www.businessinsurance.com

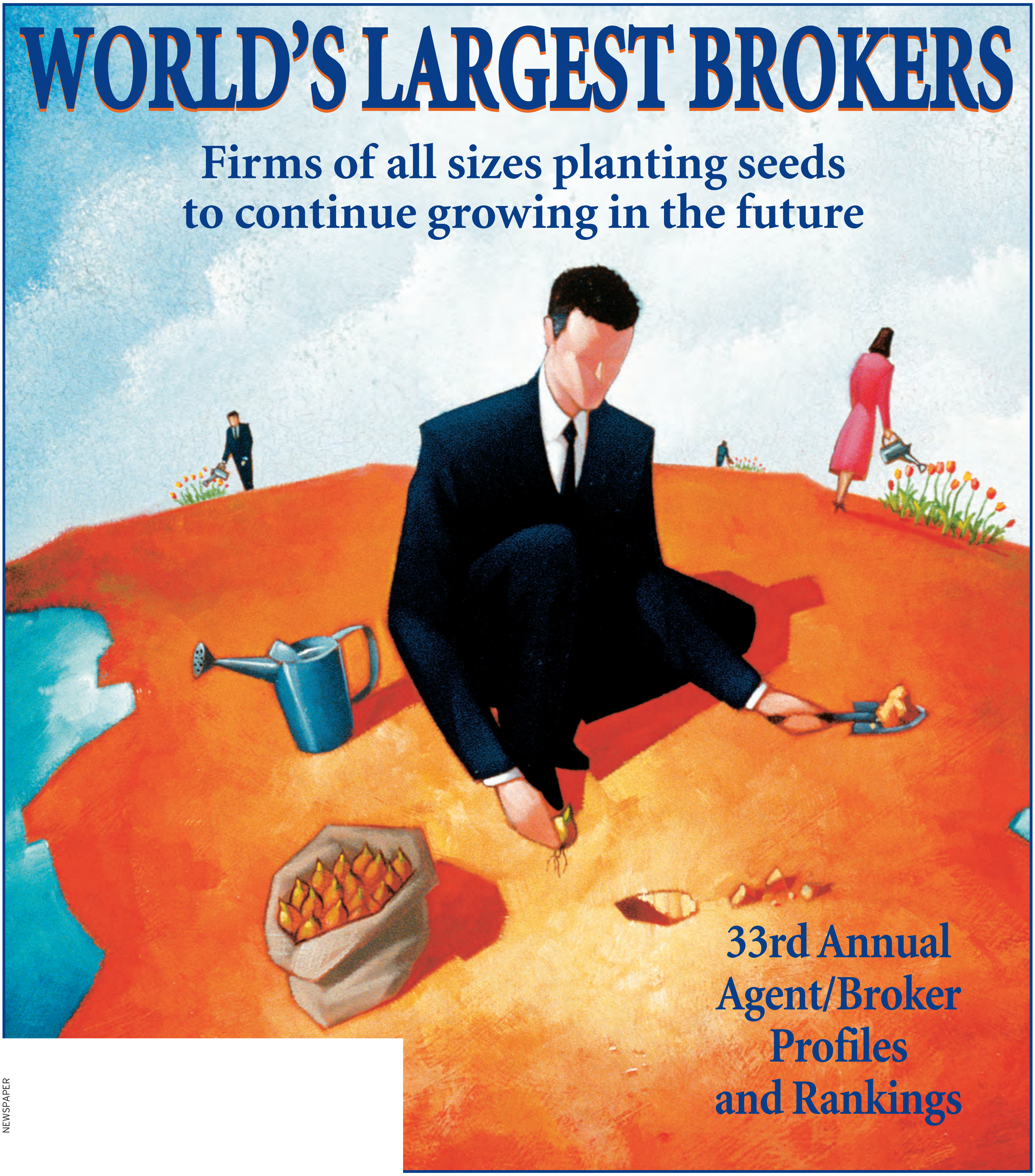
Business Insurance®

July 19, 2004

$45

WORLD'S LARGEST BROKERS

Firms of all sizes planting seeds to continue growing in the future



33rd Annual Agent/Broker Profiles and Rankings

NEWSPAPER

Dependent eligibility audits cut health plan costs / 3

Managing varied risks of the Tour de France / 4

www.businessinsurance.com

Business Insurance®

July 19, 2004 | $45

Senate inaction dooms reform

By MARK A. HOFMANN

WASHINGTON—Tort reform advocates are blaming a "dysfunctional" Senate for their latest setback in Washington.

That came in the July 8 defeat of the Class Action Fairness Act, a measure that 62 senators had endorsed. But the support—broad as it might have seemed—proved to be too shallow, as disputes broke out over the number and nature of the amendments that could be offered to the underlying bill (*BI*, July 12). The bill was withdrawn, joining several other proposals—from medical malpractice liability reform to an attempt to change the way in which victims of asbestos-related diseases receive compensation—on the Senate's list of blocked legislation.

But while tort reform forces are understandably disappointed and bitter over their defeat, they take some comfort in the fact that major legislation often takes several congressional sessions to pass. They also savor some success at the state level—success that may stem, in part, from the high profile that even failed attempts at federal-level tort reform can generate.

But for now, reform advocates feel betrayed by erstwhile allies who broke with them over the amendments. Senate Majority Leader Bill Frist, R-Tenn., said that though he would permit germane amendments, he would allow only one nongermane amendment—designed to increase the minimum wage—to go to the floor. That cost him the support of most of the bill's Democratic supporters.

The bill's fate underscored larger problems on Capitol Hill, say some observers.

"These issues have become symbolic of the meltdown of comity in the Senate," said Joel Wood, senior vp-government affairs for the Council of Insurance Agents & Brokers in Washington.

"Frankly, there are several leaders in this effort who are extremely disappointed that the deal that was reached last year with moderate Democrats on class action did not go through," Mr. Wood said. "I share the sentiment that class actions should not have been a vehicle for an unlimited number of extraneous issues. This is a classic example of the goal posts being moved all over the place. I respect those who, for whatever

See **CLASS ACTION**/page 60

Late News

N.Y. regulator rejects comp rate hike

New York workers compensation rates should not be increased because workers comp insurers in the state have recently enjoyed consistent profits, New York Superintendent of Insurance Gregory V. Serio said last week. The New York Compensation Insurance Rating Board had recommended that the state Insurance Department approve a rate increase of 29.3%, but the New York-based Risk & Insurance Management Society Inc. urged the superintendent to reject that recommendation.

Mr. Serio

United postpones pension payment

Financially troubled UAL Corp. said its United Airlines Inc. subsidiary missed a July 15 deadline on a required $72.4 million payment to its massively underfunded pension plans. Deferring the payment enables "United to best manage its resources and preserve its options going forward to secure the exit financing necessary for it to emerge from Chapter 11 bankruptcy," UAL said in a filing last week with the Securities and Exchange Commission. United has one of the most severely underfunded pension programs in the country.

Mental incompetence comp appeal rejected

An employee who agreed to a lump sum workers compensation payment over disability benefits can not have the settlement set aside on grounds of mental incompetence, a Pennsylvania appeals court ruled. In *Marcella*

See **LATE NEWS**/page 59

Kentucky mulls prospects for comp fund down by $40 million

By ROBERTO CENICEROS

LOUISVILLE, Ky.—AIK Comp, a group self-insurance fund with about 2,600 employer members in Kentucky, may cease providing coverage due to ongoing financial difficulties and a potential exodus of policyholders.

The fund, which was formed in 1979 to provide workers compensation coverage to its members, in April announced a $40 million deficit as liabilities outstripped assets. State regulators and AIK Comp are working on a potential rehabilitation plan.

But an executive of the self-insurance fund warns that the potential flight of policyholder members may make it impossible to continue without their continued premiums.

Kentucky's Office of Workers' Claims last week concluded a period of public input on possible plans for Louisville, Ky.-based AIK Comp.

One potential remedial strategy calls for collecting $50 million to $65 million in

See **AIK COMP**/page 59

Eleven states have laws allowing doctors to prescribe marijuana for therapeutic purposes.

PHOTO: AP/WIDE WORLD

Employers fear new risks from medical marijuana

By JUDY GREENWALD

Employers in states that permit the use of medical marijuana are struggling to reconcile the law with the goal of ensuring a safe, drug-free workplace.

Observers say employers' overriding worry is being found liable for an accident caused by an employee who is under the influence of marijuana.

"I think most employers are really concerned about the liability issue and feel uneasy about marijuana" because of reports of impairment under its influence, although there is still medical controversy in that area, said Dr. Tom Barela, Phoenix-based medical director for The Segal Co.

Cyndi Fischer, human resources manager at Bend, Ore.-based Advanced Power Technology, said, "We try to accommodate the employees if we can," but as a semiconductor firm that works with electricity and chemicals, "we have to make sure it's a safe environment for both the employee (using marijuana) and the rest of the employ-

See **MARIJUANA**/page 60

Spotlight Report

33rd ANNUAL AGENT/BROKER PROFILES

Begins on page 10

RANKING OF WORLD'S 10 LARGEST BROKERS

Page 16

RANKING OF 100 LARGEST BROKERS OF U.S. BUSINESS

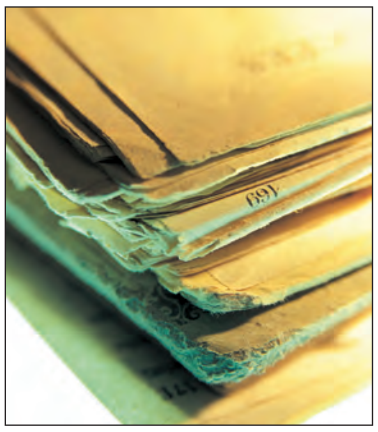
Page 20

BI 07-19-04 A 3 7/16/04 3:21 PM Page 1

Delta hopes audit of dependents will save it $13 million

Employers auditing plans to trim ineligible members

By JOANNE WOJCIK



Delta Air Lines Inc. hopes to cut $13 million from its health benefit costs this year by requiring its employees to produce tax returns, birth certificates and other legal documents proving their claimed dependents are eligible for coverage.

Other large employers, such as Ford Motor Co., have found that conducting "eligibility audits" regularly can trim their benefit rolls by 10% or more, which often translates into a similar dollar savings—not a paltry sum for companies looking at 10% to 15% increases in plan costs this year.

But conducting such audits can pose administrative challenges, requiring stepped-up benefit communications, extensive follow-up and regular policing, which are functions that many benefits departments may not have the staffing to support, benefits consultants warn.

Instead, an increasing number of employers are taking a more subtle approach—such as imposing "spousal surcharges"—to gently nudge ineligible dependents from their health benefit rolls, sources say.

A March 2003 poll conducted by the National Business Group on Health found that about 17% of employers conduct eligibility audits. But that number is increasing, benefits experts say.

"I think there's an uptick recently, although it was actually more common several years ago, when health plans were largely noncontributory," observed Rich Ostuw, a principal at Towers Perrin in Stamford, Conn. "The fact that plans have had increased employee contribution means that fewer people

See AUDITS/page 58

FSA says broker rules unlikely to apply to U.K. risk managers

By SARAH VEYSEY

LONDON—The Assn. of Insurance & Risk Managers has welcomed indications from the Financial Services Authority that most U.K. risk managers will not be regulated as insurance intermediaries.

The London-based FSA, the United Kingdom's financial services regulator, takes over the regulation of insurance intermediaries in January 2005, when the European Union's directive on insurance mediation comes into force in the United Kingdom.

AIRMIC had been concerned that risk managers who purchase insurance for not only their companies but also subsidiaries, and are remunerated in some way for doing so, could fall under the scope of the rules and, therefore, need to apply for authorization by the FSA.

The London-based risk managers' association has been lobbying the FSA and the U.K. Treasury for an exemption for such risk managers.

AIRMIC recently obtained a legal opinion from Thomas Sharpe, a senior barrister, which stated that "the U.K., by including group risk management companies within the scope of the…regulations on insurance mediation, has not properly incorporated the directive into English law."

In a statement issued Friday, AIRMIC said it had received a letter from the FSA stating that the FSA had "identified a possible legal basis for deciding that authorization may not be necessary" for such group risk managers.

Spokespeople for AIRMIC and for the FSA said that legal tweaks would now have to be made to existing rules to clearly exempt risk managers from the scope of the directive.

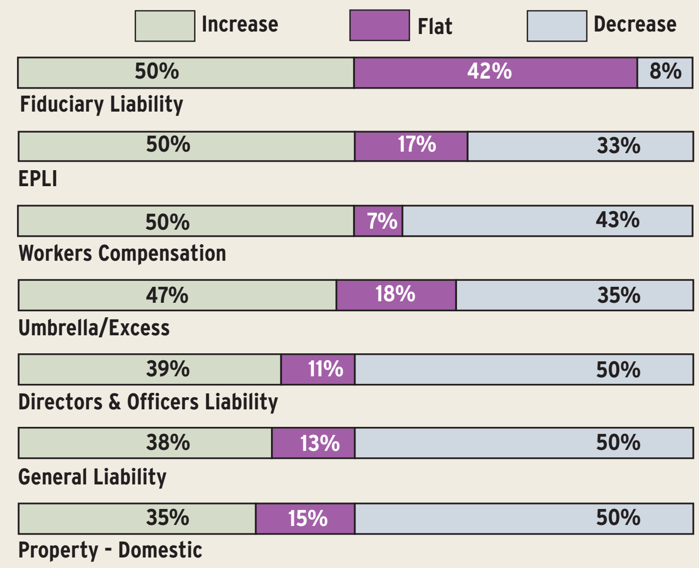
And in a speech at the FSA's annual meeting Thursday, John Tiner, chief executive of the FSA, said that the FSA's "view is that group risk managers should not be regarded as being remunerated for their activities where they are funded solely by other members of the group on a cost or cost-plus basis and receive no other remuneration."

David Gamble, executive director of AIRMIC, said that the association was "grateful to the FSA for their flexible and constructive approach."

AIRMIC said in a statement that it would continue to press for an exemption from the Treasury "as a means to ensure total clarity."

MIXED BAG FOR BUYERS

For several lines of coverage, more than half of buyers reported rates were flat or down at renewals in the second quarter



Source: Risk & Insurance Management Society Inc.

RIMS benchmark study finds rates softening for many P/C buyers

Commercial insurance buyers are seeing flat renewals or price breaks as the market continues to soften, a recently released survey concludes.

Price declines on policies renewing in the second quarter were more common than increases in every major category of coverage except workers compensation, according to the survey by the New York-based Risk & Insurance Management Society Inc.

