting Marsh's own errors and omissions liability mistakes at $10 million. Marsh said parent Marsh & McLennan Cos. Inc. mandated the move across its units and that such limits are common among many professions.

But some risk managers say that agreeing to such a limit runs counter to their own risk management approach. And risk management and brokerage consultants say they are not seeing widespread adoption of the approach by brokers.

"In the private broker group, the middle-market group, they're not using them," said Timothy J. Cunningham, a principal at OPTIS Partners L.L.C. in Chicago.

"I've seen it, but it's not pervasive at all," said Richard S. Betterley, president of Sterling, Mass.-based Betterley Risk Consultants L.L.C. "I don't like it. I can understand why they would want it. We've service similar caps with other service provider relationships."

The practice stemmed from Marsh's efforts to bolster its enterprise risk management.

"It started as a result of our own internal ERM process," said Daniel Glaser, group president and chief operating officer of MMC. "Most risk managers understand when they put themselves in our company's shoes and they look at our responsibilities and obligations coupled with our levels of engagement and remuneration. If they were our risk manager, they would agree, one of the ways that we will mitigate risk would be through clear service-level agreements that contain limits of liability."

He said client response has been "overwhelmingly positive," with more than 90% of Marsh's clients agreeing to some sort of limit of liability arrangement. Mr. Glaser said the initiative will be rolled out to other countries as a part of Marsh's "de-risking strategy."

Last year, Aon Corp. began a similar, although not identical, approach.

"We try to improve our risk management practices, as part of…implementing a simpler, clearer, more transparent engagement letter," said Mike O'Connor, chief operating officer of Aon Risk Solutions in Chicago. He said one element of the approach is setting an "appropriate, transparent limit of liability."

"Our client base is large and diverse," Mr. O'Connor said. "We could not employ a one-size-fits-all model. We have to be able to adjust to the given situation of the client. We want to make sure we're providing clients choice."

Mr. O'Connor said that since October, Aon has updated about 80,000 client engagement agreements. "The vast majority have accepted," said Mr. O'Connor. "We have not seen any major resistance."

But not all risk managers agree.

Gary Langsdale, risk officer for Pennsylvania State University in State College, Pa., said Marsh asked Penn State to sign a liability cap agreement and he declined.

"We're working off an old agreement and we're going through an RFP process for the excess casualty brokerage for 2012," said Mr. Langsdale "I'm sure this will come up."

He said Penn State was approached by another major broker, which he declined to identify, and "I explained to them why we weren't interested in that sort of language, either."

"The big issue is to me is, just as Marsh has explained, that they're trying to do their risk management by trying to implement a limit. We also are doing our risk management by rejecting a limit," Mr. Langsdale said. "If we're asking them to place $100 million of liability insurance for us, if there were an error or omission on their part, why would we be willing to limit their liability to some low amount? I would be very curious as whether Marsh's legal department accepts limitations of liability from their vendors or suppliers when they're negotiating contracts."

Honeywell International Inc. also declined to sign any agreements that limit broker liability for errors and omissions, said Paul Piazza, director-corporate risk management for the Morris Township, N.J.-based company.

"Honeywell does not sign any limitation of liability in our broker agreements," said Mr. Piazza, a Marsh client. "We've never been asked to before and we have to report to senior management on all of our agreements, so it would be very tough for us to explain to senior management that we're capping liability for broker services on large insurance placements when we've never done it before."

Another risk manager, who said he was prohibited contractually from disclosing his arrangement with his broker, said risk managers should accept nothing less than total transparency from their brokers.

"I think the broker has an obligation to disclose in advance any restrictions they would have with the risk manager," said John Phelps, director-business risk solutions at Blue Cross and Blue Shield of Florida Inc. in Jacksonville. "I'm paying a fee for service. Why would they need to limit their liability? Does that mean that they don't have the confidence in their expertise, their people and their resources and have to hedge their bet?"

Not all brokers seek a liability cap in service agreements.

Willis Group Holdings P.L.C., for example, does not have a limitation of liability in its standard U.S. brokerage and fee business, but does for other types of business, the broker said in an email statement.

"In our consulting business in the U.S., we do have a limitation of liability of three times the fee or $5 million, whichever is lower. Outside of the U.S., we currently have a $10 million limitation-of-liability limit in some countries and on some lines of business," according to the statement.

"We continue to examine this issue to ensure that we are making prudent risk management decisions for Willis and, at the same time, considering our clients' best interest," Willis said in the statement.

"We continue to examine the issue and the approach that others have taken, but we have taken no action on this ourselves," said a spokesman for Kansas City, Mo.-based Lockton Cos. L.L.C.

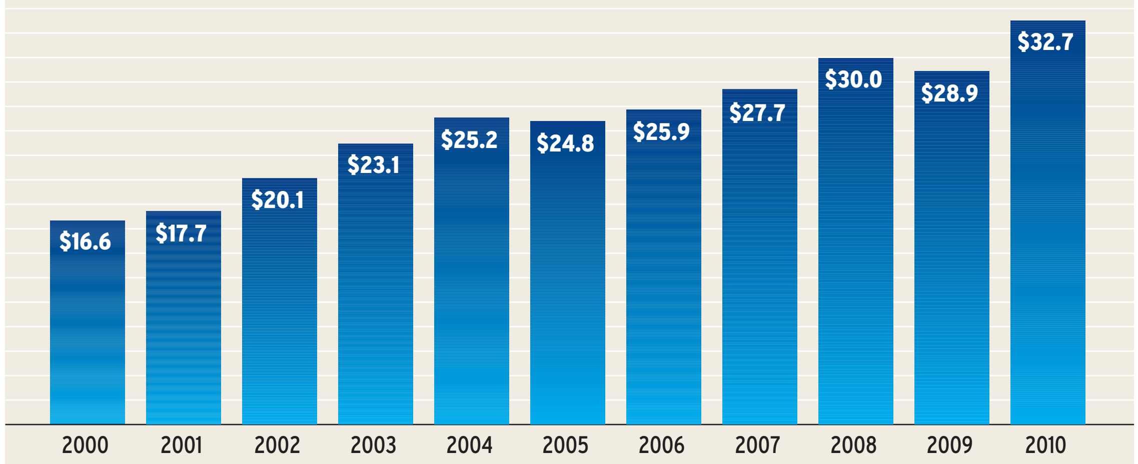
Mr. Betterley said industry competition could hamper the effort. "The brokerage industry is way too competitive to impose this on all clients," he said. "Some people would walk."

'I think the broker has an obligation to disclose in advance any restrictions they would have with the risk manager.'

John Phelps, Blue Cross and Blue Shield of Florida Inc.

A DECADE OF GROWTH

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



Source: BI Survey

Consolidation among brokers regains some momentum

By SONJA RYST

Insurance broker consolidation has regained momentum in the past year, but it has not returned to the same pace as before the financial crisis.

Companies in the sector had 126 mergers or acquisitions during the first half of 2011 compared with 96 in the same period of 2010, according to the Charlottesville, Va.-based research firm SNL Financial L.C.

"The activity has definitely heated up," said David Helms, managing director in Chicago at financial services firm Sydney-based Macquarie Capital (USA) Inc.

He noted the market's confidence in the economy has improved, its desire to grow by acquisition continues and large private equity-backed firms are getting back into the acquisition game after taking a pause after the economic crisis that took hold in 2008.

"You have more active and aggressive participants, and for varying reasons," according to Mr. Helms.

One significant driver of consolidation has been soft insurance pricing for the past several years, which crimped brokerages' ability to grow their existing businesses. That encouraged some to seek growth by buying other companies. As the economy sputtered, brokerages built up cash that they're now looking to use to help generate further profit, experts say.

Other factors have affected the broker consolidation picture.

"There was a mad rush to close (pending deals) at the end of last year because of the concern of capital gains tax" rates going up on Jan. 1, said Bill Bohstedt, vp of mergers and acquisitions at Itasca, Ill.-based Arthur J. Gallagher & Co.

When the deadline was extended to Dec. 31, 2012, it lessened the urgency to complete the deals last year and carried some of the momentum over into this year. "Firms that got into the game late decided to keep going, so we've had a lot of activity this year," Mr. Bohstedt said.

Major brokers such as Gallagher, New York-based Marsh & McLennan Cos. Inc. and Hub International Ltd., have been among the most active acquirers of agencies, experts say.

In July 2010, Chicago-based brokerage Aon Corp. said it agreed to merge with the Lincolnshire, Ill.-based human resources consulting and outsourcing firm

See **CONSOLIDATION** page 16

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Companies in the insurance brokerage sector had 126 mergers or acquisitions during the first half of 2011 compared with 96 in the same period of 2010

LARGEST PRIVATELY OWNED BROKERS*

*Ranked by brokerage revenue***

COMPANY	2010 BROKERAGE REVENUES
Lockton Cos. L.L.C.	$826,857,000[1]
Leavitt Group	$191,062,000
Frank Crystal & Co. Inc.	$131,530,000
Hays Group Inc., dba Hays Cos.	$118,200,000
Bollinger Inc.	$116,836,278
J. Smith Lanier & Co.	$105,324,257
John L. Wortham & Son L.P.	$97,563,070
Beecher Carlson Holdings Inc.	$94,684,300
Holmes Murphy & Associates Inc.	$92,750,756
Hylant Group Inc.	$88,242,480

**Brokerage firms that are not owned by banks or private equity firms. **Companies that derive less than 50% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 Fiscal year ending April 30.*

Source: BI Survey

Consolidation: Momentum picks up

CONTINUED FROM PAGE 14

Hewitt Associates Inc. for around $4.9 billion. In October, Aon said it completed the deal and noted various positive outcomes from it, ranging from cross-selling opportunities to the generation of around $355 million in annual cost savings across Aon Hewitt in 2013, primarily from reduction in areas such as back-office and management overlap.

MMC established Marsh & McLennan Agency L.L.C. in 2008 to meet the needs of midsize businesses in the U.S. In the past year, Marsh & McLennan Agency has continued building its operations with numerous acquisitions.

For example, the unit last year bought Virginia-based Thomas Rutherfoord Inc., an insurance brokerage in the Southeast and Mid-Atlantic regions. Then, in January and February deals to boost Rutherfoord's capabilities, Marsh & McLennan Agency acquired Alpharetta, Ga.-based benefits brokerage and consulting firm Strategic Benefit Solutions Inc. and Virginia Beach, Va.-based Hampton Roads Bonding, a surety bonding agency for commercial, road, utility, maritime and governmental contractors.

Martin P. Hughes, Hub International Ltd. chairman and CEO, pointed out that most banks dropped out of the action when the financial crisis hit.

But he's seen more activity in the market recently, and Hub has done 18 deals so far this year.

In June, for example, Hub announced completion of its acquisition of Charleston, S.C.-based First Southeast Insurance Services Inc. The brokerage's four operating units in North and South Carolina will become a new regional platform doing business as Hub International Southeast.

Gallagher made one of its most recent deals in June, when the Itasca, Ill.-based brokerage bought Mortgage Insurance Agency Ltd. in Crystal Lake, Ill. The retail broker provides commercial property/casualty and risk management services to U.S. clients and specializes in the mortgage industry.

Some notable deals in the past year have taken place in the wholesale brokerage space. For example, London-based reinsurance brokerage Cooper Gay (Holdings) Ltd. merged last summer with Atlanta-based wholesale brokerage Swett & Crawford Group Inc. to create a new global brokerage with about $3.5 billion in premiums that does both kinds of business.

In April 2010, specialty insurance wholesale distributor AmWINS Group Inc. and specialty insurance broker Colemont Insurance Brokers said the two would combine to form a Charlotte, N.C.-based specialty insurance distributor placing more than $4.8 billion in annual premiums.

"We anticipate a strong 2011" in brokerage mergers and acquisitions, said Valerie DeMell, executive vp at the Willoughby, Ohio-based consulting firm Marsh, Berry & Co. Inc., citing delay of a higher capital gains tax for a couple more years and the U.S. economic recovery.

Meanwhile, private equity is getting involved.

For example, Chicago-based GTCR L.L.C. said in March that it will invest up to $250 million in building middle-market commercial broker Assured Agencies L.L.C. in Lake Mary, Fla. David Donnini, a principal at GTCR based in Chicago, said his team has been "more than pleasantly surprised (since March) with the pipeline of opportunity that's been available and presented itself in terms of size, quality and fit."

GTCR is already well down the road on a handful of opportunities and is optimistic that several of them will come together in the coming weeks or months, Mr. Donnini said. "We remain very excited."

"The M&A market continues to recover," said Brian Deitz, senior vp in Atlanta at Reagan Consulting Inc. "Now we're past the point of recovering."

When 2011 comes to a close, everyone will look back at the market and say it moved at a healthy pace—"not the frenzied pace of 2007, but a good, solid year," he said.

#1 Insurance M&A Advisory Firm

- MarshBerry is a buy-side and sell-side M&A Advisor
- Closed 31% of total advised deal flow since 1997
- 267 M&A Transactions with the Top 100 Brokers
- 157 Bank Insurance M&A transactions
- 654 total M&A transactions closed
- Ranked #1 by SNL for each of the past 14 years

#1 Insurance Information Resource

MarshBerry maintains proprietary benchmark statistics on insurance agencies and brokerage firms across the United States and Canada.

- 1,000+ insurance agencies and brokerage firms
- $50 B in aggregate premium
- $4 B in aggregate revenue

#1 Insurance Peer Networks

MarshBerry facilitates APPEX, BANK, TASC and RSA, which are CEO peer-to-peer exchange groups committed to driving organic growth and value.

- 180 insurance agencies and brokerage firms
- $30 B in aggregate premium
- $2.5 B in aggregate revenue

#1 Insurance Management Consulting Firm

MarshBerry is a consultant to 54 of the Top 100 Brokers and over 900 of the nation's leading insurance agencies, brokerage firms and financial institutions in insurance.

- Valuation
- Perpetuation
- Strategic Planning
- Sales Management
- Producer Recruiting
- Compensation Consulting

SNL Financial
M&A Advisor Rankings

Insurance Broker Merger & Acquisition Deals
1997-2010

Rank	Firm	1997-2010 # of Deals	2010 # of Deals
1	**MarshBerry***	**308**	**33**
2	Hales & Company, Inc.	145	21
3	Reagan Consulting, Inc.	117	4
4	Mystic Capital Advisors Group, LLC	111	16
5	Macquarie Capital Advisors Grp., LLC	49	4
6	Bank of America Merrill Lynch	22	0
7	B.H. Burke & Company, Inc.	17	1
7	Sica Consultants, Inc.	17	2
9	Harbor Capital Advisors, Inc.	16	0
9	Keefe Bruyette & Woods, Inc.	16	1
11	Sandler O'Neill & Partners, L.P.	14	1
12	North Bridge Advisors, Inc.	13	0
12	Philo Smith & Company	13	3
14	Credit Suisse (USA), Inc.	9	0
15	Business Management Group, Inc.	8	0
15	Curtis Financial Group, LLC	8	0
15	J.P. Morgan Securities, Inc.	8	0
18	Boenning & Scattergood, Inc.	7	0
18	Gill and Roeser Holdings, Inc.	7	0
18	Nexus Group, Inc.	7	0
18	Optis Partners, LLC	7	3
22	2nd Generation Capital Corp.	6	0
22	Goldman, Sachs & Company	6	0
24	Austin Associates, LLC	5	1
24	Garland McPherson & Assoc., Inc.	5	0
24	Lazard Freres & Co., LLC	5	0
24	Piper Jaffray & Co.	5	1
24	Wells Fargo Securities, LLC	5	0

All States // Completed Transactions
Whole deals as reported by SNL Financial, February 2, 2011
MarshBerry has closed 31% of total advised deal flow since 1997

Largest brokers fight for mid-market accounts

But regional firms tout expertise, personal touch

By MATT DUNNING

With fresh premiums diminishing among their traditional clients, many large insurance brokers are looking to U.S. companies in the middle market to boost their revenue.

For risk managers, chief financial officers and other executives responsible for procuring brokerage services for their company, large brokers' push could expand the services and coverage options available to middle-market companies.