On average, directors and officers liability costs were flat compared to a year earlier, while property prices were down 1% and general liability premiums were 2% lower. Workers comp costs were 1% higher.

The RIMS Benchmark Survey, which is summarized for RIMS by Advisen Ltd. in New York, showed that many buyers got price breaks at renewals.

For example, 50% of respondents said their D&O rates declined at renewal an average of 16%, while 11% said renewals were flat. But 39% reported D&O rate increases, averaging 21%.

For property insurance, 65% reported that rates were flat or decreasing, while 63% of general liability buyers said rates were flat or decreasing.

"The bottom has not fallen out of the market, but this is a deliberate march to a soft market," said David Bradford, editor-in-chief at Advisen, in a statement. "The mood at the carriers is more down than the average price numbers might suggest, but when you figure out that underwriters are losing decisively in half of all negotiations, then you begin to understand the real sense of the market."

—By Michael Bradford

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS.

Business Insurance (ISSN 0007-6864) Vol. 38, No. 29, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. $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). 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.

Tour de France poses host of security challenges

Unique risks mark cycling's biggest event

By MICHAEL BRADFORD

Cyclists in the Tour de France have their eyes on Paris and the final circuits on the Champs-Elysées as the race spins to its finale later this week.

When the competition ends Sunday, so will a months-long effort to make sure the bike riders were able to pedal safely over thousands of miles of road—much of it in exposed rural areas—and that proper insurance was in place to cover a multitude of risks.

The Tour de France is a unique challenge to secure and insure. The cyclists cover around 2,100 miles in 20 stages, circling the country and passing through numerous towns and villages. The riders, which numbered 189 on 21 teams at the July 3 start in Liege, Belgium, are the focal point of the annual three-week event that draws millions of roadside spectators.

The challenge for the Amaury Sport Organization, which owns and organizes the race, is to ensure a safe circuit of France for the cyclists and to protect spectators, property and workers along the way. As for insurance, the ASO and the French Cycling Federation buy coverage for the majority of the tour's exposures.

The ASO pays around 23,000 police and gendarmes—more than 1,000 per stage—to provide security at the event, according to Pierre Yves Thoulat, commissaire general in charge of security for the Issy-les-Moulineaux, France-based organization. Part of their job is to direct 200 vehicles filled with journalists, team staffers, tour officials and others along the race route. Another 400 vehicles are credentialed to follow the race on a designated secondary route.

Such a massive production is bound to create terrorism concerns. Although Mr. Thoulat acknowledged that the ASO is prepared for that threat, he would not discuss how the organization has approached the risk.

Etienne Lavigne, logistics director for the ASO, said early in the race that no terrorist threats had been made. The ASO, he said, has "a very good relationship with all French authorities," who assured race organizers that no threats had been received.

Police officers at the event, though, were on guard against the possibility of terrorism. They worked in large numbers at each start and arrival venue. At the finish of stage 2 in Namur, Belgium, police were seen combing through brush along a ridge behind spectators. Such vigilance is normal for this year's event, according to Mr. Lavigne.

Stopping terrorism or other mischief along the race route is difficult, given that the race is run across a vast open territory. Occasional protests have blocked the riders but generally amount to little more than a short stoppage. Over its 101-year-history, the tour has dealt with only minor interference by troublemakers.

Mr. Lavigne said an ASO crisis management team of a handful of staffers meets with representatives

See TOUR/page 56

Professional cyclists such as Lance Armstrong, left, and Erik Zabel, cover about 2,100 miles in bicycle racing's biggest event, the Tour de France. Months of careful planning and risk management go into the Tour each year.

PHOTOS: MICHAEL BRADFORD

PHOTO: GETTY

Researchers are studying bicycle seat designs to help police officers patrolling on bikes avoid possible groin injury.

Bike seat designs may saddle some with risk

By MEG FLETCHER

Some police officers in bicycle patrol units are helping health and safety researchers analyze a variety of saddle designs to determine the most ergonomically appropriate style for their work.

While complaints and workers compensation claims involving groin numbness and related sexual health problems are relatively rare, the growing use of bikes by police and emergency medical technicians make it a topic that public entity risk managers may want to explore, observers say.

In addition, risk managers for saddle makers should be aware of a product liability suit brought by a bike patrolman from Willimantic, Conn., in 1999. Joseph Yarchak claimed his inability to maintain an erection was due to numbness caused by occupational use of a defective saddle. Subsequent surgery to repair damaged arteries resolved his medical problems, court papers state. The case was settled in 2002, but his attorney declined to elaborate.

Researchers from the National Institute for Occupational Safety & Health reported late last month on the outcome of research using volunteers from the Baltimore-based International Police Mountain Bike Assn. The report is available at *www.cdc.gov/niosh/topics/bikerepro/bikepagetop.html*.

In a stationary bike test comparing three "noseless" seat designs with a traditional seat, they

See SEATS/page 57

Errors & omissions

• Due to a reporting error, a July 12 story on medical stop-loss coverage misspelled the surname of Brian Diedrich, senior managing director at Mesirow Financial in Chicago.

Massachusetts steps toward universal care

BOSTON—Health insurance could become a constitutionally protected right in Massachusetts, as lawmakers last week overwhelmingly voted in favor of a constitutional amendment that would make the state the first in the nation to guarantee its residents universal health care.

The proposed amendment, initiated when citizens filed a petition signed by more than 71,000 registered voters, seeks to ensure "that no Massachusetts resident lacks comprehensive, affordable and equitably financed health insurance coverage."

The proposed amendment calls for mental health care services and prescription drug coverage as part of the comprehensive insurance.

Lawmakers passed the measure last week by a vote of 152-41. Under the state's initiative petition process, the amendment must be approved by the Legislature again next year. The measure then would appear on the ballot in the November 2006 election.

While opponents of the amendment have voiced concerns over the cost of providing universal coverage, supporters argue that the money is already in the system and that billions of dollars are being spent wastefully every year. More than $16 billion, or 39%, of Massachusetts' annual health care expenditures goes to administrative costs, not patient care, according to the Health Care for Massachusetts Campaign.

The proposed amendment does not require that the state become the insurer, nor does it dictate any particular mechanism for financing the expanded coverage.

Ten percent of the state's population—about 644,000 people—is uninsured, according to the latest U.S. Census Bureau statistics.

In the late 1980s, Massachusetts passed legislation that required employers to pay hefty fees to cover the cost of providing health insurance to the uninsured. The Legislature repealed that mandate before it took effect.

—By Rupal Parekh

Syndicate takeover proposed

London firm seeks to buy, merge smaller Lloyd's entities

LONDON—A London-based investment company is seeking to consolidate several smaller Lloyd's of London companies into a single, publicly traded entity.

Michael Wade, chief executive of Rostrum Group, said he has established Capital Insurance Holdings, which will be listed on London's Alternative Investment Market in the next several weeks.

He hopes to attract £125 million ($232.5 million) from institutional investors and already has a commitment from Berkshire Hathaway Inc. to take a 25% stake, a figure Berkshire confirmed.

These funds would be used to acquire and capitalize Euclidian Group, a Lloyd's company that is supported with Berkshire capital. Mr. Wade is a nonexecutive chairman of Euclidian.

CIH would then seek to attract the investor owners of smaller listed Lloyd's companies—those with average market capitalization of £133 million ($247.4 million)—into the group, Mr. Wade said. This would be done on a share-for-share merger basis, consolidating the companies into a listed entity, he noted.

The aim is to "create a quoted company that will have visibility (and) critical mass," said a CIH spokeswoman. The consolidation also would reduce the cost of listing for these smaller companies, without interfering with their individual brands or underwriting, she said.

CIH has not yet approached its target companies but intends to do so within two weeks of listing, Mr. Wade said. A Lloyd's spokeswoman declined to comment other than to say Lloyd's had received no application regarding CIH.

Geoff Miller, an analyst with Bridgewell Securities Ltd. in London, though, said he doubts there would be much investor appetite for such a plan and noted the proposals would not necessarily increase economies of scale for the companies involved.

Lloyd's sources doubted that listed companies would be keen to join such a venture because, though they would retain underwriting independence, a poor underwriting decision by one member could affect the group's share price.

—By Sarah Veysey and Peta Miller

Paul Winston

Keeping U.S. safe from hungry bears

Those of you concerned that this nation's ports of entry are a leaky sieve through which various unsavory and terrorist elements are pouring in to harm Americans can rest easy.

Our marine borders are safe and secure, thanks to the tireless efforts and vigilance of the U.S. Customs Service, the Justice Department and the National Park Service. Just last month, those government agencies used their sophisticated computing apparatus to identify and apprehend a dangerous criminal with an outstanding arrest warrant as she entered U.S. waters aboard a cruise ship.

Hope Clarke, a 32-year-old teacher's aide from Riverton, Wyo., was identified during a spot security check as her cruise ship returned to the port of Miami from Cozumel and Key West. Armed agents roused her in her cabin at 6 a.m., handcuffed her and took her ashore.

There, she was photographed, fingerprinted and placed in a detention cell, where she endured hours of wondering why she was being imprisoned, as well as taunting and crude suggestions from men also in custody that so distressed her that she became physically ill.

Seven hours after her arrest, Ms. Clarke was hauled before U.S. Magistrate John J. O'Sullivan, at which point a federal prosecutor outlined why she was a menace to society.

A check of the cruise ship's passenger manifest by Customs and Immigration Enforcement agents at the port turned up her name on a computer database of outstanding federal warrants. Specifically, she was wanted by the authorities for an unpaid fine from a 2003 violation at Yellowstone National Park.

Her crime: Leaving an unopened bag of marshmallows outside at a campsite, where they might be an inducement to riot among the park's bear population.

Ms. Clarke, in tears, informed the judge that she had paid the $50 fine. In fact, she said she was required to do so before leaving the park. Indeed, the judge noted that a copy of the citation in his possession *showed* that it had been paid.

He ordered her immediately released and apologized to her.

Not so fast, said Assistant U.S. Attorney Peter Outerbridge. While acknowledging some possible "discrepancies" in the government's case and the evidence in Ms. Clarke's favor, he urged the judge to order her to appear in court again to clear up the matter.

"Seven hours in jail, I think, is a suitable punishment for leaving marshmallows out at a campsite," the judge said, directing the U.S. attorney's office to determine how the mistake occurred.

OK, so one got away. I trust the judge didn't fall for that "I paid the marshmallow fine" trick again when the crowd of thugs that was in the holding pens with Ms. Clarke came before the bench.

I also hope this setback for the U.S. attorney won't result in any diminution of the U.S. law enforcement system's zeal to apprehend serious wrongdoers like Ms. Clarke. This country could soon be overrun by bears and other wild animals if such food storage transgressions are not dealt with harshly.

This case demonstrates that the U.S. law enforcement community has the zero tolerance, computing resources and ability to go after even the mildest of wrongdoers. People like you and me. Don't you feel safer?

Paul Winston

After work, I am going to rush over to my local public library to pay any overdue fines that I may have overlooked, before the library shares this data with the Transportation Security Administration and I get hauled out of line on my next trip through O'Hare International Airport.

Next stop: Blockbuster, where I probably have at least $3,000 in late fees on rented videos that I thought I had returned on time. That's probably enough not only to place me in the category of international terrorist but also to get me placed in solitary confinement for several years before being hauled before a magistrate in Guantanamo Bay. ("And how do you plea to having 'Shakespeare in Love' for five days after it was due?" "It wasn't me, your honor! I swear it was my wife's rental. I never watched it.")

Our country's law enforcement agencies have a job to do. And so do we.

From now on, I'm going to come to a complete stop and look both ways at all stop signs. I will never accelerate through an intersection when the traffic signal turns yellow. I won't place any more unwashed recyclable items in the trash. I will arrive at airports at least two hours before my scheduled departure. I will wait a full hour after eating before getting in the local swimming pool. I will stop photocopying copyrighted articles in magazines. I will not wash bright colors with whites in hot water. I will stop bringing company pens home in my briefcase.

And last but not least: I will never leave marshmallows outside.

Editor Paul Winston can be reached at pwinston@businessinsurance.com

Published weekly 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; 71121 Minkler St., Abita Springs, La. 70420; Fax: 985-871-4006; 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; 34 Southwark Bridge Road, London SE1 9EU, Fax: +44-(0)20-7457-1440; 8157 N. Torrey Place, Tucson, Ariz. 85743, Fax: 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214; Fax: 303-733-2244; 11133 W. 108th St., Overland Park, Kan. 66210, Fax: 312 280-3174. 77 Franklin St., Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704. 4 Executive Circle, Suite 185, Irvine, CA 92614-6791. $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). Rudolf Von Bartesch, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, *Business Insurance*, 711 Third Ave., New York, N.Y. 10017-5806. 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 permission and reprint information: Karen Brown Tucker, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806, 312-649-5319, Fax: 312-280-3174.

Editorial

Tort reform takes time

Class action reform advocates have every right to feel deep disappointment over the fate of the Class Action Fairness Act.

But disappointment should not descend into paralyzing despair—not by a long shot.

Absent a national emergency, getting significant and controversial legislation—which is exactly what the Class Action Fairness Act is—through Congress is rarely easy. In fact, doing so often takes several congressional sessions to accomplish. That's simply the nature of the legislative process when a measure must win the approval of two bodies—the House and the Senate—that operate by different rules.

And it was one of the Senate's peculiar rules that put the brakes on class action reform a few days ago. Unlike the House, the Senate allows a determined minority of lawmakers to literally talk legislation to death by filibuster unless 60 of their colleagues vote to shut them up by invoking cloture. Even though the class action bill enjoyed the nominal support of 62 senators, that support didn't prove strong enough to overcome a dispute over the number and nature of amendments that could be offered to the measure. Cloture failed, and failed decisively. Without some truly amazing turn of events, the issue is dead for this Congress.

So where do pro-reform forces go from here? We believe the best course of action is for them to get up, dust themselves off and start planning strategy for achieving their goal in the next Congress.

These things take time. Supporters can draw some solace from the fact that, in this Congress, class action reform moved closer to enactment than it ever had before. That happened despite election year pressures and an unusually toxic atmosphere in the Senate.

Disappointment is an understandable reaction among class action reform advocates in the face of what happened a few days ago. But what's done is done, and now's the time to start planning for the next round so that the result won't be so disappointing when the issue goes before lawmakers again.

Look beyond drug policy

With more states now allowing the use of marijuana for medicinal purposes, employers throughout the nation need to consider a more subtle and flexible approach to monitoring and discouraging drug use.

As we report in a page 1 article, 11 states now permit the use of marijuana to provide relief to patients suffering from some chronic illnesses.

While some medical experts still challenge the efficacy of the drug for alleviating certain symptoms, advocates of medical marijuana clearly have provided sufficiently persuasive arguments that will ensure that its legal use will likely grow rather than shrink.

Consequently, employers need to face up to the issue and deal with it in a compassionate, yet responsible manner.

Many employers have instituted "drug-free" workplace policies, either voluntarily or by the force of mandates. Such policies require employers to make a good-faith effort to totally exclude illegal drug use from the workplace, which is a sensible policy to reduce the incidence of accidents and lost work time. Employers, in some cases, demand clean drug tests from employees as they apply the policies.

On its face, this approach may sound attractive, but, as is often the case with broad-brush policies, the application of the rules presents numerous complications.

Few people would blame an employer for preventing truckers from using marijuana on the job or even on their own time. In fact, federal rules may require it.

But in states allowing medical marijuana, if a clerical worker with multiple sclerosis finds that the drug eases his or her symptoms, why shouldn't accommodations be made?

Those employers whose employees are not subject to federal drug-free mandates should treat this complex issue with a more sophisticated approach.

Schillerstrom

Letters to the Editor

Indiana court was wrong in finding stop-loss cover is health insurance: SIIA

To the editor: The Indiana Court of Appeals took a U-turn from all existing legal precedent when it declared that stop-loss insurance issued to self-insuring employers to cover excess losses to employee health plans is "health insurance" and subject to assessments to support the state's high-risk health insurance pool, as reported in your July 8 Daily News.

This issue of states declaring stop-loss insurance to be health insurance is at the crux of the campaign of the Self-Insurance Institute of America Inc. to protect the self-insurance industry from predatory state assessments. By taxing self-insurance into an uncompetitive economic position, the states are sidestepping those protections of the Employee Retirement Income Security Act that they can't penetrate directly.

SIIA's campaign began in 2003 and, with the support of its members, will continue indefinitely. This year, we have experienced significant legislative successes in Colorado, Ohio and Wisconsin; and in Indiana, despite the recent court of appeals ruling. We are planning to expand the battle to several additional states.

The Indiana appeals court delivered a real blow to businesses in Indiana, especially those that provide health care benefits to their employees under a self-insured plan, by upholding a judgment against several insurance companies that sued to set aside assessments to support the Indiana Comprehensive Health Insurance Assn. during 2002 and 2003.

Beginning in 2005, Indiana has legislated a new formula for supporting ICHIA that is derived 75% from general state funds and 25% from the insurance industry.

The Indiana Court of Appeals was just plain wrong in finding that stop-loss insurance is health insurance.

Eleven federal and state courts have ruled that stop-loss insurance is not health insurance, even when it covers the excess losses of health plans.

The consensus among all previous courts is that stop-loss insurance does not cover individual employees or health care cases, so it cannot be identified as health insurance. Prior to the Indiana Court of Appeals ruling, no federal or state court had equated stop-loss insurance with health insurance.

SIIA will continue to defend self-insurance against state encroachments. Our hope is that the Indiana ruling will be overturned by that state's supreme court to restore a sense of reason to the self-insurance industry.

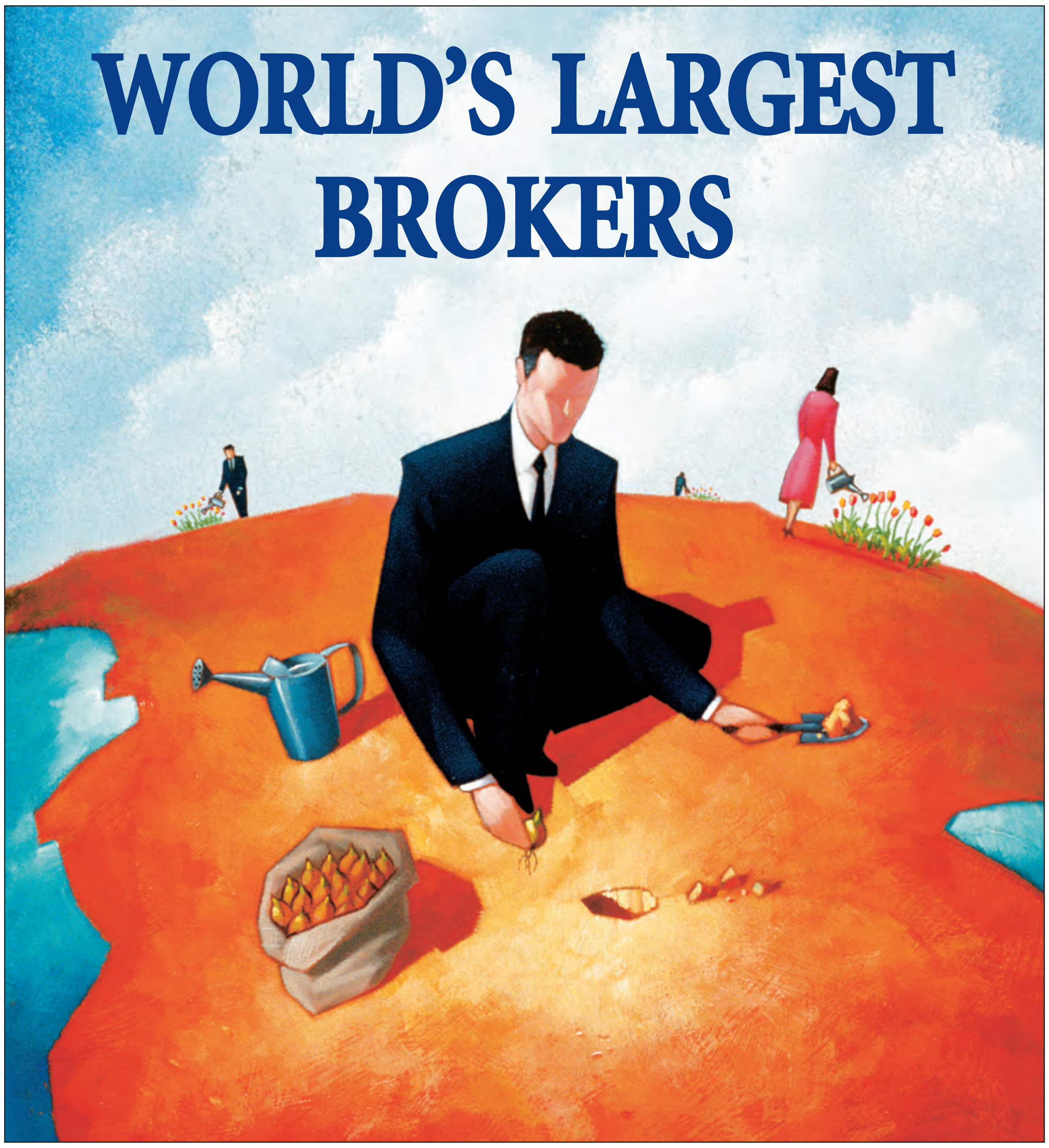
James A. Kinder
Chief Executive Officer
Self-Insurance Institute of America Inc.
Washington, D.C.

Business Insurance **welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to: Letters to the Editor, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: *pwinston@crain.com***

Inside:

The full 2004 Directory of Agents & Brokers is online in the Directories area of www.business-insurance.com. The online database is free to subscribers of Business Insurance. PDF copies of BI directories also can be purchased online.

Cover illustration by John Labbe



Amid softening, push is on to ensure revenue growth

By DOUGLAS McLEOD

Last year was pretty good for brokers, but growth is going to be tougher to manage in the near future than it has been in the recent past.

While brokers posted big gains in revenues and net income in 2003, organic growth has slowed for many this year with the quicker-than-expected softening of property insurance pricing.

Brokers are taking a variety of steps to ensure continued revenue growth. Mergers and acquisitions are proceeding at a frenetic pace, ranging in size from Marsh & McLennan Cos. Inc.'s $1.9 billion takeover of security consultant Kroll Inc. to the ongoing absorption of dozens of small agencies by their larger national competitors.

A softening market may actually encourage merger activity, as the prices demanded by takeover targets in a competitive insurance market may fall, some brokers suggest.

Many are pushing to expand in areas with growth potential. Depending on the broker, these areas may include middle-market and small-commercial risks, surplus lines, reinsurance, employee benefits and niche property/casualty lines, brokers report.

Meanwhile, the biggest brokers face a potential threat to one source of revenues: the contingent commissions that they collect from insurers based on the volume or profitability of the business they produce. Law enforcement and regulatory officials in New York, Connecticut and California are investigating these commission payments as a possible conflict of interest (see story, page 36).

Brokers say they are cooperating with the inquiries and concede that greater disclosure of such commissions to clients may be one outcome of the investigations.

2003 was another banner year for the brokerage industry, with all of the world's 10 largest brokers reporting double-digit revenue growth and six of them recording growth of more than 20%.

Arthur J. Gallagher & Co. came in at the low end of the top-10 spectrum, with a 14.3% jump in revenues, while BB&T Insurance Services Inc. recorded a 70.6% revenue increase, largely on the strength of its November 2003 takeover of McGriff, Seibels & Williams Inc.

Organic growth—including rising commissions on higher client property and casualty premiums—accounted for a large part of the rising revenue tide for several brokers. On top of its acquisition-fueled growth, BB&T managed a 24% organic growth rate last year, its officials reported. At Marsh, about 13% of the expansion of the broker's risk and insurance services revenue last year was from organic growth, which excludes the impact of foreign exchange, acquisitions and dispositions.

The second half of 2003, though, began to see a softening trend, especially in property pricing, and that trend has accelerated through the first half of 2004.

"The market has changed pretty abruptly, and I think most people did not forecast how quickly this market would change," said Roger

See BROKERS/page 12

Second tier of U.S. firms looks to keep growing

By SALLY ROBERTS and MARK A. HOFMANN

Big growth was the name of the game in 2003 for several of the nation's largest insurance brokerages.

Whether that came from acquisitions, organic growth or the addition of producers or offices, many of these brokerages saw significant increases in revenues last year.

And while executives at 10 of the largest U.S.-based brokers acknowledge that their firms' revenues did receive a boost from higher rates in 2003, they are confident they will continue to achieve strong growth, regardless of the softening market.

"We grew this firm in the past pretty dramatically during a period in the property/casualty side where rates were shrinking 15% to 20% a year," said E. Michael Crowley, vice chairman of Savannah, Ga.-based Palmer & Cay Inc. Mr. Crowley said Palmer & Cay will "manage the firm to the market" conditions but don't view those as a threat to its growth plans.

USI Holdings Corp. has historically done best in a stable to softening property/casualty insurance market, contends David L. Eslick, chairman, president and chief executive officer of the Briarcliff Manor, N.Y.-based brokerage. Such a market creates a "bullish" atmosphere for nonproperty/casualty products, he said. That's good for USI, which generates more than 40% of its revenues through products such as life insurance, benefits and asset management.

"We just have to work harder and focus on production—the lifeblood of our growth is production," said Fred de Grosz, president and CEO of Redwood City, Calif.-based ABD Insurance & Financial Services.

In addition, ABD is continuing to build its business through acquisitions, he said, adding that "that's a key part of our growth strategy."

Indeed, acquisitions remain a key strategy for a number of the largest brokers, and they predict merger and acquisition activity will only increase as the market softens.

"The acquisition cycle sort of runs in the opposite direction of the property/casualty market," said John Addeo, CEO of Alliant Resources Group Inc. in Stamford, Conn. "If the market hardens, your acquisition activity usually wanes a little bit. And if the market continues to soften, the acquisition pipeline increases significantly."

"We will definitely make more acquisitions this year," Mr. Addeo said.

But while many look to acquisitions for growth, others emphasize

See U.S./page 22

TOP BROKERS' REVENUE GAINS/LOSSES

Based on 2003 brokerage revenue gains/losses in home currency

BB&T Insurance Services Inc.	70.6%
Hilb Rogal & Hobbs Co.	24.4%
Willis Group Holdings Ltd.	20.7%
Brown & Brown Inc.	20.6%
Marsh & McLennan Cos. Inc.	16.5%
Aon Corp.	15.0%
Wells Fargo & Co.	14.8%
Arthur J. Gallagher & Co.	14.3%
Jardine Lloyd Thompson Group P.L.C.	10.6%
Alexander Forbes Ltd.	-10.9%

Source: *BI* Survey

Brokers: Organic growth down

Continued from page 10

E. Egan, president of MMC's Marsh Inc. brokerage unit.

The change showed in several companies' first-quarter results.

Marsh, for example, posted a 12% increase in first-quarter risk and insurance services revenue, but the organic component of that growth slowed to 7%. Gallagher likewise reported brokerage and risk management revenue growth of 9% in the first quarter, but organic growth amounted to only 4%.

Mr. Egan pointed out that the softening is not universal: "There are certain parts of the market that are not soft at all," he said, including casualty lines, such as professional liability and workers compensation in the United States, and most coverages for non-U.S. risks other than property.

The swings in pricing in recent years have actually made trouble for brokers, who have to explain to their clients why the same risks that saw sudden premium increases a couple of years ago now just as suddenly cost less to insure, noted Mario Vitale, chief executive officer of Willis North America in New York.

"What (buyers) want from their insurance program is stability and predictability. So any drastic market (change), whether it's up or down, destabilizes that foundation," Mr. Vitale said. "There's some credibility that is lost in that entire process."

At the same time, though, the softening market has made it easier for brokers to win favorable pricing and terms quickly, freeing up time to concentrate on identifying and mitigating client risks, Mr. Egan added.

"There are more opportunities to do that than there were in the harder market before," he said.

In any case, brokers are relying on a variety of strategic moves to expand revenues in the face of an increasingly competitive market.

Growth by acquisition

One is the old standby: acquisitions. The takeover deals are meeting a variety of needs, in some cases adding new services to a broker's existing offerings and in others simply expanding a broker's network of offices.

Marsh earlier this year announced its takeover of New York-based Kroll, which generated $485 million in 2003 revenue and brings the company new capabilities in corporate security, forensic accounting, financial crisis management and other advisory services.

Marsh had previously announced its acquisition of risk management information systems provider Corporate Systems Inc. and brokerage operations in Alaska, Australia, New Zealand and Papua, New Guinea.

"The consolidation movement will keep on as far as we can see, and we expect to be a player in that," Marsh's Mr. Egan said.