While some middle-market firms, which typically want a personal relationship with their broker and industry-specific expertise, have stuck with regional brokers, others have abandoned regional firms for their larger counterparts, experts say.

"Growth opportunities are in short supply," said Greg Dickerson, an analyst for New York-based Fitch Ratings Ltd. "There just aren't as many businesses or projects being generated in the large-account sector that would produce new premiums; so where they might have once viewed that middle-market business as not worth their while, now they're starting to push into that space."

Some of the largest firms—including Aon Corp., Marsh & McLennan Cos. Inc. and Willis Group Holdings P.L.C.—have found moderate success in the middle market, Mr. Dickerson said. That success often depends on how well the "megabrokers" can emulate the "personal touch" and industry-specific knowledge of regional and local brokers.

"Most brokers at the regional level are operating in their own niche market, which means the level of expertise from an industry perspective is unparalleled," said Bill Brennan, a principal at San Diego-based brokerage Barney & Barney L.L.C. "That helps us overcome a lot of the problems we run into competing with national brokers on the resources front. We understand the business that much better."

"I'm looking for a broker who can basically be an extension of my office in every sense," said Paul Brandel, risk manager for the Rockford Mass Transit District in Rockford, Ill.

The district, which put out a request for proposals to choose a new broker in May, is to make its final selection this summer.

Mr. Brandel said the district's RFP, which requires "demonstrated knowledge in the public sector and transportation" and "ability to provide broad services to meet RMTD's existing needs and ability to provide additional services or recommendations," was crafted to attract bids from the nation's largest brokers.

"With the middle-market brokers, I just feel like, below a certain level, a lot the specific things I need a broker to do get outsourced," Mr. Brandel said. In addition to mass transit expertise, he said ancillary services such as loss-control education, claims management and compliance monitoring are paramount in the district's selection of a broker.

For Jeremy Allen, director of risk management for Austin, Texas-based Cirrus Logic Inc., industry expertise was the reason to select Houston-based John L. Wortham & Son L.P. as the company's broker in 2007. Previously, the electronic components manufacturer obtained directors and officers coverage through Kansas City, Mo.-based Lockton Cos. L.L.C and its general liability and employee practices liability coverage through the much smaller Wortham & Son. Cirrus Logic decided to use just one broker, selecting Wortham & Son in part for its proximity, but primarily for its experience in the electronics industry and the Texas market, Mr. Allen said.

"Having someone here in Austin when I do have a question does help me feel comfortable that they know our business and they know what's going on in the area," Mr. Allen said, adding that he routinely is courted by representatives of large brokerages who often lack industry knowledge when they approach a potential client.

"There's not a lot of incentive for me to switch, even if it's going to save me $1,000 or $2,000," he said. "A lot of times, they come in with a big dog-and-pony show, but they haven't really taken the time to evaluate your business. They tell you about all of the things they can do, and how well they can get to know you and the business; and in the back of my mind, I'm thinking that I already have a broker that does that."

However, Wendy Ademy, risk manager of the city of Roswell, Ga., had the opposite experience.

The city's coverage had been placed through the same local broker for several years before the city switched to Aon in 2008. Just three years after the city opened its department of risk management, Ms. Ademy said its exposure profile had grown beyond the scope of its broker's capabilities. While the city was approached by several regional firms when Roswell opened its broker services contract to outsiders, Ms. Ademy said Aon offered the best understanding and mitigation strategies for the city's risks.

"It was a really new department, and (Aon) came in and helped us prioritize our needs, went over our losses with us, helped us develop a loss-control program and has been able to negotiate very well for our renewals," Ms. Ademy said, adding that Aon's representative frequently assists with presentations to elected officials regarding budget and insurance matters.

"With our broker's help, we've been able to better express to the budget department how important allocating our losses among the various departments really is," Ms. Ademy said. "Before, it just sort of came from one mysterious fund, and it never really sunk in with the department heads to the point that they'd make a change."

Despite the steady influx of competition into the middle market, brokerages that traditionally relied on the space as the backbone of their business say they aren't worried about being edged out.

At the Daytona Beach, Fla.-based Brown & Brown Inc., which deals almost exclusively in the middle market, President and CEO J. Powell Brown characterized competitors' efforts as having "varying levels of success, as opposed to lots of good success."

"Ultimately, we'll have to see how it plays out, but we know how we do business and we're going to do what we think is in the best interest of our customers and of our prospective customers," Mr. Brown said.

LARGEST BANK-OWNED BROKERS

COMPANY	PARENT	2010 BROKERAGE REVENUES
Wells Fargo Insurance Services USA Inc.	Wells Fargo & Co.	$1,649,538,000
BB&T Insurance Services Inc.	BB&T Corp.	$1,078,576,900
Regions Insurance Group Inc.	Regions Financial Corp.	$99,594,000
BancorpSouth Insurance Services Inc.	BancorpSouth Inc.	$81,611,594
Huntington Insurance Inc.	Huntington Bancshares Inc.	$59,255,000
Eastern Insurance Group L.L.C.	Eastern Bank Corp.	$55,817,803
Associated Financial Group L.L.C.	Associated Bancorp	$51,259,900
First Niagara Risk Management Inc.	First Niagara Financial Group	$45,953,038
BBVA Compass Insurance Agency Inc.	BBVA Compass Bancshares Inc.	$36,648,121
Old National Insurance	Old National Bancorp	$35,737,161

Source: BI Survey

LARGEST U.S. BENEFIT SPECIALISTS

*Brokers deriving 50% or more of 2010 gross revenues from benefit business**

COMPANY	REVENUES FROM BENEFITS	% OF GROSS REVENUES
USI Holdings Corp.	$334,856,000	52.9%
CBIZ Benefits & Insurance Services Inc.	$105,300,000	59.9%
Paychex Insurance Agency Inc.	$41,400,000	55.7%
Corporate Synergies Group L.L.C.	$36,000,000	92.3%
Associated Financial Group L.L.C.	$31,547,530	61.5%
Higginbotham & Associates	$31,253,000	51.1%
SilverStone Group Inc.	$20,336,000	62.1%
FBMC Benefits Management[1]	$20,125,938	100%
Benefit Controls Cos.	$18,850,000	100%
Loomis Co.	$18,319,200	50.2%

**Includes commission and fees from brokering group benefits coverage, benefit consulting and health care administration.*
1 Formerly Fringe Benefits Management Co.
Source: BI Survey

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Broker pay still an issue for London market risks

Large firms vary on fees charged to underwriters

By SARAH VEYSEY

LONDON—The question of how brokers should be compensated for services they perform on behalf of underwriters in London's subscription market is far from settled.

While market sources say the fee that is paid ultimately must be decided by the broker and underwriter, transparency and disclosure are essential for buyers.

Some underwriters have objected to basic service agreements, in which a flat fee is charged for services such as analytics and handling claims on behalf of insurers, and have chosen to negotiate such fees case by case.

Underwriting sources say brokers often seek ways to derive more income during a soft insurance and reinsurance market, but they also say underwriters will negotiate fees if they consider the amount to be too high.

During the spring, Lloyd's of London asked underwriters to inform it of any new charges being levied and suggested underwriters make sure they were not violating Financial Services Authority rules or the new U.K. Bribery Act, among other regulations, in paying any fees.

The Lloyd's Market Assn., which represents underwriters at Lloyd's, decided to seek legal advice on behalf of its members, said David Gittings, CEO of the LMA. In April, the LMA published a guide on broker remuneration. Produced in association with London-based law firm Reynolds Porter Chamberlain L.L.P., the guide suggests that underwriters should consider each broker proposal on its own merits.

According to the guidance, "where a broker is holding itself out as providing a fair analysis of the market, its selection of insurers must be based on product features, premiums and services offered to customers, and not solely on the benefit offered to the broker."

"If a broker gives preference to insurers willing to pay additional fees to that broker, the broker is likely to be in breach of the FSA rules and its duty to its client," the guidance adds. In such situations, insurers also could be in violation of FSA rules, according to the guidance.

Any charges need to be fully transparent and underwriters need to ensure that any payments they make do not breach regulatory codes, said Mr. Gittings, who added that it is usual in a soft market for brokers to seek new sources of income.

Among charges that have been introduced to the market throughout the past several years is Chicago-based Aon Corp.'s "carrier charge," which seeks to simplify payments by London underwriters by charging a flat fee of 3.5% of the premium.

There has been some "pushback," said one underwriting source who asked not to be named, with underwriters either negotiating a lower fee or refusing to pay the charge.

But Aon said talks continue with underwriters about the charge.

"First and foremost, Aon always wants its clients to know that we are working to give them the best value for the price they are paying," said Lambros Lambrou, global chief operating officer of Aon Broking in London.

"The rationale behind the rollout of the Aon carrier charge has always been about standardizing, simplifying and bringing clarity and consistency to the costs of the work that we do for our clients that are part of our broking service," Mr. Lambrou said. "The ACC is not a new charge, but rather a standardization of existing charging structures. In this sense, the ACC is a positive development in the evolution of our marketplace," he said.

> 'Conversations will always take place about what the brokers feel is the correct remuneration on any given account—and those conversations should take place.'
>
> Ross Howard, Towers Watson (Re)Insurance Brokers Ltd.

"We have invested significant time and effort communicating this with both our clients and markets, and we are committed to continuing this dialogue to ensure that the message is clear," Mr. Lambrou added.

London-based Willis Group Holdings P.L.C. said in a statement that it is "implementing a program to add a subscription market brokerage charge in some of its core specialty businesses placing business into the subscription markets," predominantly London.

Willis said reasons for the charge include increased infrastructure costs from multiple presentations and negotiations with multiple underwriters in subscription markets and the additional administrative, regulatory, accounting and support functions performed on subscription business.

Willis said it negotiates a percentage of premium to account for these additional costs.

New York-based Marsh Inc. said it does not charge fees for services on London-market business except very specialized cases, such as engineering fees on energy business.

It has been a challenging market for brokers in recent years amid persistently soft insurance and reinsurance pricing, and large brokers needed to find new revenue streams, said Carl Beardmore, CEO of London-based BMS Group Ltd.

While such tactics are not of great concern to his company, Mr. Beardmore said clients and underwriters rejecting such charges might present new business opportunities for smaller brokers.

In the past, the way that brokers were remunerated was, perhaps, not as well-disclosed as it should have been, said Ross Howard, COO at Towers Watson (Re)Insurance Brokers Ltd. in London.

"Conversations will always take place about what the brokers feel is the correct remuneration on any given account—and those conversations should take place," Mr. Howard said.

It is important that a broker's remuneration covers work such as analytics and modeling performed on behalf of clients. "Anything that any broker does with remuneration needs to be transparent with clients and insurers and reinsurers," he said.

A basic service agreement, in which a flat fee is charged, does not necessarily reflect the level of work being performed on different accounts, he said. For example, complex casualty business may involve longer and more complex claims than some property business—to ensure that the remuneration covers the work being done, Mr. Howard said.

New York-based Towers Watson & Co. does not use a service agreement approach. "We prefer to look at each account and be transparent," he said.

Ultimately, discussions about broker pay are between underwriter and broker, said Dave Matcham, CEO of the London-based International Underwriting Assn., which represents underwriters in the London company insurance market. But insurers may resist service agreements proposed by brokers if they have concerns about disclosure, transparency or conflict of interest, he said.

TOP BROKERS

RANK 1

Gregory Case, president and CEO

AON CORP.

2010 GROSS REVENUES $10,798,000,000	▲ 41.6%
2010 BROKERAGE REVENUES $10,606,000,000	▲ 43.1%

Aon Corp.'s acquisition of Hewitt Associates Inc. not only propelled the Chicago-based company to No. 1 on *Business Insurance*'s annual ranking of the world's largest brokers, it positions Aon to serve client needs across the spectrum of "risk and people," a top Aon executive says.

"The most significant event for Aon last year was the repositioning of the business through the acquisition of Hewitt," said Stephen P. McGill, chairman and CEO of Aon Risk Solutions, Aon's global risk management business. "That acquisition was by far the largest in the history of the firm."

The cash-and-stock $4.9 billion deal dramatically boosted Aon's benefit consulting and outsourcing resources, and saw Hewitt integrated with Aon Consulting to form Aon Hewitt Inc.

"That was the most significant structural event in Aon's history," Mr. McGill said. "And we're incredibly excited as, indeed, our clients are about the broad range of capabilities that we can now offer our clients."

The combined Aon Hewitt plays to a growing awareness among businesses that employee benefits and other human resources issues rank among the top risks facing their organizations, Mr. McGill said.

"There really is an interesting link between the risks that are associated with people that are the assets of a firm and the risks that are associated with the tangible assets of a firm, and we're really at early stages of capturing those opportunities," Mr. McGill said.

The Hewitt acquisition saw Aon posting brokerage revenue of $10.61 billion in 2010, a 43.1% increase from 2009.

Aon, Mr. McGill said, already is working with major clients on agendas addressing their entire spectrums of risk and people as a single component. "What you're doing is maximizing the value that we're delivering and maximizing the efficiency and addressing more effectively the volatility of a company's balance sheet. It's pretty powerful," he said.

Meyer Shields, a principal at Stifel, Nicolaus & Co. Inc. in Baltimore, said the rationale of the Aon Hewitt "risk-and-people" combination is attractive, though

Continued on next page

CONTINUED FROM PREVIOUS PAGE

other companies have been unsuccessful in achieving such a union in the past.

"The theory has always been there and, industrywide, the execution has always been lacking," Mr. Shields said. "The benefits (of the combined Aon Hewitt) are pretty compelling."

"The reporting situation in most companies is risk management ultimately ends up in finance or the (chief financial officer), while the human element ends up in HR," said Timothy J. Cunningham, principal at OPTIS Partners L.L.C. in Chicago. The question, he said, is: Will Aon be able "to cross that divide and leverage the cross-sell? Time will tell."

Aon estimated that integrating Hewitt would involve eliminating 1,500 to 1,800 positions worldwide, along with approximately $325 million in restructuring costs over three years.

'The integration in terms of leadership has been done. And the focus of Aon Hewitt going forward is obviously to continue to address the operational efficiencies that you inevitably get through combining two firms.'

Stephen P. McGill, Aon Risk Services

In May, Aon announced that Kristi Savacool and Baljit Dail had been named co-CEOs of Aon Hewitt. Ms. Savacool, who was Aon Hewitt's CEO of benefits administration, and Mr. Dail, who was CEO of consulting, replaced Russ Fradin, who left to become CEO of software and technology services company SunGard Data Systems Inc.

"The integration in terms of leadership has been done," Mr. McGill said. "And the focus of Aon Hewitt going forward is obviously to continue to address the operational efficiencies that you inevitably get through combining two firms."

Another significant benefit of the Hewitt acquisition is diversifying Aon's business, Mr. Shields said. "One of the impacts of buying Hewitt is that it dilutes the impact on Aon of the property/casualty cycle," he said.

The Hewitt acquisition was one of 23 Aon made in 2010. "With the exception of Hewitt, the others were bolt-on acquisitions that we do in the course of our business and those bolt-on acquisitions will continue as we go forward," Mr. McGill said.

Noteworthy is the company's $72 million acquisition of South African broker Glenrand MIB Ltd. earlier this year. "With the acquisition of that firm, it has given us the most comprehensive footprint in Africa," Mr. McGill said. "If you look at the top 10 countries with the highest (gross domestic product) growth, more than half are on the African continent."

Aon's global footprint and emerging-market presence somewhat insulates it from the slower pace of economic recovery in established economies, Mr. McGill said. It also helps it serve clients with increasingly global exposures.

"It is not just the largest multinational firms that need to be thinking about their global exposures," he said. "The world is becoming so interconnected that much smaller firms have relationships overseas."

In addition to the Aon Hewitt appointments, other recent key personnel changes include: Kevin White, formerly president and chief operating officer of Aon Risk Solutions' construction services group, promoted to CEO, replacing Peter Arkley, who left Aon; and Christine Lithgow, most recently chief broking officer for Aon in Canada, named president of Aon Risk Solutions in Canada, replacing Chris Fawcus, who retired.