Brown & Brown Inc., the most aggressive buyer of smaller U.S. brokerage rivals in recent years, acquired 23 agencies last year. It took over another 17 agencies through mid-June, adding a total of $121 million in annual revenues in the process.

Hilb Rogal & Hobbs Co. used acquisitions to move into new areas of the market, buying surplus lines specialists Maclean, Oddy & Associates of Dallas and Bliss & Glennon Inc. of Redondo Beach, Calif., along with London-based reinsurance broker Alexander, Brooks & Stephens Ltd.

While digesting its acquisition of McGriff, Seibels, BB&T is simultaneously buying up midsize agencies in locations where its parent company—the nation's 12th-largest financial services holding company—has banking operations.

It is also expanding the managing general agency segment of its wholesale unit with acquisitions, including the 2003 takeover of Jackson, Miss.-based Southern Cross Underwriters Inc.

Not all brokers have relied on aggressive acquisition programs to build revenues: Gallagher, for example, has instead followed a strategy of hiring top producers away from rival brokerages with the expectation that new business will follow.

See **BROKERS**/page 14

LEADING U.S. RETAIL BROKERS

Ranked on 2003 retail brokerage revenues from U.S. offices

Company	2003 revenues	% change
Marsh & McLennan Cos. Inc.	$3,000,000,000	13.2
Aon Corp.	1,384,600,000	7.9
Arthur J. Gallagher & Co.	684,078,000	12.2
Willis Group Holdings Ltd.	681,000,000	11.9
Wells Fargo & Co.	620,747,000	14.5
Hilb Rogal & Hobbs Co.	470,613,004	29.5
BB&T Insurance Services Inc.	378,743,915	95.7
Brown & Brown Inc.	341,645,118	17.1
Lockton Cos. Inc.	285,950,000	12.3
USI Holdings Corp.	266,102,000	10.3
Wachovia Insurance Services Inc.	140,848,369	25.1
Hub International Ltd.	133,425,000	25.1

Source: *BI* survey

Brokers: Organic growth down

Continued from page 12

The strategy has begun to work as the noncompete restrictions on about 130 new hires started to expire at the end of last year, according to J. Patrick Gallagher, president and CEO.

"As of early last year, we said, 'The nets are full, let's go to shore'" with the catch of producers Gallagher had landed, he observed.

Some brokerage officials lament most firms' heavy reliance on consolidation for revenue growth.

"We think it's a real shame that most of the growth in the insurance industry on the brokerage side has come from acquisitions," Willis' Mr. Vitale said. "What happens is, as a business we get away from organic growth, and to be good at organic growth you have to be good at being an insurance broker.

"That doesn't mean Willis won't do acquisitions; it means that acquisitions won't be the main substitute for running a good company and the only way to grow," he said.

Willis, in fact, has done some acquisitions: In the last year, it has bought out local partners in brokerage operations in Germany, Italy and Denmark and has increased to majority ownership its stakes in Spanish and Argentinian affiliates. It also bought a 50% stake in a Chinese broker.

Some distractions

Apart from the normal pressures of dealing with a softening market, some brokers have had to grapple with unusual and high-profile problems.

Marsh & McLennan executives were forced to deal with the mutual fund market-timing scandal that engulfed its Putnam Investments Inc. unit. In April, Putnam agreed to pay $110 million to settle charges by the Securities and Exchange Commission and Massachusetts regulators that the firm allowed improper trading in its mutual funds.

The company fired 15 employees after a review of their trading activity and pushed out Lawrence J. Lasser, Putnam's president and CEO since 1986. MMC named Charles E. Haldeman, co-head of investments, to replace Mr. Lasser and installed A.J.C. Smith, a former MMC chairman, as chairman of Putnam.

The market-timing scandal has taken its toll on Putnam: The company reported a $60.7 billion outflow of investor funds last year, most of it in the fourth quarter after the SEC filed suit. Putnam's revenues fell 8% last year, and while revenue rose in the first quarter of 2004, assets under management continued to drop, to $227 billion as of March 31 from $240 billion at year-end 2003.

Numerous Willis executives, meanwhile, had to devote considerable time this year to testimony defending client Silverstein Properties Inc.'s claim that it was entitled to a double payout under the $3.55 billion property insurance program covering the World Trade Center.

Silverstein and its roughly two dozen insurers wound up in court over the claim largely because no final policy wording—and no definition of "occurrence"—had been agreed to before the Sept. 11, 2001, terrorist attacks, which came two months after Willis initially placed the coverage.

Despite days of testimony by several Willis brokers on Silverstein's behalf, a jury found in May that 10 of the program's insurers bound coverage under a form that requires them to pay only one limit.

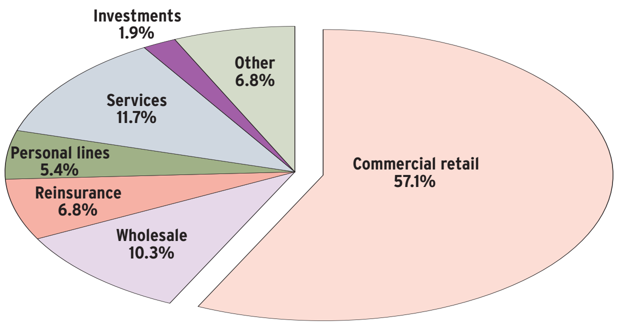
The trial of Silverstein's claims against 10 other insurers—which represent $1.13 billion of the program's limit—is expected to begin next month.

Willis' SEC filings disclose the potential for errors and omissions liability claims related to the Sept. 11 attacks, though Mr. Vitale points out that Willis has not been sued by any parties in the Silverstein litigation.

"Silverstein Properties has gone on record stating how satisfied they are with the terrific job our people did in securing this extremely large property insurance placement," Mr. Vitale said.

BUSINESS BREAKDOWN

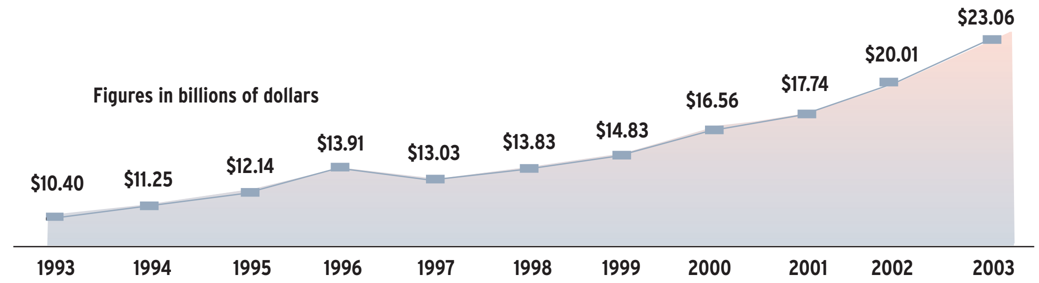
Areas contributing to the largest brokers' overall revenues



Source: *BI* survey

A DECADE OF GROWTH

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



Source: *BI* survey

World's 10 largest insurance brokers

Ranked by 2003 brokerage revenues

Rank	Company address/phone/fax Web site	Chief executive officer	2003 brokerage revenues	% change	2003 employees	% change	2003 offices	% change	Percentage of revenues: Commercial retail	Wholesale	Reinsurance	Personal lines	Services	Investments	Other
1	Marsh & McLennan Cos. Inc.[1] 1166 Ave. of the Americas, New York, N.Y. 10036 212-345-6000; fax: 212-345-3833 *www.marsh.com*	Jeffrey W. Greenberg, chairman/CEO	$9,376,000,000	16.5%	54,500	2.8%	675	NC	48.0	2.0	7.0	0	25.0	1.0	17.0
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601 312-381-1000; fax : 312-381-6032 *www.aon.com*	Patrick G. Ryan, chairman/CEO	$6,734,400,000	15.0%	44,500	1.1%	600	NC	39.0	4.0	9.0	1.0	16.0	3.0	28.0
3	Willis Group Holdings Ltd. 10 Trinity Square, London EC3P 3AX, England 44-207-488-8111; fax: 44-207-481-7096 *www.willis.com*	Joe Plumeri, chairman/CEO	$2,004,000,000	20.7%	11,119	5.4%	165	-5.2%	65.0	10.0	22.0	1.0	2.0	0[2]	0
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141 630-773-3800; fax: 630-285-4000 *www.ajg.com*	J. Patrick Gallagher Jr., president/CEO	$1,202,400,000	14.3%	7,206	1.3%	110	12.2%	54.0	7.0	6.0	1.0	25.0	7.0	0
5	Wells Fargo & Co.[3] 150 N. Michigan Ave., Suite 4100, Chicago, Ill. 60601 312-423-2500; fax: 312-423-2508 *www.acordia.com; www.wellsfargo.com*	Kevin W. Conboy, president/CEO-Acordia Inc.; Steven Veno, president/CEO-Wells Fargo Insurance Inc.	$800,484,000	14.8%	5,593	3.9%	155	5.4%	68.8	4.2	0.1	9.0	6.7	1.0	10.2
6	Jardine Lloyd Thompson Group P.L.C. 6 Crutched Friars, London EC3N 2PH, England 44-207-528-4444; fax: 44-207-528-4185 *www.jltgroup.com*	Steve McGill, CEO	$701,028,900[4]	20.3%	4,617	8.9%	44	NC	33.0	17.0	22.0	1.0	23.0	4.0	0
7	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622 919-716-9777; fax: 919-716-9783 *www.bbandt.com*	H. Wade Reece, chairman/president	$604,738,218[5]	70.6%	3,009	58.0%	84	16.7%	60.5	23.2	0	12.9	0	1.0	2.4
8	Hilb Rogal & Hobbs Co. 4951 Lake Brook Drive, Glen Allen, Va. 23060 804-747-6500; fax: 804-747-6046 *www.hrh.com*	Martin L. Vaughan III, chairman/CEO	$555,732,066	24.4%	3,300	6.5%	108	-6.9%	83.5	2.8	0.3	8.3	3.7	0.6	0.8
9	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114 386-252-9601; fax: 386-239-5729 *www.bbinsurance.com*	J. Hyatt Brown, chairman/CEO	$545,287,477	20.6%	3,517	3.9%	117	2.6%	62.0	22.0	0	10.0	5.0	1.0	0
10	Alexander Forbes Ltd. Alexander Forbes Place, 61 Katherine St., Sandown, 2196 South Africa 27-11-269-0000; fax: 27-11-269-1111 *www.alexanderforbes.com*	Rael Gordon, group CEO	$537,216,000[6]	22.2%	5,075	2.1%	54	-1.8%	53.0	11.0	2.0	10.0	9.0	2.0	13.0

1 Percentage of revenues breakdown a *BI* estimate 2 Investment income is less than 0.1% 3 Includes Acordia Inc. and Wells Fargo Insurance Inc. 4 British pound=$1.6341 (2003) fiscal year ending 12/31 5 Revenues are pro forma to reflect acquisition of McGriff, Seibels & Williams Inc. in February 2004 6 South African rand=$0.1399 (2003) fiscal year ending 3/31 NC=No change

Source: *BI* survey

Visit *www.businessinsurance.com* for more information and to access the full searchable Directory of Agents and Brokers

100 largest brokers of U.S. business

Ranked by 2003 brokerage revenues generated by U.S.-based clients*

2003 rank	2002 rank	Company	2003 revenues	% change
1	1	Marsh & McLennan Cos. Inc.	$5,250,560,000	10.6%
2	2	Aon Corp.	$3,232,512,000	6.2%
3	3	Arthur J. Gallagher & Co.	$1,082,160,000	14.3%
4	4	Willis Group Holdings Ltd.	$1,022,040,000	18.3%
5	5	Wells Fargo & Co.[1]	$800,484,000	14.8%
6	8	BB&T Insurance Services Inc.	$604,738,218	70.6%
7	7	Hilb Rogal & Hobbs Co.	$551,286,209	24.8%
8	6	Brown & Brown Inc.	$545,287,477	20.6%
9	9	USI Holdings Corp.	$352,314,000	8.2%
10	10	Lockton Cos. Inc.	$289,080,400[2]	12.3%
11	15	Wachovia Insurance Services Inc.	$188,746,170	20.1%
12	16	Hub International Ltd.	$172,354,420	33.1%
13	12	Jardine Lloyd Thompson Group P.L.C.	$168,246,936	15.4%
14	21	Alliant Resources Group Inc.	$145,663,434	46.9%
15	17	Palmer & Cay Inc.-An Assurex Global Partner	$143,842,366	15.2%
16	14	CBIZ Benefits & Insurance Services Inc.	$141,171,375	8.7%
17	20	ABD Insurance & Financial Services	$119,864,000	14.2%
18	19	Heath Lambert Group Ltd.	$112,997,361	-5.3%
19	22	Talbot Financial Corp.-A RiskProNet Partner	$99,000,000	11.5%
20	23	Frank Crystal & Co. Inc.	$92,978,000	9.3%
21	24	Keenan & Associates	$92,977,862	16.4%
22	30	Meadowbrook Insurance Group Inc.	$86,300,000	26.9%
23	25	John L. Wortham & Son L.P.-An Assurex Global Partner	$83,174,000	6.3%
24	28	Commerce Insurance Services Inc.	$82,377,000	12.5%
25	27	Citizens Financial Group Inc.	$80,725,000	7.6%
26	32	Hylant Group	$75,705,676	15.5%
27	35	The Leavitt Group	$74,951,663	23.7%
28	29	The NIA Group L.L.C.-An Assurex Global Partner	$72,593,730	5.0%
29	33	Fleet Insurance Services	$70,300,000	10.4%
30	34	Bollinger Inc.	$70,260,753	14.4%
31	31	Brokerage Concepts Inc.	$66,738,000[3]	-0.4%
32	36	J. Smith Lanier & Co.-A RiskProNet Partner	$63,020,977	10.9%
33	37	Holmes Murphy & Associates Inc.	$62,290,886[4]	10.9%
34	26	Summit Global Partners Inc.	$61,841,176[5]	3.4%
35	74	UBOC Insurance Inc.	$60,087,500	150.1%
36	38	Synaxis Group Inc.	$58,381,000	4.5%
37	40	Rebsamen Insurance Inc.-A RiskProNet Partner	$57,351,580	11.5%
38	41	Allied North America	$55,600,000[6]	12.1%
39	48	Mesirow Insurance Services Inc.-A RiskProNet Partner	$53,531,000[5]	44.2%
40	92	Compass Insurance	$52,774,400	142.3%
41	43	The IMA Financial Group Inc.-An Assurex Global Partner	$52,338,888	14.7%
42	39	Guaranty Insurance Services Inc.	$50,083,820	-6.1%
43	45	Tanenbaum-Harber Co. Inc.	$49,861,350	11.7%
44	42	Frenkel & Co. Inc.-An Assurex Global Partner	$49,328,388	2.7%
45	47	The Hays Group Inc. dba Hays Cos.	$48,500,000	26.3%
46	44	Banknorth Insurance Group	$46,860,000	3.4%
47	58	Brooke Franchise Corp.	$45,706,447	49.7%
48	46	Heffernan Group	$43,519,840	10.5%
49	54	InterWest Insurance Services Inc.	$41,707,250	24.2%
50	56	Neace Lukens-An Assurex Global Partner	$41,362,029	27.9%
51	64	Insurance Office of America Inc.	$41,170,241	43.0%
52	50	Van Gilder Insurance Corp.-An Assurex Global Partner	$40,753,000	11.5%
53	49	Marshall & Sterling Enterprises Inc.	$40,155,052	8.5%
54	-	BancorpSouth Insurance Services Inc.	$39,793,097	67.6%
55	51	The Graham Co.	$37,829,000	6.6%
56	57	SullivanCurtisMonroe Insurance Brokers-A RiskProNet Partner	$37,453,895	14.8%
57	53	Woodruff-Sawyer & Co.-An Assurex Global Partner	$37,303,200	6.9%
58	63	The Rutherfoord Cos.-An Assurex Global Partner	$36,989,127[4]	28.2%
59	79	The Treiber Group	$35,318,755	6.4%
60	60	Barney & Barney L.L.C.-An Assurex Global Partner	$35,250,000[7]	19.5%
61	75	Jenkins Athens Insurance Services	$35,091,740[8]	32.8%
62	66	Horton Insurance Agency Inc.	$34,286,730	21.9%
63	59	Cottingham & Butler Inc.-An Assurex Global Partner	$33,989,000	7.8%
64	52	Hibernia Insurance Agency L.L.C.	$33,691,680	-5.1%
65	62	The James B. Oswald Co.-An Assurex Global Partner	$33,551,000	16.0%
66	61	William Gallagher Associates Insurance Brokers Inc.	$33,492,706	12.5%
67	69	The Mahoney Group-An Assurex Global Partner	$31,885,527	16.3%
68	65	Andreini & Co.	$31,648,000	12.3%
69	76	McQueary Henry Bowles Troy L.L.P.	$30,996,000	18.9%
70	70	Van Beurden Insurance Services Inc.	$30,096,000	9.7%
71	71	Capacity Group of Cos.	$29,903,978	10.7%
72	78	BWD Group L.L.C.	$28,976,640	13.4%
73	86	Trion	$28,975,000	23.7%
74	81	Frank F. Haack & Associates Inc.-An Assurex Global Partner	$28,520,910	17.2%
75	85	Riggs, Counselman, Michaels & Downes Inc.-An Assurex Global Partner	$28,413,000	19.1%
76	68	The Loomis Co.	$28,219,394	1.4%
77	73	Eastern Insurance Group L.L.C.	$27,619,645	4.2%
78	83	Bratrud Middleton Insurance Brokers Inc.	$27,550,000	14.8%
79	84	Lawley Services Inc.	$27,204,713	14.1%
80	80	R.C. Knox & Co. Inc.	$25,789,650	4.1%
81	82	Bowen, Miclette & Britt Inc.	$25,647,000	6.5%
82	67	Roger Bouchard Insurance Inc.	$25,330,639	1.7%
83	90	The Daniel & Henry Co.-An Assurex Global Partner	$25,095,000	8.7%
84	-	Payne Financial Group Inc.-An Assurex Global Partner	$24,838,905	16.0%
85	97	Fringe Benefits Management Co.	$24,260,738	23.6%
86	96	Higginbotham & Associates Inc.	$24,045,253	19.8%
87	94	Charles L. Crane Agency Co.	$23,938,000	16.7%
88	-	Associated Financial Group L.L.C. dba CFG Insurance Services-A RiskProNet Partner	$23,873,955	56.3%
89	89	Seitlin-An Assurex Global Partner	$23,576,751	1.6%
90	98	Barlocker Insurance Services Inc.	$23,418,000	20.7%
91	91	Sterling & Sterling Inc.-A RiskProNet Partner	$23,000,000	4.5%
92	100	Lovitt & Touche Inc.	$22,847,903	18.4%
93	93	JMB Insurance Agency Inc.	$22,720,995	7.9%
94	-	Dawson Insurance Inc.-A RiskProNet Partner	$22,377,415	1.3%
95	-	Haylor, Freyer & Coon Inc.	$22,175,000	6.8%
96	-	T.J. Adams Group L.L.C.-An Assurex Global Partner	$21,100,000	16.6%
97	99	Parker, Smith & Feek Inc.-An Assurex Global Partner	$20,756,000	5.0%
98	-	Scott Insurance	$20,752,200	15.3%
99	-	North American Insurance Agency Inc. dba North American Group-An Assurex Global Partner	$20,352,374	57.5%
100	-	Fred A. Moreton & Co.-An Assurex Global Partner	$19,660,000	4.5%

*Companies that derive less than 20% of revenues from commercial retail brokerage are not ranked 1 Includes Acordia Inc. and Wells Fargo Insurance Inc. 2 Fiscal year ending 4/30 3 Fiscal year ending 7/31 4 Fiscal year ending 6/30 5 Fiscal year ending 3/31 6 Fiscal year ending 11/30 7 Fiscal year ending 1/31 8 Fiscal year ending 10/31

Source: *BI* survey

U.S.: Second tier seeks growth

Continued from page 10

organic growth, by acquiring talent and producing new business.

"One of the things we are most proud of is that our growth is almost entirely organic growth," said David M. Lockton, chairman of Lockton Cos. Inc. in Kansas City, Mo. "We make very few acquisitions."

"We're not opposed to acquiring businesses where we get great talent, but frankly, with the consolidation that has taken place, we think our best bet is to find the talent rather than the business," said John E. Cay, chairman of Palmer & Cay.

Many of these brokers, though, would consider a purchase if the right opportunity arose.

"Because Frank Crystal is a boutique firm, we can move very, very quickly" if the right acquisition presents itself, said Mark Freitas, president and chief operating officer of New York-based Frank Crystal & Co. Inc. "We just haven't been traditionally focused on the traditional acquisition model for growth," he said.

Profiles of the 10 largest U.S.-based brokers that do not appear on *Business Insurance*'s worldwide rankings follow.

USI Holdings Corp.

A quartet of factors fueled USI's growth last year, its chairman, president and chief executive officer said. Client retention, selling additional products and services to current clients, new clients and acquisitions helped boost brokerage revenues 8.2% to $352.3 million in 2003, said Mr. Eslick. USI is the ninth-largest broker of U.S. business.

Growth through acquisition continued in 2004, with the acquisitions of Los Angeles-based Dodge, Warren & Peters Insurance Services Inc. and Bertholon-Rowland Corp. of New York, he said.

"The key thing that differentiates us is that we predominantly focus on middle-market companies, which we define as having 20 to 1,000 employees," said Mr. Eslick, noting 1.1 million such companies operate in the country. "Our focus is to provide all the needs those middle-market businesses have," including risk management, health and welfare, retirement, life insurance and asset management, he said.

Mr. Eslick also noted that USI moved its headquarters in the summer of 2003 to Briarcliff Manor, N.Y., from San Francisco to consolidate management and be nearer to the majority of its offices.

Lockton Cos. Inc.

Brokerage revenues at Kansas City, Mo.-based Lockton Cos. Inc. increased 12.3% to $295.0 million for its fiscal year ending April 30, 2004. Excluding the sale of one of its units in 2002, growth from continuing operations rose 20% during the period.

Executives attribute Lockton's continued success to several factors, including strong new business growth and a historic 94% retention rate of its existing customers.

The 10th-largest broker of U.S. business also continues to expand across the United States, opening offices, attracting professionals and increasing its capabilities in a number of lines, including energy, national property, merger and acquisition services and employee benefits, the executives note.

Lockton also has expanded its traditional middle-market focus to include Fortune 1000 company clients and increase its global capabilities.

"Our client base of national-accounts business has far-reaching international needs, and that's where we've developed our expertise and relationships around the world to enhance the services we deliver those clients," said John L. Lumelleau, president and CEO. Lockton has forged relationships with various international brokers.

These efforts have helped Lockton attain at least 20% growth in all but one year over the past 20 years, in all market conditions, executives say.

"We've had very healthy new business growth and we expect to continue to do equally as well during hard markets and soft markets," noted David M. Lockton, the broker's chairman.

Hub International Ltd.

Strong organic growth and other factors drove Chicago-based Hub International Ltd.'s brokerage revenues up nearly 31% in 2003 to $278.0 million.

Hub's U.S. brokerage revenues rose 33%, to $172.4 million, making it the nation's 12th-largest broker, but the company also posted strong growth in Canada, where Hub benefited from organic growth and a strengthening of the Canadian dollar against its U.S. counterpart.

"Hub International defines two classes of international business: cross border and global," said Martin P. Hughes, Hub's chairman and CEO. He said Hub has been particularly competitive in the cross border business between the U.S. and Canada.

"As one of the three largest brokers in Canada and one of the largest brokers in the United States, we offer clients access to the best of both markets....Hub International runs (in) both the U.S. and Canada as a single company. That means our management teams meet together, work together and develop real relationships that translate into real benefits for clients," he said.

Hub targets U.S. middle-market accounts with 50 to 2,500 employees. Its Canadian target is much the same but includes personal lines

See U.S./page 24

COMPARING BROKER PRODUCTIVITY

Ranked by 2003 brokerage revenues per employee, the largest firms are frequently outperformed by smaller ones.

Most productive brokers	Revenues/employee
AirSure Ltd.	$416,168
Mid American Group Inc.	$386,616
Black, Gould & Associates Inc.	$311,767
Frank Crystal & Co. Inc.	$309,927
Capacity Group of Cos.	$296,079
JMB Insurance Agency Inc.	$286,881
Thesco Benefits L.L.C.	$281,713
Aviation Insurance Services	$277,636
Hirsch Wolf & Co. L.L.C.	$266,870
National City Insurance Group	$264,519

World's 10 largest	Revenues/employee
BB&T Insurance Services Inc.	$200,976
Willis Group Holdings Ltd.	180,232
Marsh & McLennan Cos. Inc.	172,037
Hilb Rogal & Hobbs Co.	168,404
Arthur J. Gallagher & Co.	166,861
Brown & Brown Inc.	155,043
Jardine Lloyd Thompson Group P.L.C.	151,836
Aon Corp.	151,335
Wells Fargo & Co.	143,122
Alexander Forbes Ltd.	105,855

Source: *BI* survey

U.S.: Firms seeking growth

Continued from page 22

business.

Much of Hub's business falls into the specialty category. In addition to professional liability and environmental risk business, Hub offers program coverage for more than 50 industries, including real estate, restaurants, veterinarians, religious institutions and greenhouse operators.

Hub typically pursues about seven acquisitions a year. In 2003, it made six, and it has already recorded that many this year. "This year Hub has announced a record amount of acquisition activity," said Mr. Hughes.

In April, it acquired Bush, Cotton & Scott, based in Seattle. Although talks to acquire Chicago's Near North National Group failed last year, Hub recently closed its acquisition of Albuquerque-based Talbot Financial Services. Talbot generated more than $99 million in revenue last year and will enhance Hub's presence in the West and Southwest. Talbot specialties include nonprofits, public entities and the dairy industry.

Wachovia Insurance Services Inc.

A new management team and integration of prior mergers were among the major developments at Wachovia Insurance Services Inc. in the past year.

The Charlotte, N.C.-based Wachovia Corp. unit's total brokerage revenues grew 20% to $188.7 million in 2003, making it the 11th-largest broker of U.S. business.

Stewart McDowell, who joined the brokerage last summer as chief operating officer after a career at Willis Group Holdings Ltd., became president and COO in November 2003. Karen Lehman and Chris Purvis were named chief financial officer and operations manager, respectively. Both came from Palmer & Cay Inc.

"We basically have really focused on the integration of our previously acquired companies," said Mr. McDowell. He added that "not a lot of merger integration work had been done."

Wachovia's most recent acquisition was its August 2002 purchase of Cameron M. Harris & Co. That broker, also based in Charlotte, ranked as the 58th largest broker of U.S. business in 2002, with $27.4 million in 2001 brokerage revenues.

As befits a bank-owned broker, Wachovia focuses on cross-selling insurance products with a large book of benefits—roughly 40% of its business, said Mr. McDowell.

"We are very much a generalist middle-market-type broker. We define the middle market pretty

See U.S./page 26

U.S.: Second tier seeks growth

Continued from page 24

broadly—small business up to Fortune 500 but not really including Fortune 500 companies," he said.

"I think the employee benefits business is a good place for us. We had strong organic growth—I feel good about that. We're very focused on new clients" and interested in continuing to grow the benefits business, he said.

Alliant Resources Group Inc.

Specialization and acquisitions are the key strategies behind Alliant Resources Group Inc.'s growth. In 2003, brokerage revenues rose 45.9% at the Stamford, Conn.-based brokerage, to $147.6 million, making it the 14th-largest broker of U.S. business.

Of that growth, 19% was organic, and that can be "directly attributed to our specialty units," said John Addeo, CEO. "We have three major specialty units—a public entity program, a tribal Indian nations program and lawyers professional liability program—all of those units grew in excess of well over 20%" in 2003, he said.

Alliant also offers programs for waste haulers, restaurant chains in California, funeral parlors, nature conservancies and golf courses.

"We will continue to focus on specialization, and that will come in two forms: create the products ourselves or acquire them through acquisitions," said Mr. Addeo.

Indeed, while Alliant made only two acquisitions in 2003—Lanham, Md.-based Colonial Healthcare and Lanham, Md.-based Franey, Parr & Muha—it expects its acquisition drive to pick up in 2004.

So far, Alliant has made two small acquisitions this year, but it has letters of intent with two other firms that should close in July or August, Mr. Addeo said. These firms will add about $13 million in revenue, he said.

"Our goal when we started this thing about four years ago was to hit between $300 million and $500 million in a three- to five-year timeframe," Mr. Addeo said. "The remainder of this year and '05 will give us significant opportunity to do some more deals, and I certainly think that by the end of '05 we'll have a good shot at being over $300 million in revenue," he said.

Palmer & Cay Inc.

Geographic expansion and specialization contributed to a 15.2% rise in Palmer & Cay's brokerage revenues to $143.8 million for its fiscal year ending June 30, 2004, making it the 15th-largest broker of U.S. business.