Also, Christopher Baudouin, who was president and CEO of Aon Risk Solutions Mexico and COO of Aon Risk Solutions in Latin America, was named CEO of the Aon Global Client Network; and Peter Mullen, who joined Aon from Artex Risk Solutions Inc., was named CEO of Aon Global Risk Consulting's captive and insurance management operations.

Looking forward, an emphasis on the company's people will help Aon better serve its clients and take advantage of opportunities, Mr. McGill said.

"A very important item that is being driven by (Aon President and CEO) Greg Case throughout the organization is a focus on our people," Mr. McGill said. "When we look at 2011 and we look out to the future, we want to be the best firm in the industry, delivering leading solutions to our clients across the whole spectrum of risk and people."

Aon's stock closed at $51.67 on July 8, with a 52-week high of $54.58 and a 52-week low of $35.16.

—By Rodd Zolkos

For Marsh & McLennan Cos. Inc., 2010 was marked by a new sense of purpose and a "fierce will to win," says Group President and Chief Operating Officer Daniel Glaser.

Last year saw continued expansion of Marsh & McLennan Agency L.L.C., an initiative launched in 2009 to tap the middle market; an increase in organic growth; and an emphasis on overseas growth.

This year, upper management changed as well, as MMC President and CEO Brian Duperreault announced that Mr. Glaser would take the new post of group president and chief operating officer after serving as Marsh Inc.'s president and CEO. Peter Zaffino, formerly president and CEO of MMC's Guy Carpenter & Co. L.L.C. unit, succeeded Mr. Glaser at Marsh; and Alexander Moczarski, formerly president of the international division of Marsh, succeeded Mr. Zaffino.

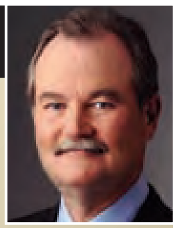
The year also included some acquisitions and sales. MMC sold Kroll Inc. for $1.13 billion in June 2010 to screening and security firm Altegrity Inc. Three months earlier, MMC completed its acquisition of London-based HSBC Insurance Brokers Ltd. for $219.3 million in cash.

MMC's financial results, restated to show the impact of those moves, showed growth. Gross revenue increased 7.8% to an estimated $10.61 billion, while brokerage revenues increased 7.7% to nearly $10.6 billion

TOP BROKERS

RANK

2



Brian Duperreault, president and CEO

MARSH & McLENNAN COS. INC.

2010 GROSS REVENUES
$10,612,000,000 ▲ 7.8%

2010 BROKERAGE REVENUES
$10,596,000,000 ▲ 7.7%

Still, MMC fell to No. 2 among the world's 10 largest brokers in the 2011 *Business Insurance* ranking as rival Aon Corp. moved up to the top spot. MMC had been No. 1 since the ranking began in 1972.

Commercial retail brokerage revenue increased 10.9% to $4.79 billion, while the percentage of revenue generated by U.S. vs. non-U.S. sources remained the same at 44% vs. 56%. Commercial retail brokerage revenue from U.S. offices was $2.27 billion, with revenue from non-U.S. offices reaching $2.52 billion, including $1.71 billion from European operations.

Growth continued in the first quarter of this year with MMC reporting revenues of $2.88 billion, up more than 9% vs. a year earlier. Its risk and insurance services revenue grew 10% to $1.63 billion, with retail brokerage unit Marsh reporting that revenues increased 10% to $1.28 billion.

"In terms of 2010, we're actually very proud of our performance," Mr. Glaser said. "It's fair to say the Marsh turnaround is complete and that Marsh really, starting in 2010, has a renewed sense of purpose and fierce will to win."

He said growth was "very strong" across all operations, with Guy Carpenter growing every quarter of 2010 and consultants Mercer L.L.C and Oliver Wyman Group rebounding "from the very tough 2009 recession."

"A lot of our focus in 2008 and 2009 was essentially fixing Marsh and 2010 was really when we were in Act 2 being very much focused on growth," Mr. Glaser said. He added that "talent management" is an absolutely vital piece of MMC's strategy.

Organic growth "has been relatively strong" at about 2%, he said.

Analysts who follow the brokerage industry like what they see at MMC.

"The performance is back to being best in class," said Keith Walsh, director-insurance research at Citi Investment Research in New York. "Brian Duperrault and Dan Glaser have completely transformed the company. It went from what I would view as a lazy franchise with tremendous potential to one that has unlocked that potential, and they've accomplished that in a tremendously stressful environment….The ground that they ceded to Aon from 2005 to 2008, they've basically made that ground up in the last two years. This is an organization that's gained its confidence back."

"The biggest difference right now is the state of the economy," which had a "very material" impact on MMC until the end of last year, said Meyer Shields, a principal at Stifel, Nicolaus & Co. Inc. in Baltimore. "Right now we're seeing rate decreases that are smaller than they were a year ago. The economy looks a little suspect, but it doesn't look like we're going into a second recession. Workers compensation rates are going up, we'll see some upward pressure as well. Both of those elements are working more strongly in Marsh's favor than they have in the past."

A key part of MMC's strategy is building Marsh & McLennan Agency, which has made at least 10 acquisitions since its creation in 2009.

"No doubt, over the next several years, we will build an absolute powerhouse in the small- and middle-market business in the U.S.," Mr. Glaser said. Marsh & McLennan Agency is "basically on strategy."

As far as international expansion, Mr. Glaser said the acquisition of solid U.K. middle-market player HSBC has "done great."

"Anywhere in the world there's growth, you'll find us on the ground," said Mr. Glaser.

"We're all about creating value," said Mr. Glaser. "We're not seeking to be a low-cost provider," he said, adding that means MMC must keep demonstrating that it's worth the extra money.

As for compensation, Mr. Glaser said MMC's approach has not changed.

"Receiving revenue from carriers whether that's in enhanced commissions, contingent commissions, basic commissions, fee for services or any revenue from carriers creates the potential for a conflict of interest," he said.

"Conflicts of interest are largely resolvable through high levels of disclosure, so we are an extremely transparent and open firm with regard to carrier revenue streams," he said. MMC does not accept contingent commissions for U.S. clients in its core brokerage operations.

However, MMC takes contingent commissions in its agency and consumer divisions, Mr. Glaser said. "Where we take enhanced commissions, those are disclosed to our clients. Over 90% of our clients agree to our acceptance of enhanced commissions, and most of the carriers we do business with pay us some sort of enhanced commission or fee for service."

At the close July 8, MMC's stock was $31.25, with a 52-week high of $31.57 and a 52-week low of $22.21.

—By Mark A. Hofmann

Willis Group Holdings P.L.C. grappled with debt concerns and a tough market over the past year, but the brokerage increased its profits and analysts are optimistic that it will build on its success.

The London-based brokerage reported $3.3 billion in brokerage revenues in 2010, up 2.8% from 2009, and maintained Willis' position at No. 3 in *Business Insurance*'s 2011 ranking of the world's largest brokers. International business was the main growth driver, though it maintained U.S. revenue.

During the past year, Willis has had to deal with unanticipated consequences of its 2008 acquisition of middle-market brokerage Hilb Rogal & Hobbs Co. for $2.1 billion. Willis took on debt to finance the deal and that June, banks shunned lending and the U.S. economy cratered. So Willis had to refinance by raising $500 million in debt at nearly 13% interest. This year, Willis paid off that debt when it raised $800 million in debt at interest rates as low as one-quarter of the 2008 issue.

"We were given a hand that was far worse than everybody else's," said Joe Plumeri, chairman and CEO. Still, the brokerage had a successful year.

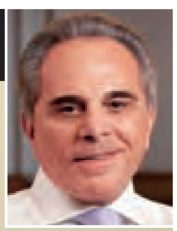
Willis had 2010 profits of $470 million, up 2.4% from 2009.

"Willis still in general seems to have the strongest margins among the big three brokerages, but the other two (New York-based Marsh & McLennan Cos. Inc. and Chicago-based Aon Corp.) are gaining,"

TOP BROKERS

RANK

3



Joe Plumeri chairman and CEO

WILLIS GROUP HOLDINGS P.L.C.

2010 GROSS REVENUES
$3,339,000,000 ▲ 2.3%

2010 BROKERAGE REVENUES
$3,300,000,000 ▲ 2.8%

said Bruce Ballentine, an analyst in New York at Moody's Investor Services. He noted, though, that differing business mixes, with Aon and Marsh maintaining large consulting units, make it difficult to compare the companies' results.

Mr. Plumeri has taken tough steps to reduce costs. In May, Willis said an ongoing review of operations, including eliminating 450 positions, would save $65 million to $75 million this year.

"They're looking at the environment and saying, 'It's getting better, but it's still tough. So to get our earnings going, we have to look on the cost side,'" said Adam Klauber, an analyst at William Blair & Co. L.L.C. in Chicago.

Willis is trying to expand where it perceives opportunity, such as overseas. It had double-digit revenue growth in Asia, Africa, Eastern Europe and Latin America during the first quarter of 2011.

Also, Willis has a stake in the Paris brokerage Gras Savoye & Cie and has an option to take over Gras Savoye in 2015.

"We're growing organizationally in places where we see opportunity, but the strategy is not to buy companies and then integrate them," Mr. Plumeri said. "It's to take what we have and grow them and augment them by acquisitions."

Willis made some high-profile hires in the past year. It hired Martin Sullivan, the former CEO of New York-based American International Group Inc., last September to head Willis Global Solutions for multinational and global accounts.

The brokerage also made several high-level changes. David Margrett, formerly chairman and CEO of Willis Ltd., was named CEO of Willis International in April. Brendan McManus, CEO of Willis U.K. & Ireland, took on the additional role of CEO of Willis Ltd. in May.

The brokerage has sought to improve the way it delivers its services to clients in launching an initiative called Sales 2.0 in January. The initiative is intended to streamline and facilitate the delivery of industry-specific expertise to medium-size customers, using analytics and other data.

Once Mr. Plumeri and his team finish rolling out Sales 2.0 in North America, they plan to take it overseas in 2012.

In another effort to improve Willis' efficiency and coordination of services, the broker is building out a system called Epic, devised by University Park, Ill.-based insurance management solutions provider Applied systems Inc. While the integration of HRH is complete, Epic is to replace HRH's previous stand-alone platforms. Epic, which is being piloted in North America, aims to make accounting and client management systems more efficient as well as generate billing and invoices.

The acquisition of HRH, meanwhile, has augmented Willis' business with medium-size U.S. customers. Middle-market accounts now comprise roughly 70% of Willis' revenue, compared with roughly 65% before the HRH deal in 2008.

Willis also continues to phase out contingent commissions that HRH received. In its North America reported commissions and fees during the first quarter of 2011, Willis included legacy HRH contingent commissions of $4 million, compared with $8 million in same period last year.

"You can run a business profitably and do the right thing at the same time," said Mr. Plumeri noting that Willis no longer accepts contingent commissions.

Willis has grown this year. Mr. Plumeri said during a May analyst call that Willis' net new business was up 5% during the first three months of the year.

"The legacy of the HRH acquisition and getting their finances back into a more desirable condition really drove a lot of what the company was doing" recently, said Tom Mitchell, an analyst in New York at securities firm Miller Tabak & Co. L.L.C. "At this point, I'd say they're feeling a little feisty and ready to either make another acquisition, start buying back stock or otherwise attempt to grow the franchise as well as shareholder value."

Mr. Plumeri said he wants to continue paying down debt and then look at buybacks and acquisitions.

One risk manager client said Willis is "exceeding my expectations."

Shari Natovitz, risk manager at Silverstein Properties Inc. in New York, said the real estate development firm has used Willis since before she joined in 2005. She said the brokerage has helped her meet tight deadlines, streamline her insurance coverage and expand business into Poland.

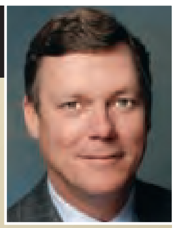
She said she liked her Willis brokers' entrepreneurial approach to solving problems. "They're willing to say, 'Wait. Let's figure out a better way to do this,'" she said. "HRH was maybe a tough swallow and a bad stomach ache for them, but it never touched me," she said. "And it seems to me that they're over that now."

At the close July 8, Willis' stock closed at $41.65, with a 52-week high of $42.42 and a 52-week low of $28.91.

—By Sonja Ryst

TOP BROKERS

RANK
4


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

ARTHUR J. GALLAGHER & CO.

2010 GROSS REVENUES
$1,864,161,000 ▲ 7.8%

2010 BROKERAGE REVENUES
$1,789,884,000 ▲ 4.6%

Arthur J. Gallagher & Co. continues to grow by acquisition midway through 2011, just like last year, by purchasing small and midsize firms around the globe.

Its biggest acquisition occurred in May, when the Itasca, Ill.-based brokerage bought Heath Lambert Ltd. and bolstered its presence in the United Kingdom. Gallagher paid £97 million ($158 million) for London-based HLG Holdings Ltd., the holding company for Heath Lambert, making it the largest acquisition in Gallagher's 80-plus years of existence.

That tops last year's acquisition of GAB Robins North America Inc., which strengthened Gallagher's property/casualty third-party administrator business, Gallagher Bassett Services Inc.

So far in 2011, Gallagher has made nine acquisitions. It made 20 acquisitions in 2010, 15 in 2009 and a record 37 in 2008.

"We're just getting started," said J. Patrick Gallagher Jr., Gallagher's chairman, president and CEO, noting that the broker made about 300 acquisitions since 1986. "We've been ticking out about three acquisitions a month on average…It's very much a family culture here and it's something that people want to join. They have a choice on who they sell to and they are choosing to be with us."

The Heath Lambert acquisition gives Gallagher a retail presence in London, which Mark Dwelle, insurance analyst at RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va., said is difficult to do from scratch.

The acquisition "will take some time to leverage out against their competitors, but it gives them a solid on-the-ground presence," Mr. Dwelle said.

Gallagher's brokerage revenues climbed 4.6% to $1.79 billion in 2010 compared with 2009, making Gallagher the world's fourth-largest broker in the 2011 *Business Insurance* ranking. Its commercial retail brokerage revenue rose 5.1% in 2010 to $749.9 million from the previous year. Gallagher's gross revenue in 2010 was $1.86 billion, an increase of about 7.8% from the previous year.

About a decade ago, Mr. Gallagher said the company was focused on building its U.S. retail brokerage and benefits business. However, in recent years, there has been greater emphasis on building a more global approach, which Mr. Gallagher said has paid off.

In 2010, Gallagher's commercial retail brokerage revenue from non-U.S. offices rose 29.1% to $84.3 million compared with the previous year. Meanwhile, its commercial retail brokerage revenue from European offices climbed 2.8% to $11 million.

"The insurance industry is a pretty darn incredible industry right now with $1.7 trillion in non-life premiums out there and companies are competing for business," Mr. Gallagher said. "The world is a risky place and it's only going to get riskier."

Gallagher also has made slight gains in its benefits services business, with employee benefits revenue rising 2.2% to $337.9 million in 2010.

"Our benefits business is starting to catch fire, especially with the passage of the health care bill," Mr. Gallagher said. "We're doing a lot of consulting with clients to help them meet and stay in compliance with the law."

Gallagher maintains its stance on automatically disclosing supplemental compensation paid by underwriters. It earned 75% of its revenue through commissions and 25% through fees in 2010.

Despite Gallagher's growth by acquisition, organic growth fell 2% in 2010 like it did in 2009. Mr. Gallagher said he is optimistic the trend will rebound.

"Our organic growth was down in the negatives and I've never seen that before," Mr. Gallagher said. "We are watching our clients; and as they start to get a little healthier, I feel that we will see our organic growth increase."

Mr. Gallagher said the brokerage still was able to produce a strong return on investment for its shareholders in 2010, in addition it reduced expenses to help improve its profit margin.

"Gallagher is very well-positioned in the market right now," said Greg Peters, Chicago-based senior vp of equity research for nonlife insurance and insurance broker services for Raymond James and Associates Inc. "They have a stable platform and an opportunity to grow organically when the economy starts to improve. They've also put themselves in a good position to do several bolt-on acquisitions."

In 2010, Gallagher's investment revenue jumped to $74.2 million from $17.6 million in 2009.

Mr. Gallagher said he thinks the brokerage will grow in the coming year. "The world is a risky place and it is only going to get riskier," he said. "I also think buyers are paying more attention to the expertise and execution of an organization and that is being rewarded with additional business."

At the close July 8, Gallagher's stock was $28.80, with a 52-week high of $31.92 and a 52-week low of $24.30.

—By Jeff Casale

Wells Fargo Insurance Services USA Inc. concentrated on its core strategies and grew its brokerage revenues 5.7% in 2010 to nearly $1.65 billion.

While the Chicago-based bank-owned insurance brokerage's revenues dropped in 2009, when WFIS spent much of the year integrating its acquisition of former competitor Wachovia Insurance Services Inc. as insurance pricing remained soft, WFIS in 2010 focused on cross-selling services to bank customers and agency acquisitions to improve its revenue.

"We were very pleased with the results we saw in 2010," said Neal Aton, president and CEO of WFIS in Chicago, the world's fifth-largest insurance broker in the 2011 *Business Insurance* ranking.

"With our purchase of Wachovia, we put a good amount of energy in 2009 into bringing the very rich resources that came to Wells through the Wachovia transaction," Mr. Aton said. "Clearly, Wachovia made us a better company."

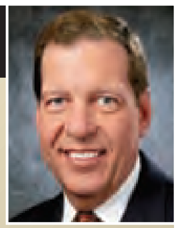
WFIS' organic growth rose 4% and its gross revenues increased 2.9% to $1.95 billion in 2010.

As in the past, WFIS continues to focus on its core strategy of cross-selling insurance services to its bank customers, Mr. Aton said.

"In the last few years, we're doing it with a greater amount of deliberate, disciplined efforts and coming up with very targeted strategies around various segments of business," he said.

TOP BROKERS

RANK 5



Neal R. Aton, president and CEO

WELLS FARGO INSURANCE SERVICES USA INC.

2010 GROSS REVENUES
$1,949,119,000 ▲ 2.9%

2010 BROKERAGE REVENUES
$1,649,538,000 ▲ 5.7%

For example, WFIS pursued risk management business in the upper middle-market segment, dedicated more resources and has "taken quite a bit of time and effort to match industry-specific bankers with industry-specific brokers to bring the best and most relevant resources to our customers in those cross-selling activities," Mr. Aton said.

As a result, WFIS' risk management business grew.

"Our risk management business is about 25% of our overall revenue, which I would say five years ago that number would've been more like 10%," said Scott Isaacson, executive vp of WFIS' specialty insurance unit in Chicago.

John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco, said cross-selling to bank customers can be effective for personal lines products and annuities, but more difficult for middle-market commercial insurance buyers.

"Cross-selling of commercial property/casualty products to bank-originated clients has never really realized traction," Mr. Wicher said. "That said, WFIS' roots going back to Norwest has achieved more success than most."

Three to four years ago, approximately 10% of WFIS' new business came from cross-selling customers at the bank, Mr. Aton said.

"Our goal is to grow that portion to 50%," he said. "On a consistent month-by-month basis, one-third or more of our business will be from bank cross-sell. In fact, we have had months where it is 50%. It's a powerful turbocharge in the growth engine that we have that our competitors do not."

Another "differentiator" in boosting WFIS' growth has been its technological innovations for customers, Mr. Isaacson said.

WFIS' CyberSure, an Internet-based portal that allows customers to self-service their accounts and handles the administration of their employee benefits programs, serves 21,000 users. Utilization is up 80% over 2009, Mr. Isaacson said.

The CyberSure platform originally was innovated by ABD Insurance & Financial Services Inc., which WFIS acquired in 2007. CyberSure also is linked to Wells Fargo & Co.'s banking portal, Commercial Electronic Office, and has a mobile application that can be used in the field.

"This is graphic evidence of the integration that we've been undergoing over the last couple of years since we acquired Wachovia and have integrated all these large platforms that we've acquired in the last two or three years together into one business," said David J. Zuercher, chairman of WFIS in Los Angeles.

"I think that's one of the reasons why you're starting to see some growth in our revenue. A lot of that is starting to come together, and our ability to serve our customers is starting to be much more integrated with everything else that we do," Mr. Zuercher said.

WFIS continued acquiring small agencies last year and this year, a strategy that also will be used going forward, Mr. Aton said.

In December, for instance, WFIS acquired Britt/Paulk Insurance Agency Inc. in Carrolton, Ga., and brokerage Hucik & Co. in Folsom, Calif. In January, WFIS acquired Prestige Professional Plans, an employee benefits insurance brokerage in Dayton, Ohio. In July, WFIS acquired Edify L.L.C., an employee benefits brokerage in Fort Lauderdale, Fla.

John M. Wepler, president of Marsh, Berry & Co. Inc. in Willoughby, Ohio, said WFIS will continue to focus on acquisitions to complement its organic growth strategy. WFIS "has been a methodical organization with regards to their acquisition strategy," he said.

But a large, aggressive group is looking for acquisitions, which Mr. Wepler said "presents a challenge for anyone that has the desire to grow by acquisition, because pricing is strong and there's a lot of competition for deals."

In April, WFIS sold wholesale operation American E&S Insurance Brokers to R-T Specialty L.L.C., a unit of Chicago-based Ryan Specialty L.L.C. The transaction signaled its focus on being a retail distributor, Mr. Aton said.

"We wanted to make sure that we were focusing more on the retail side of our business and we wanted to give our emphasis in that sphere," Mr. Zuercher said.

There will be change at WFIS in the coming year. Mr. Zuercher, chairman of WFIS since 2001, who is 65, will retire by the end of the year in accordance with the company's mandatory retirement age for management committee members, company officials said this month.

"Dave has been the champion for insurance at Wells Fargo, providing unwavering guidance as we expanded our capabilities," Mr. Aton said. "I'm confident we will continue Dave's mission."

At the close July 8, Wells Fargo & Co.'s stock was $28.30, with a 52-week high of $34.25 and a 52-week low of $23.02.

—By Mike Tsikoudakis

Dominic Burke said he believes London-based brokerage Jardine Lloyd Thompson Group P.L.C. will continue to win market share and attract talent from its peers.

JLT's total 2010 revenue rose to £746.3 million ($1.15 billion) compared with 2009. The growth reflected the company's success in attracting employees and clients from rivals, as well as its focus on specialty lines and emerging markets.

Its 2010 brokerage revenue increased 18.8% to $1.14 billion, making JLT the world's sixth-largest insurance broker in the 2011 *Business Insurance* ranking.

"We have been winning market share for each of the past five years," said Mr. Burke, group chief executive of JLT. "Last year we achieved organic growth in turnover of 7% and an average of 6% over the past three years and 5% over the last five years."

Revenue grew at all main business units, although the greatest growth was in retail insurance broking—up 18.4% to £270.9 million ($418.6 million)—and employee benefits—up 31.8% to £132 million ($204 million).

Growth was achieved despite "strong head winds" that included sluggish economic growth in mature markets, low interest rates and a very competitive insurance pricing environment, Mr. Burke said.

"Under the current leadership, we have repositioned the company, exiting U.S. retail, relaunching the reinsurance platform and building a strong specialty focus in the retail businesses," Mr. Burke said of strategic changes he and his executive team have instituted since he took the helm in 2005.

TOP BROKERS

RANK 6

Dominic Burke, group chief executive

JARDINE LLOYD THOMPSON GROUP P.L.C

2010 GROSS REVENUES
$1,157,045,760 ▲ 19.2%

2010 BROKERAGE REVENUES
$1,137,730,760 ▲ 18.8%

Careful cultivation of JLT's corporate culture has been a key driver in revenue growth, said Mr. Burke.

"Our people share our values and are passionate about our mission statement—of putting the client first, being independent and results-driven," he said.

JLT's revenue growth reflects its success in recruiting staff from the London offices of large U.S. brokers by offering a more attractive work environment, said Ben Cohen, insurance equity analyst at investment bank Collins Stewart P.L.C. JLT also has benefited from its focus on emerging markets and a much lower U.S. exposure than many competitors, he said.

"There is still plenty of scope for JLT to grow its reinsurance business, as well as its retail and employee benefits operations in emerging markets," Mr. Cohen said. The broker is likely to find it harder to maintain the same growth rates in its London market business because new hires will have a reduced impact as it grows, he said.

However, increased rates, should they develop, would provide some relief, particularly for JLT's growing reinsurance unit, Mr. Cohen added.

JLT has made more than 30 acquisitions in the past five years, which has built its specialty business and international reach. However, mergers with other large brokers are not in the cards, said Mr. Burke. "There is no such deal out there that adds value to JLT and such a transaction would destroy value for stakeholders and create cultural clashes."

He is also confident that JLT will be able to maintain its independence through support of its largest shareholder, Hong Kong-based Jardine Matheson Group, which owns a 30.3% stake.

"Jardine Matheson's stated long-term commitment to JLT leaves no doubt that they see us as a core and permanent holding," said Mr. Burke. "People are here at JLT because they don't want to be at Marsh, Willis or Aon. I can think of nothing more destructive to shareholders than forcing any of those organizations on JLT."

"We have been successful at recruiting talent from Aon Corp. and to a lesser degree from Marsh and Willis," said Mr. Burke.

"Our strategic focus has been to build our international reach, in particular in high-growth economies where our strength in construction, telecommunications, financial institutions and products, marine, and oil and gas are relevant," Mr. Burke said.

For example, JLT is in the process of acquiring a 50.1% stake in Santiago, Chile-based brokerage Alta S.A., and recently received a license to begin operations in South Africa.

Emerging economies now account for 20% of JLT's total group trading profit and this is expected to increase. "JLT sees big opportunities in high-growth economies where insurance penetration is much lower than in mature markets," said Mr. Burke.

JLT also continues to grow its business in mature markets, despite the tough economy in countries such as the United States.

"We are becoming a larger international broker, but very specialty-driven," said Mr. Burke. "We are no longer satisfied with being a Top 3 player in the sectors we operate in—we now aspire to be the market leader. That is a further lift in the ambition of the company, and one that I believe we can achieve."

This approach is reflected in the company's successful efforts to build its aerospace broking business, partly through key hires from rivals. Key hires in the past year include former Aon Ltd. Deputy Chairman and aviation veteran Jonathan Palmer-Brown, who is chairman-elect of the newly created JLT Specialty Ltd., the group's largest entity and a specialty broker. His appointment came several months after JLT settled a dispute over the defection of certain aviation executives from Aon Ltd.

The group's after-tax profit increased 27.9% in 2010 to £90.7 million ($140.1 million), reflecting the success of the business transformation program that is expected to realize annual savings of £16 million ($24.7 million) when it is fully implemented by June 2012.

A significant part of these savings have come from the transfer of back-office processes to JLT's operations in Mumbai, India. The office, which administers pensions, and provides actuarial, accounting, legal and marketing services to the group, will have grown from zero to 600 people by the end of 2011—about 10% of JLT's worldwide workforce.

JLT operates "transparently and with integrity" and would like more transparency in the United Kingdom, where many brokers continue to receive volume-based contingent commissions, Mr. Burke said. "All we require is a level playing field. We are convinced that this would work in JLT's favor, as we are confident of the value we add to clients."

JLT's stock closed at £6.78 July 8, with a 52-week high of £7.08 and a 52-week low of £5.61.

—By Stuart Collins

TOP BROKERS

RANK

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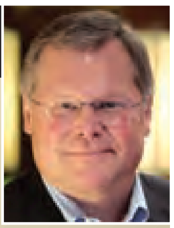

H. Wade Reece, chairman and CEO

BB&T INSURANCE SERVICES INC.

2010 GROSS REVENUES $1,161,585,500	▼	3.4%
2010 BROKERAGE REVENUES $1,078,576,900	▼	0.3%

Soft property/casualty pricing, declining insured values and a lack of attractive acquisition targets kept BB&T Insurance Services Inc.'s brokerage revenue essentially flat during 2010, but it is poised to resume growing this year, experts say

Raleigh, N.C.-based BB&T's brokerage revenue decreased less than one percentage point to $1.08 billion in 2010 vs. 2009, making it No. 7 in the 2011 *Business Insurance* ranking of the world's largest brokers.

Historically, the brokerage has grown through acquisition, averaging two to three purchases each year, according to industry analysts. But last year, it did not make a single purchase after completing just one in 2009.

"The acquisition market just was not that active," said H. Wade Reece, BB&T's chairman and CEO. "We're more of a strategic buyer. We tend to like larger deals. We really didn't see anything that fit strategically."

Kevin P. Fitzsimmons, managing director of equity research at Sandler O'Neill & Partners L.P. in New York, concurred. "The fundamentals aren't great in insurance right now. I suspect BB&T not doing any (deals) last year was because the down economy made it not a time when people wanted to sell," he said. "Or maybe they wanted to save their dry powder more for bank acquisitions."

But even its parent, BB&T Corp., made no acquisitions during 2010. According to the banking parent's annual report, it spent last year integrating its 2009 acquisition of Colonial Bank, which was twice the size of any previous acquisitions with its $25 billion in assets and 350 branches.

Instead of acquisitions, BB&T's insurance operations last year concentrated on organic growth, but even that proved challenging, said David Pruett, BB&T's vice chairman and chief administrative officer.

While commercial retail property/casualty brokerage revenue climbed less than 1% to $557.3 million, wholesale revenues fell 3.7% to $299.7 million in 2010 compared with 2009.

"The soft market has had a certain amount of impact, but I'd say the single biggest thing is the economy. Our clients' exposures are down, their payroll and sales are down, and they're not investing in new equipment. All the things that affect insurance are down. We're just a reflection of our clients," Mr. Pruett said.

Last year, BB&T placed $12.1 billion in premiums, down from $12.5 billion in 2009.

BB&T continues to have a high client retention rate, averaging 93%, Mr. Pruett said.

Although BB&T did not actively seek to reduce its workforce, its employment base shrunk 5.7% to 4,402 employees in 2010 vs. 2009, mostly through attrition. That includes 120 employees who left BB&T's wholesale unit CRC Insurance Services Inc. in May 2010 to join Chicago-based Ryan Specialty Group Inc. Although industry observers say the defections represented a financial blow to the BB&T, the brokerage's top executives declined comment because of ongoing litigation.

Meanwhile, employee benefits revenue climbed 2% to $120.6 million in 2010.

Randy Screen, BB&T's chief marketing officer, said the company's decision to reinsure its employee life and disability benefits via its Bermuda-based captive has generated client interest and the prospect of similar alternative benefit funding arrangements, which could boost futures revenues.

In October, BB&T received U.S. Labor Department approval to reinsure life and disability policies written by the Hartford Life & Accident Insurance Co. through BB&T Assurance Co. Ltd., BB&T's 8-year-old Bermuda captive.

> **'Having your name start with B, which puts it at the beginning of the phone directory, is attracting business.'**
>
> Randy Screen,
> BB&T Insurance Services Inc.

"It's opened some doors to nice opportunities from other companies that want to talk about doing that. Big companies want to take on more risk, especially in employee benefits now with health reform," Mr. Screen said.

Self-funding gives employers "a little more control" over benefit costs, he said. "They want to look at all the options. Captives are a piece of that." Interest in captives also is growing in other lines of coverage as buyers prepare for the market to firm in light of recent catastrophe-related property losses, Mr. Screen said.

BB&T Assurance works with closely with McGriff, Seibels & Williams Inc., BB&T's risk management consulting operation, and has captive operations in Bermuda, South Carolina and Vermont.

While growth was flat, BB&T took advantage of last year to automate some operations, on its own and through its participation in the Council of Insurance Agents and Brokers' LexisNexis/CIAB Insurance Exchange.

The exchange will make it easier for BB&T brokers to shop middle-market and large commercial business among multiple insurers "with one push of the button," Mr. Screen said. As one of a handful of brokerages piloting the new exchange's software, BB&T worked closely with LexisNexis "to work out the kinks" and "found it to be a really slick and easy way to get the information back and forth."