Over the past year, the Savannah, Ga.-based brokerage opened nine new offices, bringing its total to 38. It also entered into several new areas "that really buttressed our specialization capabilities from a product perspective," said James B. Meathe, president.

For example, last August Palmer & Cay formed a Hartford, Conn.-based property facultative reinsurance brokerage arm and reinsurance underwriting unit, Palmer & Cay Reinsurance Brokers. It also formed a benefits outsourcing solutions group and began offering various voluntary benefit products within its traditional benefit offerings, Mr. Meathe said.

"More importantly, we entered new segments that dramatically altered the specialization of Palmer & Cay and morphed the firm from a generalist agency platform into more of a specialized brokerage platform," he said. "Our strategy is simple: We think that we can provide the intimate client-centric service of the small firms, while providing the same degree of specialization and solutions that the larger firms offer."

Other areas where the brokerage has boosted its expertise include marine, aviation, health care, financial services, environmental and group captives.

"And then we've dramatically enhanced our risk management capabilities and attracted some of the brightest talent from our larger competitors (and insurers) to grow our risk management practice," said Mr. Meathe, who himself joined Palmer & Cay from Marsh Inc. in February 2003.

CBIZ Benefits & Insurance Services Inc.

An emphasis on servicing small to mid-market accounts helped push Kansas City, Mo.-based CBIZ Benefits & Insurance Services Inc.'s brokerage revenues up nearly 9% in 2003 to $141.2 million. CBIZ is the 16th-largest broker of U.S. business.

Nearly 60% of the Cleveland-based Century Business Services unit's brokerage revenues come from benefit-related business, with property/casualty business accounting for only about 15%, said Robert A. O'Byrne, senior vp.

The benefits and insurance services operations account for about 35% of the parent company's revenues, with the tax and accounting operations generating 55% and other national practices generating 10%. Because CBIZ is maturing as a company, "the cross-referrals from other parts of the company are continuing to gain momentum," said Mr. O'Byrne. "Clients are looking for integrated offerings," he said.

"Our competition is primarily from regional and local brokers. Our market is 25 employees to 5,000 employees," he said. Specialties include nonprofits such as school districts, municipalities and hospitals; professional services firms such as law and architectural firms; and the construction industry, he said. CBIZ provides benefits

See U.S./page 28

U.S.: Second tier seeks growth

Continued from page 26

from core group insurance to qualified pension plans to wealth management, including payroll," to errors and omissions liability, directors and officers liability and other liability and property coverage, he said. "Then we can move on from there into related business services like tax and accounting," said Mr. O'Byrne.

CBIZ Benefits & Insurance made one acquisition last year—Salt Lake City-based BeneCor Inc. Mr. O'Byrne said it was a typical size acquisition, with revenues below $5 million.

ABD Insurance & Financial Services

Adding new accounts through sales and a major acquisition helped push ABD Insurance & Financial Services brokerage revenue up nearly 17%, to nearly $119.9 million in 2003. ABD is the 17th-largest broker of U.S. business.

Benefits account for about 37% of the broker's revenue, said ABD President and CEO Frederick J. de Grosz.

Mr. de Grosz called the acquisition of Seattle-based Sullivan & Curtis Insurance Brokers of Washington the highlight in 2003 for Redwood City, Calif.-based ABD. Sullivan & Curtis added about $11 million in revenues, he said.

"This year, the highlight was consolidating and building upon our core specialties," he said. These include technology, biotechnology, agribusiness, municipalities and construction development and property, he said.

ABD targets property casualty clients that pay annual premiums of $100,000 to $5 million. For benefits business, it seeks clients with 50 to 5,000 employees.

ABD's parent is Palo Alto, Calif.-based Greater Bay Bancorp. "We have a partner that has capital, and that's always an advantage," said Mr. de Grosz.

Frank Crystal & Co. Inc.

Growth in its specialty lines helped boost New York-based Frank Crystal & Co. Inc.'s 2003 gross revenues 9.3% to just shy of $93.0 million, making it the 20th largest broker of U.S. business. The privately held firm declined to break out its brokerage revenues, which exclude any investment income.

"When you're in a softer market, brokers have a tendency to go in and demand the whole account," said Mark Freitas, president and COO of Frank Crystal. "If you're a specialized boutique-type firm, you can take advantage of the hard market because you can go in with what you specialize in and write one or two lines of business, which can generate significant growth."

With the hard market beginning to stabilize, Mr. Freitas said, Frank Crystal is focusing on generating new business, cross-selling and continuing to promote its specialty areas, which include directors and officers liability insurance, aviation insurance and personal lines insurance for high net worth individuals.

"We have been successful in all market conditions and we believe strongly that we will be even more successful as our company grows," he said.

One way the brokerage has not traditionally grown is through bricks-and-mortar acquisitions. It instead relies on a growth-by-people-acquisition strategy.

"We have a focus that, if you attract the right people, it can be more advantageous and more effective than doing an acquisition where you not only acquire the assets, but you acquire the liabilities as well and you have to deal with that," he said.

Mr. Freitas also noted Frank Crystal prides itself on high productivity, as measured by revenue per employee. In 2003, the average revenue per employee was $309,927.

Keenan & Associates

Buoyed by new offerings and market segment expansion Keenan & Associates reported a 16.4% rise in its 2003 brokerage revenues to just under $93.0 million.

"We started the process of providing more services, and we started to see that take off in '03," said Sean K. Smith, CEO of Keenan, the 21st-largest U.S. broker.

The Torrance, Calif.-based brokerage, for instance, recently established a new Voluntary Plans Division, which offers clients a host of voluntary, employee-paid benefits, Mr. Smith said.

The brokerage also expanded its property/casualty loss control services and plans shortly to introduce its own consumer-directed health care product, he said. The brokerage also recently expanded into other market segments.

"Keenan's always been a niche marketing firm, so we've started moving into adjacent market segments," Mr. Smith said. "So where before on the health care side we were really just in the hospital facility business, we moved into medical groups and have taken a big position there," he said. In addition, Keenan also started writing business for the public sector, which complements its niche in California schools, he noted.

"And clearly we got a bump from increased premiums" in 2003, "but the focus of the firm is to provide and develop more services," he said.

Keenan's goal is to "build programs and solutions that are going to provide long-term stability for our customers," Mr. Smith said.

Last fall, the brokerage, for instance, developed a workers compensation pooling program for nearly 400 schools and community colleges throughout California (*BI*, Oct. 13, 2003).

Brokers turning to technology to enhance service offerings to employee benefit clients

By JOANNE WOJCIK

Brokers today are beefing up their investments in technology and talent to prove to their employee benefit clients that their promise of providing "value-added services" is no cliché.

And these investments typically are considerable—regardless of the broker's size—ranging from hiring information technology experts to staff internal IT departments to turning to employee benefit software developers that can assist the brokers in developing customized products.

And, in almost every case, the brokers say they are responding to the needs of their clients, many of which are struggling with runaway health care inflation and other employee benefit costs.

"We believe that the broker/consultant is going to be required in the future to provide more services than they do today," said Richard Travers, chief executive officer of New York-based Travers, O'keefe & Associates Inc.

Travers, O'keefe's interest is in giving its clients "the right advice and bringing them products and concepts that help them manage their health care dollars in a better way," Mr. Travers said. "To do this, we made an investment in technology, which includes an investment in people—we created our own IT department," he said.

> **'Most employees don't know what their employer contributes until they leave and enroll in COBRA.'**
>
> *Paul Rooney*
> *EBS Insurance Brokers Inc.*

With an initial investment of approximately $200,000, Travers, O'keefe set up the IT department, which developed a just-launched Web-based program called Advocacy+Plus. Advocacy+Plus provides assistance with benefit plan administration, Health Insurance Portability and Accountability Act compliance and health education and includes a human resource information hotline.

Ongoing costs for the one-year-old department, which consists of three full-time staff members, are expected to exceed $150,000 annually, according to Mr. Travers.

CBIZ Benefits & Insurance Services Inc. has been revamping its in-house client management system to also serve as an interactive online enrollment tool for use by employers, according to Mike Marchini, co-chair of the employee benefit practice based in Cumberland, Md.

Initially the objective was to create a better in-house servicing tool for account managers, he said. But after the project began, Mr. Marchini explained, they "really did go back to the drawing board," and "really tore everything apart and came up with what we think is the right approach, building it from scratch." The system that will be rolled out next year will do far more, he said, including handling the enrollment needs of employers.

Woodstock, Ga.-based Alexander-Johnson & Co. Inc. invested nearly $50,000 in developing streaming video to enhance the Employee Benefit Center Web site it uses as a participant in United Benefit Advisors.

Indianapolis-based UBA, an alliance of 100 independent benefit advisory firms formed in 2002, provides several benefits technology platforms. This, and its consortium capabilities, enables the independent firms to compete with large, national brokers and consultants, according to Bill Howell, executive director of UBA.

Alexander-Johnson has been filming seminars it holds on various benefit topics and then putting the videos on its Web site, where they can be viewed by clients' employees as part of a multimedia education initiative.

"Most people don't find this stuff thrilling. We have got to make this stuff appealing to people," Mr. Alexander said.

UBA member EBS Insurance Brokers Inc. of Newton, Mass., offers its clients various technology services focused on making both the administration and communication of benefits more cost-effective and efficient. The most recent enhancement to EBS' technology offerings is a "jazzed-up" online total compensation statement to help employers convey to employees how much the cost of benefits adds to their salaries, according to EBS President Paul Rooney.

"Most employees don't know what their employer contributes until they leave and enroll in COBRA," Mr. Rooney said.

In the past few years, Trion Group Inc. has bolstered its in-house underwriting capabilities to help employers negotiate better terms, according to Edmund Garno III, a principal in the company's King of Prussia, Pa., headquarters.

"We have 17 underwriters with an average of over 23 years' experience in every aspect of financial analysis and underwriting health and welfare benefits plans," Mr. Garno said.

"This commitment to financial consulting excellence enables each client to receive the analysis, competitive bidding and vendor negotiation services necessary to ensure the best annual rates/ and plan costs," he said.

"It also enables us to determine the benchmark rates and fees that insurers/vendors should be charging before we conduct an actual competitive marketing or renewal negotiation," he noted.

To help clients that have had to cut back on HR and benefits personnel in the tough economy, Palmer & Cay Inc. last year hired Randy Koch to lead a new outsourcing initiative.

See BENEFITS/page 34

Benefits: Brokers enhance technology offerings

Continued from page 32

Through its Grand Rapids, Mich.-office, Palmer & Cay provides payroll administration services; benefits administration, including call centers, bill reconciliation and bill payment for benefit plans; HR administration, including onsite HR, policy review, auditing and HR consulting; and human resource information system technology—"the machine that drives all the information," according to Mr. Koch, practice leader.

Rather than build its own technology, though, Palmer & Cay contracted with two partners it considered to be the best in class: Millennium, a payroll software company; and Employease Inc., an HRIS provider in Norcross, Ga.

Glen Allen, Va.-based Hilb Rogal & Hobbs Co. also chose to buy, rather than build, its technology enhancements. The broker partnered with RewardsPlus of Hunt Valley, Md., to provide online enrollment and administration services to midsize and large employers. In addition, it worked with Milwaukee-based Zywave Inc. to provide a suite of client communication tools and health claim data analysis tools to small and midsize employers; and IE-Engine Inc., a Waltham, Mass.-based developer of HR cost-management solutions for midsize and large employers.

Brokers also are looking at consumer-driven health care offerings.

Torrance, Calif.-based Keenan & Associates just completed a six-month process to select a consumer-driven health plan vendor, with which it will partner to offer its own private-label plan, according to Henry Loubet, chief strategy officer.

> **'We were watching people begin to ratchet benefit plans down, and doing so without a huge amount of thought.'**
>
> *John Greenbaum*
> *Mazonson L.L.C.*

"We decided our best approach was to partner with an outside entity and put our wrap around it," Mr. Loubet explained.

The name of the vendor is not being made public yet. The new product will be a "hybrid," with some elements of a health maintenance organization and lower deductibles than most high-deductible consumer-driven plans "but with more incentives around wellness and health promotion and complementary medicine," Mr. Loubet said.

It also will include a program, CareAdvocate, to provide health coaching, disease management and health risk assessments, as well as other online tools being developed in partnership with Novato, Calif.-based Enwisen Inc., including customized employer Web sites.

The broker has invested about $2 million into the effort, including the hiring of two new staff members and contracting with outside consultants, Mr. Loubet said.

Peabody, Mass.-based broker Mazonson L.L.C. also has been working on a consumer-driven plan, having brought together Waltham, Mass.-based Tufts Health Plan with Destiny Health of Chicago to create "Liberty," a fully insured, large-deductible plan that it is marketing in New England.

"We were watching people begin to ratchet benefit plans down, and doing so without a huge amount of thought," said John Greenbaum, executive vp at Mazonson. "They were just increasing deductibles and copayments, installing hospital copayments and pushing up drug costs, but that's a one-trick pony. Where are they going to go from there?"

Arnold Katz, president of Brokerage Concepts Inc., said the King of Prussia, Pa.-based brokerage also is following the consumer-directed health plan market and keeping its clients up to date on any developments.

LARGEST U.S. BENEFIT SPECIALISTS

Brokers deriving a majority of 2003 gross revenues from benefit business

Company	Revenues from benefits*	Percent of gross revenues
CBIZ Benefits & Insurance Services Inc.	$99,156,085	59%
Brokerage Concepts Inc.	50,394,000	74
Fleet Insurance Services	38,448,000	54
Trion Group Inc.	30,500,000	100
Fringe Benefits Management Co.	24,260,738	100
Cottingham & Butler Inc. -An Assurex Global Partner	17,261,937	50.6
Black, Gould & Associates Inc.	15,900,117	100
Frank F. Haack & Associates Inc. -An Assurex Global Partner	15,444,000	52
SilverStone Group Inc.	10,641,780	54
Thesco Benefits L.L.C.	10,634,117	100

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

Probes shine spotlight on contingent commissions

Given their bottom-line impact, barring such arrangements could boost buyers' costs

By DAVE LENCKUS

What if the controversy over the appropriateness of the contingent commissions that insurers pay brokerages were to end with regulators barring such commissions?

Stock analysts and some broker representatives maintain that scenario is unlikely. They reason that the state officials investigating the issue will not be able to conclude that buyers who are as sophisticated as risk managers were duped or harmed by that industry practice.

Observers say they expect that brokerages instead will be forced to make greater disclosures about their commissions.