BB&T last year also introduced an online personal lines sales tool that it hopes will attract younger insurance buyers.

"Generation Y wants to do everything online. Having your name start with B, which puts it at the beginning of the phone directory, is attracting business," Mr. Screen said. In particular, "renters insurance has been nicely successful."

With premiums starting to firm in some lines of coverage including workers compensation and property, BB&T's top executives expect some organic growth this year. They also are eyeing a couple of acquisitions that could further add to the brokerage's bottom line.

At a May merger and acquisition workshop hosted by Atlanta-based Reagan Consulting Inc., Mr. Reece said BB&T is targeting acquisitions that will enable the brokerage to develop greater expertise to better serve clients.

"While having a solid relationship with the client is important, it is not enough," he said. "Understanding the client's business intimately to help the client achieve his goals is becoming more and more critical."

Jim Campbell, a principal with Reagan, said BB&T is in "a real strong position" to resume growth through acquisition. In fact, BB&T's insurance operations represented 11% of its banking parent's $9.41 billion in 2010 revenues, according to its annual report.

"It is an exceptionally well-run organization. By providing a very healthy percentage of BB&T's noninterest income, they have successfully built that business to the point where it is financially relevant to its banking parent," Mr. Campbell said.

At the close July 8, BB&T Corp.'s stock was $27.75, with a 52-week high of $29.50 and a 52-week low of $26.20.

—By Joanne Wojcik

TOP BROKERS

RANK
8

J. Powell Brown, president and CEO

BROWN & BROWN INC.

2010 GROSS REVENUES $973,491,808	▲	0.6%
2010 BROKERAGE REVENUES $966,917,112	▲	0.2%

Although the soft market and tough economy presented head winds for Brown & Brown Inc., the brokerage was able to grow its operations in 2010 and position itself for continued success.

"The biggest challenge for us, far and away, was the economy and, specifically, shrinking exposure units for middle-market customers," said J. Powell Brown, president and CEO of the Daytona Beach, Fla.-based brokerage. "Under the circumstances, we think we responded very well in a challenging environment."

Brown & Brown's profits rose 5.5% in 2010 to $161.7 million, due in part to what analysts characterize as a disciplined operational approach.

Most of the brokerage's revenue lines either remained flat or ticked slightly upward in 2010 compared with 2009. Organic growth fell 4.7% in 2010, but not as much as 2009, when it declined 5.1%

Meanwhile, Brown & Brown's stock price has risen significantly since July 1, 2009, mostly on the strength of its performance in revenues, profits and acquisitions in the latter half of 2010, analysts said.

Brown & Brown's brokerage revenues remained relatively flat in 2010, rebounding slightly to $966.9 million after dropping to $964.9 million in 2009. That makes Brown & Brown the world's eighth-largest broker in the 2011 *Business Insurance* ranking.

But commercial retail brokerage revenue, which represented more than 54% of the company's brokerage 2010 revenue, fell 4.3% to $524.1 million. Revenue from personal lines and wholesale brokerage also slipped to $67.7 million and $136.3 million, drops of 0.7% and 2.7%, respectively.

However, benefits revenue rose 8.5% to $171.7 million in 2010, while reinsurance grew nearly 19% to $20.7 million.

Brown & Brown Chief Financial Officer Cory Walker said the increase in employee benefits revenue was driven in part by rising health care costs and a handful of acquisitions Brown & Brown completed in the benefits market.

The reinsurance growth, he said, was "mostly organic" and generated by the company's sole international operation, London-based Decus Insurance Brokers Ltd.

"We wanted to grow our business profitably. We were successful in growing our earnings per share and the actual dollars of earnings year over year, and we were pleased with that," Mr. Brown said. "We can improve—and we're working on that each and every year—but that's really the central goal that jumps out year after year."

That the company was able to accomplish any of this in an economy only beginning to recover and an ongoing soft insurance market is evidence of Brown & Brown's commitment to its own culture of measured, disciplined growth and spending, said Chicago-based William Blair & Co. L.L.C. analyst Adam Klauber.

"They tend to run relatively lean and that helps in tough times," Mr. Klauber said. "Brown & Brown's goals for 2010 were to stabilize and begin to show some growth, and they did just that. I think they made the best of a bad situation."

'The biggest challenge for us, far and away, was the economy and, specifically, shrinking exposure units for middle-market customers.'

J. Powell Brown,
Brown & Brown Inc.

Mark Dwelle, an analyst with RBC Capital Markets in Richmond, Va., said Brown & Brown's ability to rein in expenses was key in protecting its margins.

"If there's one thing that the company did particularly well last year, it was keeping their costs under control in the face of all those pressures," said Mr. Dwelle. He noted that the brokerage reduced its expenses nearly 8% to $707.3 million in 2010, which is "very challenging to do when there's next to no top line growth."

"The root of Brown & Brown's problem was more macro in nature," Mr. Dwelle added, referring to economic conditions. "It's hard to say that there was any one thing that they have any control over that they could have done better than they did."

Brown & Brown continued its growth-by-acquisition strategy in 2010, completing 33 deals representing estimated annual revenue of $70.6 million. The year prior, the company closed just 11 acquisitions with estimated revenue of $25.6 million, the lowest amount acquired since 2000.

In its annual report, the company said the drastic reduction in acquisitions—it completed 43 in 2008—was the result of potential sellers' displeasure with reduced agency valuations in a weak market. Mr. Brown said the increase last year was a function of a greater number of "culturally appropriate" acquisition opportunities as the economy began to recover, not relaxing the company's standards.

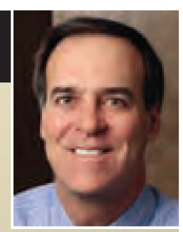
Those opportunities have continued to present themselves in abundance so far in 2011. At the end of June, Brown & Brown had completed 23 acquisitions with estimated annualized revenue of roughly $47 million. Mr. Brown declined to say exactly how many acquisitions the company might complete during the rest of the year.

"We always are asked what the pipeline looks like and my response is always, 'Good.'" Mr. Brown said. "We think that there are lots of opportunities for acquisitions in the future, and we're looking forward to talking to people and exploring those opportunities."

At the close July 8, Brown & Brown's stock was $25.88, with a 52-week high of $27.27 and a 52-week low of $18.85.

—By Matt Dunning

TOP BROKERS



RANK
9

David M. Lockton, chairman

LOCKTON COS. L.L.C.

2010 GROSS REVENUES $836,128,000	▲	8%
2010 BROKERAGE REVENUES $826,857,000	▲	8%

Client retention, international expansion and providing employers with employee benefits expertise helped fuel growth at Lockton Cos. L.L.C.

The Kansas City, Mo.-based broker of property/casualty products and employee benefits tallied $826.9 million in brokerage revenue during 2010. That was up 8% from 2009, making the privately held company No. 9 in *Business Insurance*'s 2011 ranking of the world's largest brokers.

Along with revenue growth, Lockton added 227 employees in 2010, helping bolster its service level and client satisfaction, company officials said.

"It's no longer good enough to just be a good broker," said Chairman David M. Lockton. "Clients are looking for creativity in consultative services."

To meet client service expectations, Lockton formalized an internal process dubbed Strategic Engagement in 2010. It aims to foster deeper interaction with clients to help them define their risk management goals and determine the best methods to achieve those goals.

"That goes across a large gamut of ideas that go beyond just broking an insurance product," Mr. Lockton said.

The broker also said its service level helped it achieve a 95% client retention rate while adding 1,000 new customers during 2010.

Lockton's growth and customer retention are impressive given that the nation's economic difficulties have meant clients closing their businesses and shopping for alternatives to insurance, said John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco.

Clearly, Lockton has learned how to solve customer problems, he added. "Overall, a 95% retention rate is impressive and growing a business through this economic hurricane we have all lived through is very, very impressive," Mr. Wicher said.

But Lockton's growth also was helped by the end of the Great Recession and the broker's presence in overseas markets. Lockton's commercial retail broker revenue from its U.S. offices grew 6.4% to more than $411 million in 2010. But that was outpaced by commercial retail broker revenue from its non-U.S. offices, which grew 9.9% to $154 million last year.

Lockton's 2010 overseas growth included a significant equity holding in South Korean insurance broker IMI, which it renamed it Lockton Cos. (Korea) Inc.

Late in the year, the broker said it had entered into a strategic rela-

Continued on next page

Hub International Ltd. has a renewed appetite for acquisitions in a slowly improving economy and wants to expand beyond its traditional markets in the United States and Canada.

"We met our expectations" in 2010 "and grew revenue," said Martin P. Hughes, chairman and CEO at the Chicago-based brokerage.

Hub's brokerage revenues last year increased 5% to $761.6 million, with commercial retail revenues rising 7% to $438.7 million.

Its performance during 2010 ranked Hub as No. 10 in the 2011 *Business Insurance* ranking of the world's largest brokers.

After slowing its acquisition efforts during the weak economy, Hub is back on the trail now that acquisition targets are more attractive because many businesses have stopped shrinking, Mr. Hughes said.

"We shut down mergers and acquisitions in 2009 and the first half of 2010, then started to ramp back up in the second half," he said. "This year we've done about 19 acquisitions."

That means Hub in the first half of this year was close to the number of deals—22—that it completed for all of last year.

"This year will be a strong year for us. We'll do a lot of mergers and acquisitions," Mr. Hughes said.

Some M&As likely will be in Canada, where Hub's business has "performed at a really high level" in an economy that has not taken as bad a beating as the United States, Mr. Hughes said.

"For the first time in quite some time, we have looked at decent acquisition opportunities" in Canada, he said.

Growth by acquisition is not an unusual strategy for Hub, said Bobby Reagan, president and CEO of Reagan Consulting Inc. in Atlanta.

"In this market, organic growth is hard to come by," Mr. Reagan said. "What they are doing is not inconsistent with what other publicly traded or private equity fund-owned brokers are doing."

Hub has been owned since 2007 by Apax Partners L.L.P. and Morgan Stanley Principal Investments.

The brokerage likely will look to acquire middle-market retail agencies to strengthen its presence or provide access to markets "they are not in, so that they can strategically fill out their footprint," Mr. Reagan said.

"We are a middle-market broker," Mr. Hughes said. "We focus on clients that need risk management services" rather than large buyers with sophisticated in-house risk management capabilities, he said.

Some acquisition targets in Hub's sights are brokers that have realized that they will not be able to provide a full range of risk management services that clients need, Mr. Hughes said. It's difficult for some to invest in developing expertise across a range of insurance and loss-control specialties, which leads them to partner with a broker that can offer a full menu of services, he said.

As the U.S. economy has struggled, Canada has become more important for Hub. Last year, non-U.S. clients were responsible for 33% of revenues, up from 29% in 2009 and attributable to more business in Canada, Mr. Hughes said.

As its acquisitions picked up, Hub's office count grew to 255 in 2010, up from 220 the year before. All of its retail offices are in the United States and Canada, but that may change.

"We are definitely looking at that as we speak," Mr. Hughes said of potential expansion. "We have our eye on Latin America, and that is probably where we will make our first international expansion."

As for Europe, "we're definitely looking," Mr. Hughes said. "We already do a tremendous amount of business in London, but that's a pretty mature market. We have to look at it more as a strategic opportunity rather than a growth opportunity."

Meanwhile, organic growth remains a challenge, Mr. Hughes said, as Hub's target market clients have cut back on hiring and expansion in recent years.

"I spend a lot of time talking to CEOs of clients," Mr. Hughes said. "They are cautiously optimistic, they see business getting better. But they are reluctant to hire and until they get over that hump, the economy won't really recover," he said.

A soft insurance market isn't helping organic growth, either, Mr. Hughes said.

"Rates are down 3% to 5% across the board for us….A lot of insurers are asking for rate increases, but they're not getting them," he said.

Hub is looking for growth in its employee benefits business, even as uncertainty hangs over that business as the Patient Protection and Affordable Care Act goes into effect, Mr. Hughes said.

Employee benefits business grew 5.6% in 2010 with revenues of $105.6 million.

"Employee benefits is a huge opportunity for us and we are focused like heck on that," Mr. Hughes said.

There are questions around whether some sectors of the employee benefits business will survive when the U.S. health care reform law takes effect, he said. There is speculation that employers with fewer than 100 employees no longer will be in the market for benefits once the law is implemented, Mr. Hughes said.

"Fortunately for us, that's not a big number," he said of the small-employer benefit accounts. "But that uncertainty does hang over us," and acquisition targets with a lot of benefits business have to be scrutinized to determine how they might be affected by the new health care law, Mr. Hughes said.

Speculation continues as to whether Hub might soon go public again. Hub reverted to private ownership in 2007.

Kevin P. Donoghue, managing director at Mystic Capital Advisors Group L.L.C. in New York, said he thinks it's likely Hub will go public. Private equity firms generally hold companies for three to 10 years before they are taken public or sold, he said.

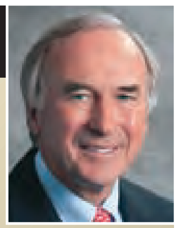
"I would expect with Hub there would be an IPO," Mr. Donoghue said.

Mr. Hughes declined to comment on whether an initial public offering might be in the works for Hub.

—By Michael Bradford

TOP BROKERS

RANK
10


Martin P. Hughes, chairman and CEO

HUB INTERNATIONAL LTD.

2010 GROSS REVENUES	$762,587,000	▲ 4.9%
2010 BROKERAGE REVENUES	$761,577,000	▲ 5%

CONTINUED FROM PREVIOUS PAGE

tionship with Indian insurance broker Unison Insurance Broking Services Pvt. Ltd., while continuing to maintain a business relationship with J.B. Boda & Co. Pvt. Ltd. in India.

Early this year, Lockton said it had received approval from the China Insurance Regulatory Commission to open a branch office Beijing, although the groundwork for the expansion was laid in 2010 and it is the broker's second office in China.

"We really are more focused on investing in locales where we already exist and strengthening our capabilities there," Lockton President and CEO John Lumelleau said. "We think we have a pretty good mix as it is."

The broker's domestic growth included a Fairfax, Va., office opened in 2010 and offices opened this year in Charlotte, N.C.; Denton, Texas; and Memphis, Tenn.

"You can expect for Lockton to continue to be an opportunistic company and take advantage of strengthening our operations where we already are," Mr. Lumelleau said. "We have a broad footprint around the world now and simultaneously we are taking advantage of new geographies where there is a compelling reason to do so."

Employee benefits has proved a strong contributor to Lockton's growth. The broker said that its employee benefits revenue increased to nearly $203 million during 2010, up 16.4% from the prior year.

Lockton said its benefits business outstripped its property/casualty revenue growth rate because it was early to advise employers on how health care reform law changes would affect their programs.

"We have gotten ourselves in a position to be ahead of the curve when it comes to consultant and advisory services for clients as they wade through the unknowns of the new health care provisions," Mr. Lumelleau said. "So it has been a very healthy growth area for us."

About half of the 227 employees Lockton hired in 2010 were in the benefits business area, the company said.

"We transitioned from a company that was a property/casualty broker and sold benefits to a company proactive in both," Mr. Lockton said.

But Lockton also faced the realities of a soft insurance market last year, evident by a 16.6% decline in wholesale revenue, which fell to $40.9 million on the year.

Its overall growth despite the challenging economy is a testament to Lockton's private ownership, company officials and observers agree.

"We are able to make decisions of a longer-term nature (rather than focusing on quarterly results) because we don't have stockholders," Mr. Lumelleau said. "That really positions Lockton to address the longer-term needs of our clients in a very effective and very efficient way."

Private ownership likely allows Lockton to channel more revenue to producer compensation and meeting client needs than if they had to meet the profit expectations publicly traded competitors face, Mr. Wicher agreed.

"Their business model has worked for them," Mr. Wicher said. "The culture is one of outward looking to the client."