But what would be the impact on brokerages—as well as on buyers and insurers—if the worst-case scenario for producers were to occur and they no longer could collect contingent commissions?

Because the commissions are often the difference between black and red ink for many brokerages, most observers predict that producers would have to find a way to recoup the lost revenue.

It could be from insurers, or it could be from buyers.

Either way, buyers would be unlikely to see their risk-financing costs shrink, analysts predict.

Contingent commissions, sometimes referred to as "profit-sharing arrangements," typically are based on:

- The profitability of the business that brokers place with insurers. These commissions are more prevalent during hard markets.
- The volume of business a broker produces for an insurer. This type of commission is more common during a soft market, when insurers want to bolster market share.

Brokerages currently have a mix of both arrangements with insurers, analysts say.

Another arrangement—called a "tie-in"—also should be considered a contingent commission, according to antitrust and trade regulation attorney James K. Eiszner Jr. Under a tie-in, a producer places business with an insurer only if the underwriter uses the brokerage to obtain reinsurance for that business, explained Mr. Eiszner, a partner with Shook, Hardy & Bacon L.L.C. of Kansas City, Mo.

Brokerages tell the investment community that the arrangements give them more clout with insurers during policy negotiations, noted John B. Keefe, a senior vp with Ferris, Baker, Watts Inc. in Richmond, Va. The arrangements are "not entirely self-serving at all," Mr. Keefe agreed.

Sixty-nine percent of 330 risk managers who responded to an Advisen Ltd. survey said contingent commissions represent a conflict of interest.

A task force for the New York-based Risk & Insurance Management Society Inc. has been studying the issue, and the organization's executive council was scheduled to begin evaluating those findings this week. Until now, RIMS has asked brokerages to disclose information on commissions when asked and to the degree information is available.

But according to a survey that insurance industry information provider Advisen Ltd. of New York conducted in May, risk managers are not happy about the commissions. Sixty-nine percent of the 330 survey respondents said the commissions are a conflict of interest. Eighty-two percent rated brokerages' disclosures about those commissions as less than fully adequate.

Based on unsolicited comments by the survey respondents, though, a majority of those who criticized the commissions would accept them if they were fully disclosed.

But earlier this year, the Washington Legal Foundation, a legal and public policy think tank, asserted that the commissions compromised brokerages' fiduciary duties to their clients. It urged the attorneys general and insurance commissioners in New York and California to investigate the practice. Subsequently, the New York attorney general and insurance regulators in California and Connecticut launched separate investigations.

In the balance is the lifeblood for many brokerages, according to an official with Concord, Ohio-based Marsh, Berry & Co., a management consultant for financial services companies. From 1998 through 2003, contingent commissions rep-

See COMMISSIONS/page 38

CONTINGENT COMMISSIONS

Brokerages' average percentage of total gross revenues derived from contingent commissions

Size of broker	% of revenues
Less than $10 million in revenues	4.08%
$10 million to $50 million	6.13%
More than $50 million	4.72%

Source: *BI* survey

Commissions: Contingent commissions in spotlight

Continued from page 36

resented between 5.6% and 7.6% of all brokerages' property/casualty insurance commissions, said John Wepler, an executive vp with Marsh, Berry.

Those percentages are much smaller—2.5% to 3.9%—for the second- through fourth-largest brokerages, according to a research report by Jay H. Gelb, an analyst with Prudential Equity Group L.L.C. of Boston.

More telling is the importance of those revenues to earnings. Industrywide, the commissions account for 103.3% of a firm's pretax earnings, according to Mr. Wepler.

Among the world's largest brokerages, Marsh & McLennan Cos. Inc. depends most heavily on the commissions, according to Mr. Gelb's report. Mr. Gelb estimates that contingent commissions this year will represent 5% to 10% of Marsh's earnings per share and 3% to 8% of earnings per share for the next four largest brokerages.

"The elimination of contingent income would be impossible to absorb by the vast majority of insurance agencies," Mr. Wepler wrote in his report. If the commissions were eliminated, more than 50% of agencies "would have no hope of survival," and 75% would be unable to perpetuate ownership, he asserted.

But the consensus among observers is that a large segment of the insurance distribution system would not follow contingent commissions into oblivion.

"I don't agree it will be devastating" to the brokerage industry if contingent commissions were barred, said Ken A. Crerar, president of the Washington-based Council of Insurance Agents & Brokers. "This industry responds to whatever hits it."

Several analysts predicted that insurers would not allow a big portion of their distribution system to fail. Instead, they would agree to pay a higher standard commission for all of the business brokerages bring them—regardless of the volume or its profitability.

The commission a particular brokerage would earn likely would be based on its size, and, as an insurer, "you sort of hope by doing that, you get your share of their business," said Matthew V. Roswell, principal and insurance brokerage analyst with Legg Mason Wood Walker Inc. of Baltimore.

The compensation that brokerages receive from insurers might fundamentally change producers' revenue stream, according to Nick Pirsos, a managing director with Sandler O'Neill & Partners L.P. in New York. Insurers could become brokerages' primary source of revenue, he said.

Meanwhile, if insurers are unable to shift some risk to brokerages through profit-based contingent commissions, then insurance rates would increase to reflect that greater risk for the underwriters, Marsh, Berry's Mr. Wepler said.

> **'I don't agree it will be devastating' to the brokerage industry if contingent commissions were barred. 'This industry responds to whatever hits it.'**
>
> *Ken A. Crerar*
> *Council of Insurance Agents & Brokers*

Neither individual insurers nor insurer associations would comment on the issue.

"Insurers are being very quiet, and they have an incentive to be quiet," said Dave Sheusi, a vp with J.P. Morgan Securities of Baltimore. Mr. Sheusi said he thinks insurers would like to see contingent commissions disappear.

"It would be a windfall to underwriters if they went away for a two- to three-year period," he said. Over that period, the loss of the commissions "wouldn't disrupt distribution that much," he said. Meanwhile, "the more innovative underwriters would figure out how to pay their best brokers," he said.

That scenario suggests that brokerages would have to make up their lost revenues by boosting the fees and commissions they charge buyers.

Indeed, Advisen concluded from the unsolicited remarks included by risk mangers who responded to its study that most believe that brokerages would turn to buyers to make up the lost revenue.

That could lead to more problems for brokerages, if many risk managers feel similarly to one respondent, who wrote: "I'm not particularly happy with the amount we have to pay now for brokerage service. If it doubles, I'd find another way to approach the insurance markets."

1

Marsh & McLennan Cos. Inc.

1166 Ave. of the Americas
New York, N.Y. 10036
212-345-6000;
fax: 212-345-3833
www.marsh.com

Marsh & McLennan Cos. Inc. is expanding its risk services offerings as the hard market that has contributed so much to its revenue growth in recent years fades.

The world's largest broker announced in May a $1.9 billion acquisition of Kroll Inc., a leading security consulting and financial advisory firm. A few weeks earlier, MMC brokerage unit Marsh Inc. agreed to acquire risk management information systems provider Corporate Systems Inc., adding to the capabilities of Marsh's own STARS RMIS.

The acquisitions are part of a renewed emphasis at Marsh on providing the widest possible array of client services, from more efficient funding and transfer of client risks to pre- and postloss mitigation services and risk consulting, brokerage executives say.

"We're interested in helping clients with the total cost of risk," said Marsh Inc. President Roger E. Egan.

The addition of Kroll—with $485 million in 2003 revenues and 35,000 clients—supplements the consulting capabilities of Marsh and sister company Mercer Inc., and offers cross-selling opportunities for all, Marsh executives say. Kroll's four main business segments include security, forensic accounting and other consulting services; background screening of employees and vendors; corporate restructuring, financial crisis management and other advisory services; and electronic discovery and other technology services.

"There's very little overlap in the two firms," said Ray J. Groves, chairman and chief executive officer of Marsh Inc. "We see this as an additional range of services we're able to offer clients."

Kroll's revenues also are not affected by shifts in the insurance pricing cycle, helping to smooth the cycle's impact on commission-based brokerage revenues, Mr. Groves noted.

Outside observers express some reservations, though. While agreeing that Kroll will add to MMC's top line and diversify its offerings, Morningstar Inc. Analyst Rachel Barnard expressed doubts about how Kroll will fit within Marsh's brokerage business and said the acquisition was "substantially overpriced." MMC's purchase price of $37 per share for Kroll is about 20% too high, Ms. Barnard concluded in a report.

Standard & Poor's Corp. downgraded MMC's counterparty credit rating this month to A+ from AA-, citing the $800 million in debt securities the company plans to issue to finance the Kroll acquisition.

The Corporate Systems acquisition, which is expected to close by the end of July, will enhance Marsh's claims management services with the addition of bill-review capabilities and other claims management software and services. The Amarillo, Texas-based company will be integrated with Marsh's STARS services and will operate under the name CS STARS.

With an emphasis on a wide array of services, 'we're interested in helping clients with the total cost of risk.'

Roger E. Egan

Still, the addition of Kroll and other acquisitions made over the past year should help Marsh counter the soft market erosion of brokerage revenues that became evident in the first quarter of this year.

MMC's risk and insurance services revenue—the main component of which is commercial retail brokerage—jumped 16.2% to $6.87 billion last year from the prior year. Organic revenue growth—excluding the effect of acquisitions, dispositions and currency fluctuations—hit 13%, thanks to rising property/casualty premiums, higher renewal rates and increased service revenues, the company reported.

The company's total brokerage revenues amounted to $9.38 billion in 2003, up 16.5%.

In the first quarter of 2004, though, risk and insurance revenues rose 12% to $1.99 billion from the year-earlier period, and organic growth slowed to 7% with declines in property insurance pricing. Within the risk and insurance sector, insurance brokerage revenue growth slowed the most, with reinsurance brokerage and insurance services revenues showing healthier gains.

Rising risk and insurance revenues last year continued to offset falling revenues at MMC's investment management unit and weaker growth in its benefits consulting business. Overall, gross revenues for MMC—including investment income on fiduciary and corporate funds and nonbrokerage operations—totaled $11.61 billion last year, up 11% from the previous year.

MMC divides its business into three segments:

- Risk and insurance services, where 2003 revenues of $6.87 billion represented about 59% of MMC's total revenues.

The segment includes Marsh's retail brokerage operations; reinsurance brokerage business of Guy Carpenter & Co. Inc.; wholesale brokerage by various units; and revenues of MMC Capital, an insurance investment arm.

- Investment management services, provided by Putnam Investments Inc. Embroiled in the mutual fund market timing scandal, Boston-based Putnam agreed in April to pay $110 million in penalties and restitution to settle lawsuits brought by the Securities and Exchange Commission and the Massachusetts attorney general. The company also replaced longtime Putnam CEO Lawrence Lasser, naming Charles E. Haldeman to take his place.

Damaged by a huge outflow of invested assets, Putnam's revenues dropped 7.6% to around $2 billion last year and represented about 18% of MMC's total revenues. In this year's first quarter, Putnam's revenues rose 4% to $461 million, partly reflecting "modest" investment gains, the company reported.

- Consulting services, which brought in $2.72 billion last year and represented about 23% of MMC's total revenues.

The consulting segment includes

Continued on page

Continued from page 40

Mercer Human Resource Consulting, one of the world's largest benefit consultants; NERA Economic Consulting; and Lippincott Mercer, a corporate identity consultant.

Total consulting revenues expanded 15% last year, though much of the growth came from Mercer's April 2003 acquisition of financial institutions management consultant Oliver, Wyman & Co. Excluding the effect of the Wyman merger, organic growth in the consulting segment amounted to only 3% last year.

While the property/casualty prices have begun to flatten or fall, the degree of softening varies by geographical location and product line, Marsh executives point out.

"There are certain parts of the market that are not soft at all," including professional liability lines and workers compensation, Mr. Egan said. The U.S. market has also softened faster than non-U.S. markets in lines other than property, he added.

Europe has emerged as a strong growth area for Marsh, along with Latin America and Asia, he said.

"North America has always been the strong thought leader and the most advanced risk practice we have," but business outside the United States is growing at a faster clip, he said.

About 56% of Marsh's brokerage revenues were generated from U.S.-based clients last year, down from 59% in 2002.

Like other brokers, Marsh continues to see middle-market accounts as a prime source of growth worldwide. Middle-market business represents about one-third of Marsh's U.S. insurance brokerage revenue, Mr. Egan said.

Middle-market companies increasingly need more sophisticated risk management services, noted Peter F. Garvey, president and CEO of Marsh's U.S. operations.

"Their risks are increasing in complexity just as fast as the larger risks," Mr. Garvey said.

Interest in alternative risk financing vehicles is still high but has slowed as the market has softened, Mr. Egan reported.

Marsh last year helped 14 securities firms form a New York-based captive, Customer Asset Protection Co., to provide customer account coverage excess of that provided by the federal Securities Investor Protection Corp.

The broker also developed a pooled collateral fund for about 350 California workers comp self-insurers, creating a shared credit facility to meet the state's self-insurance security requirements at a lower cost to employers than traditional surety bonds.

MMC had about 54,500 employees in insurance brokerage, consulting and related services at the end of last year, and this number will rise by about 3,200 with the acquisition of Kroll. Marsh operates through 675 offices in more than 100 countries around the world.

On July 9, MMC's stock closed at $44.68 a share, with a 52-week high of $53.01 and a 52-week low of $42.05.

—By Douglas McLeod

2 AON

Aon Corp.

200 E. Randolph St.
Chicago, Ill. 60601;
312-381-1000;
fax: 312-381-6032
www.aon.com

For Aon Corp., 2003 was a year that saw the company sharpening its focus on core operations even as it expanded its global reach and advanced its strategy of bringing all its resources to bear in serving clients.

"The highlights of 2003 were that, clearly, we had a year that saw our strategy of bringing 'One Aon' to the client really mature quite effectively," said Patrick G. Ryan, chairman and chief executive officer of Chicago-based Aon. He was speaking of the brokerage's ongoing efforts to integrate its products and services.

"We had significant utilization of our global network," Mr. Ryan said. "We had the opening of our business in China and a lot of excitement around being the first foreign broker licensed in China and India."

"I think our very focused segmented approach in our retail business and our industry and product specialization focus was an important continued development in '03 and '04," he said. The development of Aon's pharmaceutical and chemical practice team, for example, "dramatized the powerful impact of the global network focused around industry specialization and hiring industry experts focused in that field from around the world," Mr. Ryan said.

While Aon had been an active player in the acquisitions market in recent years, 2003 was relatively quiet on that front.