—By Roberto Ceniceros

Market Moves

Ironshore enters Australian market

MELBOURNE, Australia—Ironshore Inc. has expanded its international operations to the Australian market through the formation of Ironshore Australia Pty. Ltd.

Ironshore Australia will provide specialty insurance coverage for large, complex corporate risks, the Hamilton, Bermuda-based parent company said in a statement.

David Rogers has been named managing director of Ironshore Australia based in Melbourne.

Most recently, he was Midwest regional executive at Ironshore's Chicago office.

Ironshore Australia will underwrite specialty commercial property, liability, professional, marine, environmental and political risk coverage, among others. The coverage will be underwritten though the insurer's syndicate 4000 at Lloyd's of London, according to the statement.

"Ironshore's presence in Australia is the logical next step in establishing a global platform to diversify our business geographically," Mr. Rogers said in the statement. "Ironshore initially will focus on Australian market risk, while also monitoring business development opportunity in the broader southeast Asian region."

The office is located at Rialto Tower South, level 27, 525 Collins St., Melbourne, VIC 3000, Australia. The phone number is 61-3-9935-2824.

Lockton expands with office in Memphis

MEMPHIS, Tenn.—Lockton Cos. L.L.C. has expanded its insurance services by establishing a unit in Memphis, Tenn.

The unit will provide risk management and employee benefits services regionally, nationally and internationally, the Kansas City, Mo.-based insurance brokerage said in a statement.

Joe Lammel has been named executive vp and will lead the Memphis team, according to the statement. Most recently, he was leader of Marsh Inc.'s Memphis brokerage operation, specializing in transportation, construction, surety and financial risks.

"We see a rare opportunity in Memphis to assemble a high-caliber group of professionals," Kevin McDaniel, president of Lockton St. Louis, said in the statement.

Lockton said it anticipates adding several professionals to its staff in Memphis in the coming months.

The Memphis office is temporarily located at 6000 Poplar Ave., Suite 250, Memphis, Tenn. 38119. The phone number is 901-767-6969.

The Memphis team expects to move to a permanent office location within three months, according to the statement.

Philadelphia Insurance partners on surety unit

BALA CYNWYD, Pa.—Philadelphia Insurance Cos. launched a new surety bond division through a strategic alliance with subsidiaries of union insurer Ullico Inc.

The partnership through Ullico Casualty Group Inc. and Ullico Casualty Co. allows Philadelphia Insurance to provide contract and commercial surety bonds to the construction industry, the Bala Cynwyd, Pa.-based insurer said in a statement.

Edward Titus heads Philadelphia Insurance's surety division, based in Bala Cynwyd. He will remain senior vp.

As of July 1, Ullico Casualty's surety business employees joined the staff of Philadelphia Insurance to form the new surety bond division, according to the statements.

Financial terms of the agreement were not disclosed.

Sedgwick CMS expands absence management

COLUMBUS, Ohio—Sedgwick Claims Management Services Inc. has acquired the absence and productivity management services unit of Nationwide Mutual Insurance Co.

The acquisition of Nationwide's Columbus, Ohio-based productivity solutions division aims to expand Sedgwick's disability and absence-management services, the Memphis, Tenn.-based third-party administrator said in a statement.

The employees of Nationwide's unit have joined Sedgwick and "bring to our organization unique expertise in absence management that will help our clients minimize losses and improve productivity," David A. North, president and CEO of Sedgwick CMS, said in the statement.

Terms of the acquisition were not disclosed.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send news of Market Moves to Mike Tsikoudakis, 360 N. Michigan Ave., Chicago, Ill. 60601 or email *mtsikoudakis@businessinsurance.com*.

UP CLOSE

Comings & Goings

SCOTT RENNINGER

NEW JOB TITLE: Schaumburg, Ill.-based chief investment officer of Captive Resources L.L.C.

PREVIOUS POSITION: Wayne, Pa.-based chief financial and investment officer for Affiliated Distributors, a buying and marketing firm.

LOOKING FORWARD TO: I enjoy the collaborative process between the consulting teams here at Captive Resources and the captive insurance companies that are our clients. It's the people side of the business that makes it a lot of fun.

GOALS FOR NEW POSITION: Lead the effort to help Captive Resources' client captive insurance companies safely maximize returns on cash and short-term investments while managing risk, and ultimately leading to superior returns on longer-term insurance reserves through Captive Resources' proprietary products.

INDUSTRY CHALLENGES: What I see from a client perspective is that it is very hard to get the benefit of lowering your risk and reducing your claims unless you are in the alternative insurance world. I think it might be a challenge for the industry for more companies to go to the alternative market.

COLLEGE MAJOR: Business and economics from the University of Delaware and then an MBA from Wharton School of Business at the University of Pennsylvania.

ADVICE: Do not trust sell-side risk models. Take it from Albert Einstein, who said: "As far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality."

OUTSIDE THE INDUSTRY, A DREAM JOB: University professor.

FAVORITE MEAL: I love to cook and a favorite meal, in the wintertime especially, is osso buco (braised veal shanks with browned and simmered vegetables), which has to cook all day.

EMAIL OR PHONE, AND WHY: Email. I travel a lot and I like the flexibility of email.

Comings & Goings ONLINE

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Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to:

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Chicago, Ill. 60601-3806

mgillikin@businessinsurance.com

POSTING THIS WEEK

BROKERS
- Aon Risk Solutions
- Integro Ltd.
- Crump Insurance Services Inc.

INSURERS
- Philadelphia Insurance Cos.
- Amerisure Mutual Insurance Co.
- Harleysville Group Inc.
- Zurich Financial Services Group

REINSURANCE
- Holborn Corp.

AGENTS
- U.S. Risk and Insurance Group Inc.

Wholesaler: Brokers reduce rolls

CONTINUED FROM PAGE 1

tional moves by brokers to cut back on the amount of business placed through wholesalers during soft market conditions.

"We've seen it in the past, but then we saw it go away," when market conditions tightened, said James V. Gresham, CEO of Gresham & Associates Inc., a Stockbridge, Ga.-based wholesaler. "I think it's going to be a permanent thing this time" as retailers aim to become more efficient and save money at a time when the soft commercial insurance market has lingered and economic conditions remain fairly difficult.

An executive with another wholesaler said retailers began restricting the number of wholesaler partners about four years ago and are making deep cuts in those relationships.

It's a move that makes sense if a retailer with 50 wholesalers cuts back to 15 or 20, the executive said, but when wholesalers dwindle to two, "I fail to see how this change benefits the insured."

The question is, "where is the value for the insured?" said Glenn Hargrove, president of Marketscout Wholesale, a Dallas-based broker. In Aon's case, "they've taken that position, and they have to justify that position to the client," he said.

Some say Aon's move is not completely unexpected as it follows the broker's decision a year ago to take its wholesale brokerage business in-house for placements into the London, Bermuda and Singapore markets. In addition, it is not out of line with what other brokers are doing or considering, they note.

"The large brokers continue to examine how they look at distribution on the wholesale side," said Adam Klauber, an insurance analyst at William Blair & Co. L.L.C. in Chicago. "They're trying to be more efficient in how they do business."

John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco, said large retailers "have been pursuing a strategy consolidating their wholesale market for years."

In Aon's case, "they probably saw some benefit in aligning with partners who can provide national reach. AmWINS and Ryan Specialty meet this criteria and aren't competitors in the retail space."

"It's a trend that's been happening for quite a while," Mr. Hargrove of MarketScout said. "Most everyone is trying to streamline who they do business with."

John M. Wepler, president of Marsh, Berry & Co. Inc. in Willoughby, Ohio, said retailers are limiting wholesalers as a way to manage their expenses and are becoming more efficient in the process. Such changes benefit buyers, he added.

"It makes a big difference," Mr. Wepler said. "The insurance buyer is now working through a retailer with better service," as relationships are strengthened with the wholesaler and, ultimately, the insurer.

Arthur J. Gallagher Risk Management Services Inc., the retail brokerage division of Arthur J. Gallagher & Co. in Itasca, Ill., has trimmed its wholesaler network from several hundred to a panel of around 20 in a bid to improve customer service, said Craig Van der Voort, vp-market relations with the retail unit.

Gallagher's wholesale network had become unwieldy, Mr. Van der Voort said, and many of the brokers were doing little to resolve problems that arose with insurers, which ultimately affected buyers. "We asked, what value-added service is the wholesaler providing us?"

Gallagher whittled its wholesalers to around 20 that met specific operating and financial criteria. "A big one was claims support," Mr. Van der Voort said. "Do they have a person dedicated to claims handling? You would be surprised how many wholesalers did little, if anything, to help resolve problematic claims issues in the past."

"We're a year into it now," he said, "and have found that it has improved overall quality."

Wells Fargo Insurance Services Inc. during the past four years has trimmed its network to around 20 wholesalers, said Kevin Brogan, managing director and national practice leader, property/casualty products and services at the Chicago-based retailer. The latest cuts came in the first quarter of this year when 10 wholesalers were removed from Wells Fargo's preferred list.

"Four years ago, we worked with probably any wholesaler who wholesaled business," Mr. Brogan said, but after a strict vetting process has settled on wholesale partners who have the expertise to find coverage solutions that Wells Fargo clients need.

"Everyone is evaluating their distribution chains," said Mr. Hargrove. "And that's great," but it can raise questions as to how buyers will be served if the number of wholesale brokers in the chain is restricted to very few.

Some large buyers say a limited wholesaler network won't affect them.

James D. Hinton, vp-risk and insurance at HCA Inc. in Nashville, Tenn., said a limited wholesaler network is not a concern. "We just want to make sure they've got the best people doing it," he said of retailers. "I don't see it as a big issue."

> **'Four years ago, we worked with probably any wholesaler who wholesaled business.'**
>
> Kevin Brogan, Wells Fargo Insurance Services Inc.

Mr. Gresham said that trimming the wholesale network shouldn't make a difference to buyers if brokers involved in a transaction are intent on finding the proper coverage. His company has referred retailers to wholesalers other than his own when more suitable coverage for an account can be placed elsewhere, he said.

Large retailers began jettisoning their own wholesale operations in 2005, a time when there were industry concerns over conflicts of interest among retailers that owned wholesalers.

That year, Marsh & McLennan Cos. Inc. divested Crump Insurance Services Inc., and Willis Group Holdings Ltd. exited the U.S. wholesale market when it sold Stewart Smith Group Inc. to American Wholesale Insurance Group.

As for its current wholesale relationships, Marsh declined to comment beyond an emailed statement saying its "wholesale strategy is to evaluate the best market options for all clients."

Two executives with wholesalers that have worked with Marsh said they were not aware of significant changes the retailer may have made to its wholesale network.

Alastair Swift, CEO of Willis Global Placement, said Willis has "absolutely not limited the markets we will put in front of clients." Willis uses wholesalers if needed to fulfill a client's coverage requirements, he said.

Aon in 2005 shed wholesaler Swett & Crawford Group Inc., which last year merged with Cooper Gay (Holdings) Ltd. to form a new holding company, Cooper Gay Swett & Crawford Ltd.

Swett & Crawford continued as a wholesale market for Aon after the divestiture, and stands to lose some business with the retailer based on last month's decision.

"Obviously it affects us—we've been doing business with Aon for 30 years," said Neal Abernathy, Swett & Crawford's president and CEO. But although Aon has been a "very important client," the amount of business Swett & Crawford has done with Aon has declined in recent years, he said.

"Our volume, post-divestiture, has been continually going down as they have pushed their go-direct initiative," said Mr. Abernathy. The amount of business with Aon represents less than 10% of Swett & Crawford's revenue, he said.

Stress: Most pass test

CONTINUED FROM PAGE 4

concerning changes it would like to see before the rules are finalized, Mr. Guijarro said.

That up to 10% of insurers failed to meet minimum capital requirements under the Solvency II stress test is a concern, said Marc Beckers, London-based head of Aon Benfield Analytics for Europe, the Middle East and Africa, an Aon Corp. unit.

Worrying is that the insurers and reinsurers tested in EIOPA's study represent at least 50% of the premium volume per country and likely are the largest companies in their countries, yet 10% failed to meet the minimum capital requirement under the adverse stress scenario, he said.

In a report, Dominic Simpson, senior credit officer at Moody's Investors Service Inc. in London, said the stress test results showed resilience by the overall European insurance industry.

The 40% of insurers that did not take part in the test likely were smaller and less diversified businesses that would be "more disposed to stress test failure," he said.

The lack of company-specific information makes it difficult to draw detailed conclusions from the test or determine where potential problems may occur, Messrs. Simpson and Beckers agreed.

In a statement, Peter Vipond, director of financial regulation and tax at the London-based Assn. of British Insurers, which represents U.K. insurers and reinsurers, said the test demonstrated the strength and stability of the industry.

"As far as we are aware, no U.K. firm failed this stress test," Mr. Vipond said in a statement.

Space: Insurers prepare for post-Shuttle market

CONTINUED FROM PAGE 1

The 135th and final space shuttle mission launched July 8 from Cape Canaveral, Fla., taking the Atlantis to the International Space Station with its final return to earth scheduled for this week.

While there are few immediate changes for insurers because the shuttle has carried no commercial payloads since the Challenger disaster in 1986, NASA already is funding various commercial launch systems, which should mean more business for insurers, said Simon Clapham, London-based head of the marine division at Liberty Syndicates, a Liberty Mutual Group Inc.-owned Lloyd's of London insurer.

With the retirement of the shuttle, NASA is looking to nurture the commercial U.S. space capability and has awarded contracts to resupply the space station to Hawthorne, Calif.-based Space Exploration Technologies Corp. and Dulles, Va.-based Orbital Sciences Corp. It is also funding the development of other spacecraft systems—including those by Kent, Wash.-based Blue Origin L.L.C., Chicago-based Boeing Co. and Sparks, Nev.-based Sierra Nevada Corp.—to deliver astronauts and cargo into low-earth orbit.

The move is an opportunity for insurers to create new liability products and expand their first-party launch and in-orbit offerings, said Jeff Poliseno, Washington-based chief executive of Aon Risk Solutions' international space brokers practice, a unit of Aon Corp.

The last shuttle mission is the beginning of a new chapter, said Denis Bensoussan, Paris-based space underwriter at Hiscox Ltd. For the first time, a government will use commercial launch vehicles to put cargo and, later, astronauts into space, something that historically was the domain of governments, he said.

While NASA will continue to be largely self-insured, commercial operators carrying astronauts and cargo to the space station will need third-party liability insurance to maintain their commercial space licenses, said Chris Kunstadter, senior vp for space at XL Insurance in New York. They also may buy property and liability insurance to cover their contractual obligations to NASA, he said.

Suborbital commercial ventures, including test flights by SpaceX and Virgin Galactic, a joint venture involving Sir Richard Branson's Virgin Group Ltd., already have purchased third-party liability insurance, said Mr. Kunstadter.

"As the transportation of crew and cargo is turned over to the commercial sector, there will be a requirement for insurance and this will lead to an increase in overall premium for insurers," he said. "We have been working with commercial space operators and regulators to come up with new insurance products to cover cargo and astronauts delivered into low earth orbit."

Aon has been working with insurers to provide SpaceX with cover for the Falcon 1 and Falcon 9 launch vehicles. In granting commercial space licenses, the U.S. Federal Aviation Administration requires minimum levels of third-party insurance to cover damage to property and bodily injury on the ground and in space, Mr. Poliseno said.

The FAA sets the minimum level of insurance based on a maximum probable loss, although the U.S. government provides an additional $1.5 billion indemnity, he said.

Space Shuttle Discovery leaves the International Space Station for the last time last week. The shuttle is scheduled to return to Earth this week.

AP PHOTO

Coverage already has been provided for nonprofessional astronauts, or space tourists, who have traveled to the space station aboard state-owned Russian Soyuz spacecraft. Now, however, underwriters have the opportunity to develop specific insurance for professional astronauts and space tourists carried by commercial operators, Mr. Bensoussan said.

"Hiscox has been working on a product to insure individual passengers on commercial space flights," he said. "Virgin Galactic will fly from U.S. states where it can waive a passenger's right to sue. However, it is possible this could be challenged (in the courts), so operators will need to consider contingent passenger liability and personal accident insurances."

When commercial operators begin ferrying cargo and astronauts to the space station, there is the potential for three to five more insured launches per year atop the current 30, Mr. Bensoussan said. "The opening of space to commercial players is a positive development for insurers because it will mean more launch vehicles, more volume of risks and it will generate business for underwriters," he said.

"The space insurance market is inherently volatile, so an increased number of launches supplied by a greater number of launch vehicles and that will mean more premium volume and a greater spread of risks, which should reduce volatility," said Mr. Bensoussan. Annual premium for the market was about $700 million in 2010, according to brokers.

"The development of commercial space systems like SpaceX broadens the client base for insurers and gives more choice to satellite and space operators," said Mr. Poliseno of Aon, which has represented SpaceX since 2005. There are two main launch options—the European Space Agency's Ariane rocket and the Russian Proton launcher marketed by Reston, Va.-based International Launch Services Inc. for commercial use. The Sea Launch vehicle, also is set to return to flight in the near term.

NASA is unlikely to buy insurance for its ongoing space activities, such as the exploration of Mars, the moon and earth observation. Insurers have had discussions with NASA in the past over the prospect of buying space insurance; however, hurdles in the way the government works have been too difficult to overcome," said Mr. Kunstadter.

While the U.S. government generally does not buy space insurance, many other countries do, said Jan Schmidt, head of space insurance at Swiss Reinsurance Co. in Zurich.

The Italian government has purchased launch insurance for the military communications satellite SICRAL. The European Galileo navigation satellite, which is government-owned but privately operated, will inquire about launch and in-orbit insurance, Mr. Schmidt said. Other government satellite launches that have purchased insurance include the Chinese weather satellite FengYun, NASA's Tracking and Data Relay Satellite System and Pakistan's Paksat.

In addition, there are many partnerships between state-owned agencies and commercial space ventures in Europe and Asia, Mr. Schmidt said.

The European Aeronautic Defense & Space Co. and ND SatCom GmbH have won a contract to supply German armed forces with satellite communications. Such ventures generate premium for space insurers, although they pose a significant challenge where confidentiality can prevent insurers from performing the required risk analysis. In the case of ND SatCom, the launch and in-orbit operations were insured, he said.

Insurance also is being seen as a viable option to protect publicly funded space ventures, he said. "There is a growing realization by governments of the value of insurance as they become more responsible with taxpayers' money," Mr. Schmidt said.

Exchange: Wide range of targets

CONTINUED FROM PAGE 6

"The solution is most attractive to the small- and midsized employer market," he said.

Mr. Sen sees these private exchanges as providing an alternative to the state insurance exchanges that will be established under the Patient Protection and Affordable Care Act for employers with up to 100 employees, as well as for larger employers that will not have immediate access to those exchanges.

Employers participating in these private exchanges can determine how much they want to spend on health care benefits and then allocate those dollars on a pretax basis into a health reimbursement arrangement on behalf of each employee.

The employees then can use the funds to choose from plan options that range from a preferred provider organization plan with a low deductible to a high-deductible health plan linked to a health savings account. If the cost of the plan exceeds the defined contribution their employer allocates to them, the employee pays the difference through pretax payroll deductions like they would in a standard employer-sponsored health insurance program.

> **'The solution is most attractive to the small- and midsized employer market.'**
>
> Abit Sen, Bloom Health

Medica's My Plan and BCBS of Michigan's GlidePath exchange also help employees decide which plans are best for them based on their responses to a questionnaire that includes a financial, health and risk tolerance assessment. Advisers also are available by phone throughout the selection process.

Since Medica's My Plan was launched June 6, two employers with 50 to 100 employees have signed up with benefit plans beginning Aug. 1. Dozens of other Minnesota employers with benefit plan years beginning after Sept. 1 are in contract talks with Medica. The employers range in size from 50 employees to "a couple of thousand," Mr. Naylor said.

So far, one midsize employer has contracted with BCBS of Michigan, Mr. Sen said.

HealthPass provides coverage to 4,000 employer groups.

Corrected chart

The chart printed below is a corrected version of a chart on page 16 of this week's issue. Due to *BI*'s printing schedule, the chart on page 16 was printed earlier and could not be changed. Brokerage revenue and brokerages ranked have been corrected in this chart.

LARGEST PRIVATELY OWNED BROKERS*

*U.S. brokerages ranked by brokerage revenue***

COMPANY	2010 BROKERAGE REVENUES
Lockton Cos. L.L.C.	$826,857,000[1]
Leavitt Group	$183,640,000
Frank Crystal & Co. Inc.	$131,530,000
Hays Group Inc., dba Hays Cos.	$117,200,000
Bollinger Inc.	$116,391,174
J. Smith Lanier & Co.	$105,020,193
John L. Wortham & Son L.P.	$97,563,070
Beecher Carlson Holdings Inc.	$94,680,900
Holmes Murphy & Associates Inc.	$92,453,487
Neace Lukens Holdings Co.	$86,014,197

**Brokerage firms that are not owned by banks or private equity firms. **Companies that derive less than 50% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 Fiscal year ending April 30.*

Source: BI Survey

Brokers: Contingent commissions back in spotlight

CONTINUED FROM PAGE 6

provided an incentive for brokers to pool their business with a single insurer to increase their potential bonuses, PPACA-prompted broker tiering could be equally damaging by shutting some brokers out of certain markets.

"I cannot get a quote from Anthem Blue Cross of Maine because I don't do enough business in Maine," said Jim Edholm, president of Business Benefits Insurance in Andover, Mass.

In the past, some brokers that did not place sufficient business with certain insurers accessed those markets via general agents, but even those arrangements may soon disappear. But some insurers no longer will work with general agencies, said David R. Marom, president of Marom Consulting L.L.C. in New York, who said he used to rely on a general agent to place certain business.

Anita Verheul, executive vp at William Gallagher Associates in Boston, said she also is seeing "tiering of commissions" based on volume of business. "They could be paying more, or they may provide in-kind services like training," she said.

"Insurers said they want to do more with fewer brokers," Dennis Donahue, managing director of Wells Fargo Insurance Services USA Inc. in Chicago, said at the recent Employee Benefits Leadership Forum in Colorado Springs, Colo., hosted by the Council of Insurance Agents and Brokers. "They're creating incentive packages—not additional compensation, but access to underwriting, dedicated claims units, benchmarking reports—things that the brokers could use to distinguish themselves."

"Carriers are saying, 'We have hundreds of brokers. Which are the strongest and most effective?'" said Tom Lerche, national leader on health care reform at Aon Hewitt Inc. in Chicago. "Instead of trying to manage a broker portfolio of 50 or 100, they are dropping brokers who have low volume."

J. Hyatt Brown, nonexecutive chairman at Brown & Brown Inc. in Daytona Beach, Fla., said he knows of one unidentified insurer that is "grading" agents and brokers as 1, 2 or 3, "and it has to do with volume. So they are giving more competitive pricing to the brokers that bring them more volume."

As the market shifts to fee-based compensation from the insurer-paid commission model, many brokers are transforming into consultants, stepping up the services they provide or diversifying their businesses.

"We've added things to boost our value proposition like surveys, actuarial modeling, hosting webinars and seminars," said J. Michael Brewer, president of Lockton Benefit Group, the employee benefits division of Lockton Cos. L.L.C. in Kansas City, Mo.

"Until health care reform occurred, a lot of brokers got very specialized and focused on traditional employee benefits. What we're starting to see is a lot of brokers looking for diversified revenue, a way to use the expertise they already have and find new revenue models," said Michael Reid, director of operations and client services at twentytwenty Insurance Services in Lakewood, Calif.

But industry sources anticipate that most old-guard and mom-and-pop producers will either be forced out of business or, if they are lucky, be acquired by larger, more successful agencies.

"I think this is going to be very difficult for the traditional agent," said J. Brent Finnegan, managing partner at SafeHarbor Consulting & Risk Management L.L.C. in Boston, which is looking to acquire "broad-based agencies that we hope will have an employee benefits component."

"We certainly don't want agencies that have a lot of clients with 100 or fewer lives. But if they're doing middle-market business, we're interested," he said.

All health insurance brokers now are forced to lift the veil that has largely guarded their compensation from their clients, which for some could mean earning less.

"The unintended consequence of this transparency will be like what's happened in every other industry—transparency will drive compression," said Mike Turpin, executive vp at USI Insurance Services L.L.C. in Briarcliff Manor, N.Y. "No one is looking at this industry and saying, 'Wow, look at the tail winds at their back!' Instead, we have to learn how to tack into the head winds."

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Bias: Gay employees

CONTINUED FROM PAGE 3

stand they can't tolerate discrimination on that basis," they follow up complaints "and take action the same way they would with complaints related to other types of issues."

"The common thinking is that blue-collar types of business are going to be less tolerant" than white-collar businesses, "but there's certainly plenty of exceptions that occur in those various environments as well," said Paul E. Starkman, a partner with law firm Pedersen & Houpt in Chicago.

"I can remember back in the early '90s doing employment training programs and the attitude was very different than it is now," said Ms. Shea.

People have become more sensitive to the issue during the past five years, particularly with the Obama administration and Department of Labor being "very focused" on working conditions, said Ms. Hoover. Furthermore, "employees are becoming more comfortable with the idea of raising claims with their employers," she said.

According to the Human Rights Campaign's Corporate Equality Index, the percentage of major businesses and top law firms that have sexual orientation nondiscrimination policies skyrocketed from just 5% in 2002 to 76% in 2011, said Deena Fidas, deputy director of the organization's Workplace Project. The index includes the largest Fortune 1,000 businesses, private-sector firms with more than 500 full-time employees and the top 200 revenue-grossing law firms.

However, the picture is not entirely rosy.

A study by the Center for Work-Life Policy in New York, for instance, said last month that 48% of LGBT workers keep their orientation to themselves.

In addition, "we continue to see a patchwork of experiences on the job," said Ms. Fidas. For instance, 58% of LBGTs say someone at work makes a joke or derogatory comment about them at least once in a while, according to a 2008 Human Rights Campaign-sponsored survey.

Federal courts have heard sexual orientation cases, albeit indirectly.

In its 1989 decision in *Price Waterhouse vs. Ann Hopkins*, for instance, the Supreme Court ruled a gender stereotyping claim could be filed under Title VII in the case in which a woman allegedly was denied a partnership because she did not act feminine.

Citing that decision, Jonathan T. Hyman, a partner with law firm Kohrman Jackson & Krantz P.L.L. in Cleveland, said plaintiff attorneys have used the Title VII issue of sexual stereotyping "with some degree of success" in the courts.

Suits involving workplace sexual stereotyping tends "to get complicated" because "you have to separate between a person's individual personality and what they're doing, and the fact that they're being discriminated against," and "it often becomes difficult to get to the bottom of why things happened," Mr. Starkman said.

Meanwhile, in its 1998 ruling in *Joseph Oncale vs. Sundowner Offshore Services Inc.*, the Supreme Court ruled that same-sex workplace harassment is prohibited.

"We still see plenty of claims of sexual harassment that have some element" of homosexuality, "and certainly Title VII prohibits harassment of any sort," said Emily S. Borna, a partner with law firm Jackson Lewis L.L.P. in Atlanta.

Most anti-bias efforts stall with changes at state level

The federal government lags states and smaller jurisdictions that have approved laws prohibiting employment discrimination based on sexual orientation, say observers.

Some 21 states and the District of Columbia have passed laws prohibiting employment discrimination based on sexual orientation, and 14 states and the district also prohibit discrimination based on gender identity, according to the Washington-based Human Rights Campaign.

Despite New York state's recent approval of a gay marriage law, changes in other states may have stalled for now. In most states that did not already have an anti-discrimination law, recent elections have put conservative legislatures in place and lawmakers are "not willing to discuss these issues," said Sarah Warbelow, state legislative director of the Human Rights Campaign.

"I very much see this as an unusual blip," Ms. Warbelow said, especially because polls "very consistently show upwards of 70% of Americans support employment nondiscrimination policies."

Meanwhile, attempts to legislate a federal sexual orientation discrimination policy have proved futile.

The Employment Non-Discrimination Act of 2011, which would protect against workplace discrimination on the basis of sexual orientation and gender identity, was introduced in April in the House by Reps. Barney Frank, D-Mass., and Ileana Ros-Lehtinen, D-Fla., and in the Senate by Sens. Jeff Merkley, D-Ore., and Mark Kirk, R-Ill.

ENDA has been introduced almost every year since 1994 but has not won approval in Congress, according to the Human Rights Campaign.

"We're moving towards the day when sexual orientation is going to be included in Title VII (of the Civil Rights Act of 1964) as a protected class," said Jonathan T. Hyman, a partner with law firm Kohrman Jackson & Krantz P.L.L. in Cleveland.

Observers say as more states recognize same-sex marriage, the momentum eventually will affect the federal arena.

Philip K. Miles III, an associate with McQuaide Blasko in State College, Pa., said, "I think there's some argument to be made in having uniformity of the laws," without employers having to worry "about what is OK in one city and not another."

However, "I think that's a long way away, honestly. I don't see there being sort of a groundswell of support" for that, said Diana L. Hoover, a partner with Hoover Kernell L.L.P. in Houston.

—By Judy Greenwald

NFIP: House votes to extend flood cover

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Lake Charles, La., said he was "absolutely thrilled" by the proposed five-year extension.

"Last year, we were fearful of the loss of the program that would impact threatened properties with the lack of protection" due to repeated lapses in the program, said Mr. Hayes, a former president of the Alexandria, Va.-based Public Risk Management Assn. When it appeared NFIP might exit the market or "die from lack of funding, we really had no recourse—there was no place to get coverage," he said.

Insurers strongly support the latest NFIP legislation and want the Senate to follow suit quickly.

Most of the obstacles that hampered meaningful reform in the past are gone, said Jimi Grande, senior vp in the Washington office of the National Assn. of Mutual Insurance Cos.

"We have a better chance than we've ever had for meaningful reform in the Senate," he said.

NFIP KEY POINTS

The Flood Insurance Reform Act of 2011, H.R. 1309, would:

- Extend the National Flood Insurance Program through Sept. 30, 2016
- Establish Technical Mapping Advisory Council to develop new mapping standards for 100-year flood insurance rate maps
- Move toward the creation of actuarially based flood insurance rates
- Require the federal government to study the possibility of privatizing the NFIP

Source: Library of Congress

Unlike a measure introduced in the previous Congress, this bill does not contain a provision that would require the program to include wind and flood cover, he said. Mr. Grande noted that the chief proponent of that expansion, former Rep. Gene Taylor, D-Miss., was defeated in his bid for re-election.

"We've had one of the biggest flood seasons we've ever had and natural disasters in general have been devastating this year," said Mr. Grande. But "the Senate still doesn't have a great track record of action on this program."

"The House has done its part to address this issue," Mr. Grande said. "The ball is now in the Senate's court and the clock is ticking."

In a statement, Ben McKay, senior vp of the Property Casualty Insurers Assn. of America's Washington office, noted that repeated NFIP lapses wrought havoc in the market.

"In 2010 alone, the NFIP lapsed four times and flood coverage could not be purchased or renewed for a total of 53 days," said Mr. McKay. "Lapses in NFIP coverage have created uncertainty in the housing market and left homes and businesses even more vulnerable to devastating floods, while leaving taxpayers exposed to costly relief efforts."

"The biggest significance of the vote is this is not kicking the can down the road, as they have done in the past. It's actually a five-year reauthorization, and it moves the program slowly towards and actuarially sound basis," said Joel Kopperud, director-government affairs for the Council of Insurance Agents & Brokers in Washington.

"The House bill is a five-year extension and contains a number of reforms that will move the program toward a more financially sound position," said Tom Santos, vp-federal affairs at the American Insurance Assn. in Washington. "It got 406 votes, so it's a good bipartisan product that will help ensure that the program remains for those 5.6 million policyholders who need for flood coverage."

"The Senate Banking Committee has held two hearings and they're working to produce a bipartisan product," Mr. Santos said. "I don't see any roadblocks in the committee, but I think everything in the Senate is held up on the debt ceiling negotiations, so they've got some scheduling and timing issues."

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Business Insurance is published by Crain Communications Inc.
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News In Brief

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distributed no later than April 30, 2012.

Social media misuse a workplace problem

Many global businesses have had to deal with the misuse of social media networks in the workplace, according to a survey by law firm Proskauer Rose L.L.P. Of 120 employer respondents, many of them clients, 43.4% said social media network misuse has been an issue for them, and 31.3% said they have had to take disciplinary action against an employee because of misuse, according to the survey, "Social Networks in the Workplace Around the World."

Feds to ask employers about wellness programs

The Departments of Labor and Health and Human Services say they plan to conduct a survey that asks employers to evaluate their wellness programs.

The survey is intended to "assess the effectiveness and impact of workplace wellness programs, as well as identify best practices and lessons learned in program implementation with a particular focus on the use of incentives," according to an HHS notice.

Catastrophe losses hit P/C insurers' profits

Catastrophe-related losses helped drive the U.S. property/casualty industry's net profit down 29.3% to $9 billion in the first quarter of this year compared with the same period last year, A.M. Best Co. Inc. said in a report. Best said the drop was due primarily to an underwriting loss of $3.6 billion. Best said that loss reflected an "unusually high level" of catastrophe-related losses "and to a lesser extent, diminished reserve releases."

Aviation fleet values on the rise: Willis

Aviation insurers are collecting little additional premiums despite rising fleet values and increasing passenger exposures, Willis Group Holdings P.L.C. said in a report. The worldwide aviation market generated less than $250,000 in additional premiums during the first half of the year, Willis said in its "Airline Insight" report. At the same time, fleet values increased 7% and passenger exposure rose 11%, according to the report. However, accounts with major losses experienced big increases as high as 100%, Willis said. Those that reduced their exposures saw premiums fall more than 25%.

Pension funding levels rise at big employers

The funding levels of pension plans sponsored by large, publicly held U.S. employers rose slightly in June and were significantly higher than the end of last year, Milliman Inc. said. Defined benefit plans offered by the 100 U.S. employers with the largest pension programs were on average 87% funded as of June 30. That's up from an average funding level of 85.5% at the end of May, 84.1% at the end of last year and 74.2% in June 2010.

IAIS to develop international framework

The International Assn. of Insurance Supervisors is developing a framework to foster cooperation between the supervisors of internationally active insurers. The IAIS said it would develop a Common Framework for the Supervision of Internationally Active Insurance Groups, to be known as ComFrame, in phases. The framework will be in place by July 1, 2013, and will develop methods to make groupwide supervision of international insurance groups more effective and "reflective of actual business practices," IAIS said in a statement.

Noted

Fireman's Fund Insurance Co. has named Lori Dickerson Fouché as its new president and CEO. She succeeds Michael LaRocco, who had been president and CEO since March 2008....David J. Zuercher, chairman of **Wells Fargo Insurance Services Inc.** and executive vp and head of the insurance services group at Wells Fargo & Co., will retire by the end of the year, the company said. Based in Los Angeles, Mr. Zuercher will retire from the Chicago-based bank-owned insurance brokerage in accordance with the company's mandatory retirement age for management committee members.

Validus: Reinsurer cuts in on bid for Transatlantic

CONTINUED FROM PAGE 1

spot of the market right now," said Michael G. Paisan, a New York-based analyst for financial services firm Stifel, Nicolaus & Co. Inc.

Much of Validus' business is in areas that have had rate increases in recent months, and by entering into the casualty reinsurance market, Validus adds significantly more uncertainty into its business mix, according to Mr. Paisan.

"We think this deal will dilute that (advantage) at least temporarily for the next year or two," said Mr. Paisan, who downgraded his recommendation on Validus to hold from buy.

Other analysts' opinions differed.

"Certainly, whichever company ends up with Transatlantic will be quite large" among Bermuda reinsurers, said James Eck, vp-senior credit officer at Moody's in New York. "They'd benefit from scale."

As its 63-year-old President and CEO Robert F. Orlich approaches retirement, Transatlantic's senior management has had early stage discussions about possible business combination deals with several insurance and reinsurance companies since June 2009, according to a July 7 regulatory filing with the Securities and Exchange Commission.

Transatlantic and AWAC have close ties. Transatlantic was the former reinsurance affiliate of New York insurer American International Group Inc. AIG and other insurers, including Chubb Corp., started AWAC after the Sept. 11, 2001, terrorist attacks.

"The way Validus structured their deal is very interesting because they obviously haven't had the same access to Transatlantic's books as Allied World," said an investor who has more than 4% of his portfolio in Transatlantic, but does not own a large enough position for his view to be representative of all shareholders. "It puts the competition at a disadvantage while pressuring Transatlantic to open their books and talk."

The shareholder said he would wait and see if there are any other bids for Transatlantic before making a decision.

"Clearly, on the surface, Validus is a higher bid, but the question is where does the bidding stop?" said Paul Howard,

> **'I wouldn't be surprised if Allied World came back (and made a counterbid), but who knows how far they'll go?'**
>
> Paul Howard,
> Solstice Investment Research L.L.C.

director of research at Solstice Investment Research L.L.C. in Glastonbury, Conn. "I wouldn't be surprised if Allied World came back (and made a counterbid), but who knows how far they'll go?"

Validus offered to buy Transatlantic for $55.95 per share on Tuesday. But after the market's response on Wednesday, Validus' offer to Transatlantic shareholders was only $51.61 per share vs. AWAC's $50.36 per share, according to a report that Morgan Stanley released Thursday. "At current levels we would expect (Transatlantic) to embrace (AWAC), given the friendly nature of the proposed agreement," analysts said in a statement.

"There's a lot still pending," said John Andre, group vp in the property/casualty rating area of the rating agency A.M. Best Co. Inc. in Oldwick, N.J. "We see both Validus and AWAC as strong partners for Transatlantic, however it works out."

AWAC said in a statement Wednesday that it will hold an extraordinary general meeting of its shareholders to consider and vote on proposals related to the Transatlantic merger.

Transatlantic and AWAC declined to comment, and Validus did not respond to a request for comment.

Validus gains reputation for stirring up M&A deals

PEMBROKE, Bermuda—Bermuda reinsurer Validus Holdings Ltd. has a history of making unsolicited offers amid other merger talks.

Property catastrophe reinsurer IPC Holdings Ltd. said in March 2009 that it agreed to merge with Bermuda-based specialty insurer and reinsurer Max Capital Group Ltd. for roughly $912 million in stock, based on market values at the time. W. Marston Becker, then-chairman and CEO of Max Capital, would become president and CEO of the new Bermuda-based Max Capital Group Ltd.

But, the next month, Validus offered to buy IPC for $1.68 billion in stock. Max Capital and Bermuda-based Flagstone Reinsurance Holdings Ltd. counterbid, and Omaha, Neb.-based reinsurer Berkshire Hathaway Inc. reportedly made a $1.7 billion cash offer. Validus ended up revising its offer three times, significantly boosting the cash component in an appeal to investors.

After Validus offered $1.72 billion, IPC shareholders rejected the planned merger with Max Capital, and Validus announced an agreement in July 2009 to buy IPC, and the deal closed in September of that year. Analysts said the Validus-IPC combination had too large a concentration of property catastrophe business.

—By Sonja Ryst

End Page

Contributing: Jeff Casale, Judy Greenwald, Mike Tsikoudakis, Sarah Veysey

Health cover can boost your attractiveness

If a new hairstyle or wardrobe didn't seem to improve your love life, you might want to try health insurance.

A recent national survey of college students and graduates by marketing research firm Kelton Research in New York and sponsored by eHealth Inc. found that 90% of the students and 93% of recent graduates surveyed feel that knowing a potential significant other has health insurance would make him or her more attractive.

Kelton and Mountain View, Calif.-based eHealth's survey was completed in April and featured responses from 255 full-time college students and 251 recent college graduates who are in the workforce or seeking employment.

Of those surveyed, nearly 68% of students and 67% of grad students said they would give up a weekly night of eating out in order to obtain health insurance. However, students and recent grads were not so keen on giving up their daily coffee habits: Just 51% of students and 53% of grad students thought it would be worth giving up their cup of joe to get coverage.

Meanwhile, 30% of students and 32% of graduates said they would be less likely to have sex with someone on a first date if their potential partner did not have health insurance.

Also according to the survey, students expected to pay about $204 on average per month for health insurance, while grads expected to pay $171 on average per month.

According to eHealth, the average monthly health insurance premium paid for individual coverage of 19- to 26-year-olds is $113.

Drop the pacifier and give me 20!

The fight against the obesity crisis needs to start very young, according to the U.K. Department of Health.

The health agency last week issued guidelines stating that children younger than 5—even babies who cannot yet walk—should exercise every day.

The guidance states that children who are able to walk should be physically active for at least three hours per day. Babies who cannot walk should be encouraged to play on their stomachs or be taken for swimming lessons or other activities, the guidance advises.

Parents should try to reduce the time their children spend in sedentary pursuits such as watching television. Other sedentary activities include fidgeting, napping, drawing and reading, according to the U.K. agency.

"Riding a bike, dancing to music, running, swimming, skipping" and playing in the park with friends are considered moderate to vigorous exercise, according to the guidance.

Children ages 5 to 18 should get at least one hour of exercise per day, the U.K. agency recommends.

Nearly one-quarter of adults in the United Kingdom are obese.

"It's vital that parents introduce children to fun and physically active pastimes to prevent them becoming obese children who are likely to become obese adults at risk of heart disease, diabetes and some cancers," Maura Gillespie, head of policy and advocacy at the British Heart Foundation, said in a statement.

Starbucks managers steamed

Starbucks Corp. assistant store managers in New York just got a tip, but not the kind they wanted.

Starbucks won dismissal of a lawsuit brought by former employees who alleged that the coffee chain violated state labor laws by swindling them out of tips left by patrons.

A New York federal judge ruled that the plaintiffs failed to demonstrate a right to share money left by customers in tip boxes and did not support their claim that their employer forced them to relinquish tips they received individually, according to court documents.

The lawsuit, which sought class action status, was brought by five former assistant store managers working at Starbucks locations in New York.

They alleged that while performing many tasks similar to those done by other Starbucks workers, they were prohibited by company policy from collecting money from the pool of tips for baristas and shift supervisors, according to the court documents. The plaintiffs also said that the coffee chain required them to put any tips handed to them individually into the tip boxes.

But U.S. District Court Judge Laura Taylor Swain said "nothing in (the state's labor law) grants particular employees an entitlement to any portion of the proceeds of a tip pool."

"Plaintiffs' claims that Starbucks improperly retained gratuities that plaintiffs were entitled to receive fail as a matter of law," Judge Swain said in her ruling.

WORKER GRILLED OVER MISSING HOT DOGS

A department store was not justified in firing a worker for eating two leftover hot dogs from a company picnic, says the Indiana Court of Appeals, in holding the worker is therefore entitled to unemployment benefits.

After a July 4 cookout last year for employees of a Dillard's Inc. department store in Evansville, workers were told to put leftovers in freezers in the break room, to be saved for Labor Day, according to the court's decision in *Nolan Koewler vs. Review Board of the Indiana Department of Workforce Development and Dillard's Inc.* A dock manager said he "believed" Mr. Koewler heard this instruction.

The next day, Mr. Koewler ate two of the hot dogs. The manager reviewed a surveillance video and reported that Mr. Koewler "was a suspected hot dog thief," said the ruling. A police officer was summoned and the store manager told Mr. Koewler he could either sign a statement he stole the two leftover hot dogs, or spend the night in jail. Mr. Koewler signed the statement, and was fired.

The review board said the firing was justified, but a three-judge panel disagreed.

Mr. Koewler "was fired for failing to protect employer assets—leftovers," said the appellate ruling.

However, "the record reveals that employees had been offered hamburgers and hot dogs for consumption; it does not reveal that the rescission of this offer of celebratory food was in fact communicated to Koewler," said the court. "The board's determination of the ultimate fact that Koewler was terminated for just cause as a hot dog thief is not reasonable."

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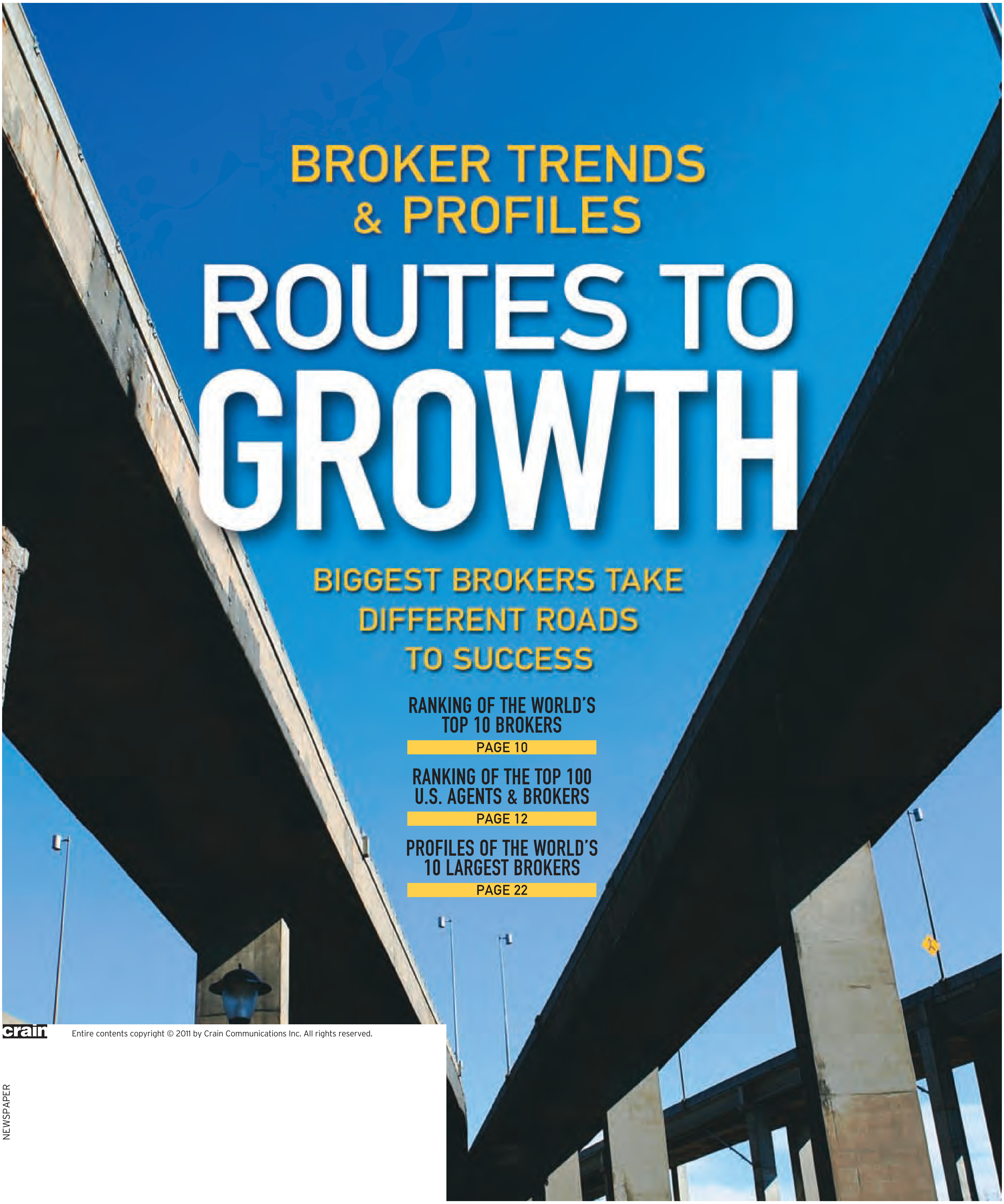

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Brokers

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Health Care Reform: Impact on Employers		
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Workers Comp and Safety Management	Sept 12	Aug 31
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