"We made some boutique acquisitions, but it was a year of focusing on organic growth, as opposed to acquired growth," Mr. Ryan said.

'The ability to have differentiating intellectual capital…is something we work very hard on.'

Patrick G. Ryan

That growth saw Aon's total brokerage revenues increasing to more than $6.73 billion in 2003, a 15% increase from the nearly $5.86 billion the company posted in 2002, with the numbers adjusted to reflect discontinued operations. Those figures place Aon second in *Business Insurance*'s ranking of the world's largest insurance brokers.

Mr. Ryan said he believes Aon's scale is one factor distinguishing it from other brokers in the marketplace.

"Clearly, the breadth and depth of Aon globally is quite differentiating," he said. "I think the ability to have differentiating intellectual capital by industry or product area is something we work very hard on."

New York-based Moody's Investors Service Inc. has a similar view. "Moody's believes that Aon's size, scale and expertise offer significant competitive advantages as they enable the company to provide advice and execution on behalf of clients," the rating agency said in a June analysis of Aon.

Last year also saw Aon advancing its partnership with Giuliani Group L.L.C. The alliance, announced late in 2002, links Aon's efforts with those of the consulting group formed by former New York Mayor Rudolph W. Giuliani to provide crisis management services to companies around the world. "We feel we've put together a portfolio of services that, in this environment, are quite attractive to meeting client needs," Mr. Ryan said.

Among the acquisitions Aon has made recently was its March purchase of risk management information systems provider Risk Laboratories L.L.C. from American Home Assurance Co., "which we believe makes us a leader in risk management information systems technology," Mr. Ryan said. "A blend of what they had and what Aon had makes us state of the art, we believe."

Aon's analytical capabilities are a factor in the success its reinsurance brokering business is enjoying, according to Mr. Ryan. "I'd say our continued leadership and, as the leader, developing some very creative modeling tools and dynamic financial analysis tools, were extremely well received in the marketplace," he said.

In the claims management area, Aon will move to strengthen its operations by bringing in a joint venture partner that "could help Aon be a global player in claims management," Mr. Ryan said. That arrangement will likely be finalized in the third quarter of this year, he said.

Aon continues to work on achieving efficiencies under the transformation plan it undertook in late 2000. Efforts to realize such efficiencies are an ongoing process, Mr. Ryan said.

The jury remains out, though, on the outcome of the plan, which sought to reorganize the company by redesigning business processes and job roles and creating regional customer service centers.

In its June analysis, Moody's noted that a slowdown in Aon's revenue growth in the first quarter of this year reflected a softening market. But, while allowing that the slowdown was cyclical in nature, Moody's said, "Aon's growth has lagged behind that of its significant competitors, having been adversely affected by the implementation of the company's 'Transformation Plan.'"

Reorganization under the plan "resulted in significant employee turnover and disrupted the flow of new business," the rating agency added, hindering Aon's ability to fully benefit from the hard market.

"It appears there's still some uncertainty as to the full impact of transformation, both its success and its failure and its impact both in the business that left and the producers that left," said Timothy J. Cunningham, principal at OPTIS Partners L.L.C. in Chicago.

In terms of attracting and retaining key employees, Mr. Ryan said, "I think there's always competition for key people. But when you look at the grand scheme of our workforce, you're talking about a very small percentage of people who leave and are replaced by recruiting from competitors."

Departures of key employees for competitors may generate a lot of discussion, but, in fact, the departures "have relatively small impact," the Aon chairman and CEO said. "We've got 36,000 people (in the risk services operations), and the number (of departures) in a year around the world, well, they're double-digit, not triple-digit. So it's a very modest impact."

As the company moves to better present One Aon to its clients, Mr. Ryan announced late in June the creation of a Chairman's Policy Committee that will set and execute strategy for Aon's global brokerage and consulting operations.

Mr. Ryan will chair the committee, which will include David P. Bolger, Aon's chief financial officer and chief administrative officer; D. Cameron Findlay, general counsel; Don C. Ingram, CEO of Aon Global Consulting; Dennis L. Mahoney, chairman of Aon Re Global; Michael D. O'Halleran, president and chief operating officer; Michael D. Rice, CEO of Aon Risk Services Americas; and Dick Verbeek, CEO of Aon Risk Services International.

The committee is intended to "raise the level of involvement of senior executives in the overall Aon growth and development," Mr. Ryan said. It also should help eliminate any sort of "silo mentality," bringing the focus of the executives' efforts onto an overall Aon strategy rather than separate business units.

Looking forward, Mr. Ryan said he sees Aon continuing its "aggressive focus in our major markets. But we also have a strong belief in having a key role in the developing markets where we can have a major impact."

"I think another area of emphasis is our developing our midmarkets benefit brokering, with our retail brokers and our consultants partnering in that endeavor," he said. "And then very much a heavy emphasis in penetration sales, meaning bringing more of Aon to the same client. There's a heavy strategic emphasis on that."

"I think the myths of disintermediation that were discussed in the '90s have been revealed for just that: myths," Mr. Ryan said. "The challenge then for us and everyone who is attempting to do this is to organize and unify your resources so you can meet client needs. Clients need help."

Aon's stock price closed at $27.30 as of July 9. Its 52-week high and low were $29.10 and $20.32, respectively.

—By Rodd Zolkos

3 Willis

Willis Group Holdings Ltd.

10 Trinity Square
London, England EC3P 3AX;
44-207-488-8111;
fax: 44-207-481-7096
www.willis.com

Willis Group Holdings Ltd.'s goal of building a strong sales culture that flourishes in all market conditions bore fruit in 2003.

Brokerage revenues rose 20.7%, to just over $2.0 billion last year at the London-based brokerage. Excluding the effects of foreign exchange, acquisitions and disposals, Willis' organic growth was 15%, while net income soared 97.1%, to $414.0 million.

Willis' growth momentum continued in the first quarter of 2004, as premium rate increases continued to stabilize in the market. Brokerage revenues rose 20%, to $648.0 million. Total revenues, including interest income, grew 19.8%, to $665.0 million. Organic growth was 9%, and net income for the quarter increased 26.5%, to $148.0 million.

"The reason why we're pulling ahead of the pack is because a lot of the other firms are still dependent upon their main growth engine, which is acquisitions," said Mario Vitale, chief executive officer of Willis North America in New York. "As the market started to get softer, I think we just started to separate ourselves from the pack as a broker that can operate in any market condition."

"Everything that we've been doing in the last few years to build Willis into a strong sales culture that really can operate and flourish in all market conditions is something we've been gearing up for for a long time," Mr. Vitale said.

Continued on next page

Continued from previous page

Other observers note that, as the world's third-largest insurance broker, Willis maintains a unique position in the marketplace. It is considerably smaller than its two larger competitors, Marsh & McLennan Cos. Inc. and Aon Corp., but it is the only other brokerage that is truly global in scope.

That position has helped fuel some of its growth in recent years as it continues to compete for larger global accounts, observers say.

Willis has been successful in increasing its market share in large-dollar markets in which it has a small position, explained Adam Klauber, managing director of Cochran, Caronia Securities L.L.C. in Chicago. "They're usually the third to fifth player in large markets, such as the Fortune 2000 market, the reinsurance market and professional lines. They're a big competitor, but they're relatively small compared to Marsh and Aon, so if they just move the needle in those markets, it's pretty large revenue dollars," he said.

But it's not only market share that drives Willis' financial success, observers say.

"I think the two skill sets you most effectively need to run an insurance broker are the skill of establishing and motivating a successful sales culture and that of controlling costs," said Ron Frank, managing director and senior property/casualty analyst with Smith Barney in New York. "Those are Joe's two majors, basically," he said, referring to Willis Chairman and CEO Joe Plumeri.

Indeed, "in the last three and a half years, you saw us building a strong sales culture here, which, basically, for us means keeping the clients that we have...providing those current clients with more coverage and more products and more services...and adding new business on top of that," Mr. Vitale said.

But "if you ask me what the single biggest thing that we did in 2003 that impacted the revenues, it was the great talent that we attracted," he said. "Great leadership brings with it great business, and we've seen time and time again a lot of the new talent being responsible for the big numbers we've been able to put on the board, which just reinforces our conviction to continue to attract talent to work here at Willis."

From 2001 through 2003, Willis attracted 950 new executives and producers to the firm, often at the expense of the brokerage's competitors.

"It's funny," Mr. Vitale said. "When I came to Willis with Joe Plumeri almost four years ago… and started making calls recruiting people, it wasn't quite the same reaction that I get today."

"Four years ago, it was closer to hard work to convince people of what I saw here as an unpolished diamond," he said. "And now, I have people calling in and we have to say 'no' often because the club here is getting exclusive and it's of high standards and not everybody's right for it."

Part of this "club" mentality includes a sense of teamwork, discipline and passion throughout the organization, with everyone supporting each other in helping create "the world's greatest insurance broker," according to Willis' 2003 annual report.

One of the "ingredients" in attaining that goal, according to Mr. Vitale, is being 100% focused on the client.

"To do that, I think the only business you should be in if you're an insurance broker is the insurance broking business," he said. By design, Willis has steered away from other businesses such as underwriting, asset management and third-party administration business, he said.

"At the end of the day, we decided to be a pure insurance broker and be 100% focused on that," he said. "We have one thing to worry about and that's being a great insurance broker,

'At the end of the day, we decided to be a pure insurance broker and be 100% focused on that.'

Mario Vitale

and I think any time that you have all of these other interests, some management attention much be dedicated to running those businesses and that's attention taken away from insurance broking."

Also part of Willis' client-centric focus is its marketing approach, Mr. Vitale said.

"Whether it's a hard market or a soft market, our clients need and should know who is differentiating them in the marketplace," he said.

"One thing carriers like to do is they like to class underwrite; they like to approach risk with a broad stroke of the brush, and the fact is no two risks are the same, even in the same class," he said. "Therefore, "it's up to somebody to differentiate those risks characteristics directly—with firsthand experience—into the market. Every client has the right to know who that person is."

Whereas other competitors centralize their marketing functions, at Willis the marketing person, who is responsible for shopping for coverage, "sits in the office that is closest to the client, so you have a great chance of meeting and knowing and approving of that person," he said.

In addition to attracting more talent and bringing those people into its sales culture, Willis spent much of 2003 and of 2004 thus far building out its global capabili-

Continued on next page

Continued from previous page

ties.

Unlike Marsh and Aon, which own their own offices overseas, Willis has opted to purchase stakes in international brokerages over the years and build up its ownership to 100% over time.

"The fact is, we are always moving more and more in that direction," Mr. Vitale said, speaking of increasing Willis to full ownership. "It's very rare that we will ever be satisfied with less than 100% ownership."

Toward that end, since 2003 Willis has acquired the remaining interests in its German partner, Willis GmbH; its Italian partner, Willis Italia; and its Danish partner, Willis A/S.

The broker also increased to majority ownership its stakes in Spanish broker Willis Iberia and Argentine broker Herzfeld & Levy. Willis also purchased a 50% stake in Chinese broker Shanghai Pudong Insurance Brokers Ltd. earlier this year.

And, most recently, Willis announced it was acquiring a majority stake in Irish broker Coyle Hamilton, with the intention of acquiring the remaining interest over the next several years.

Also in 2004, Kohlberg Kravis Roberts & Co., which led a six-member consortium that acquired Willis in a leveraged buyout arrangement in 1998, sold an additional 24 million shares of Willis, reducing its ownership to about 7.5%.

As of July 9, Willis stock was trading at $36.93 per share, near its 52-week high of $38.80. Its 52-week low for the period was $27.18.

—By Sally Roberts

4 Arthur J. Gallagher & Co.

The Gallagher Centre,
2 Pierce Place
Itasca, Ill. 60143-3141
630-773-3800;
fax: 630-285-4000
www.ajg.com

J. Patrick Gallagher Jr. characterizes 2003 as an "outstanding year" for Arthur J. Gallagher & Co.

Stock analysts alternately describe 2003 as a very strong, rebound or transition year for the Itasca, Ill.-based brokerage.

What they all agree on is that Gallagher's 2001 and 2002 brokerage growth strategy—investing more heavily in recruiting proven producers than in completing mergers and acquisitions—is beginning to pay off.

At the same time, Gallagher's risk management services, benefits consulting and wholesale operations also showed marked growth. Contributing to growth was an increase in niche business, with the brokerage expanding its offerings in that area.

Gallagher in 2003 posted a 14.3% increase in its brokerage revenues to more than $1.20 billion. Unlike in previous years, though, the brokerage was not among the leaders in revenue growth among its peers in the top 10.

Significant for Gallagher, though, is that it boosted profits by more than 12.5% to $146.2 million in 2003. The year before, profits grew 3.7%.

An important factor in that improvement was the overhaul in Gallagher's Financial Services segment, which is the brokerage's internal investment unit.

Gallagher's most significant change in investment strategy was taking millions of dollars in charges to pull out of venture capital and some other investments in 2002 and 2003 and to refocus on its synthetic fuel investment to generate tax credits and a lower effective tax rate.

But Gallagher's recent growth strategy of concentrating on recruiting proven producers from other brokerages, rather than on building business through mergers and acquisitions, also has begun to bear fruit, Mr. Gallagher and some analysts say.

Last year, revenue per employee grew 12.8% to $166,861, which was an improvement from the nearly 10% increase in 2002 and virtually stagnant results a year earlier.

Total retail brokerage commissions and fees last year grew 14.2% to $881.7 million.

Based on last year's results, Gallagher's president and chief executive officer is optimistic about the level of new business that those new producers—about 130—could generate. Calling the revenue-per-employee results a "nice increase," Mr. Gallagher noted that the new producers' noncompete restrictions began expiring only at the end of 2003.

Gallagher implemented its hiring strategy when it did because management believed that the hard market would generate the necessary revenues to support the hiring expense. The plan was for the producers to be at full strength and working without noncompete restrictions when the market softened.

"What you're seeing is that strategy is working," Mr. Gallagher asserted. "As of early last year, we said, 'The nets are full; let's go to shore'" with the production team in place and pare organic head count increases.

Across the organization last year, the employee count rose 95 to 7,206, but that total includes the employees added through 13 acquisitions and Gallagher's purchase of the remaining 50% of interest it did not already hold in risk management services company Wyatt Gallagher Bassett Pty. Ltd. of Brisbane, Australia.

Analysts like what they see so far.

Nick Pirsos, a managing director at Sandler O'Neill & Partners L.P. of New York, described 2003 as "a very good year for Gallagher." Mr. Pirsos liked Gallagher's earnings picture and the improvement in the risk management services operation.

Analyst Matthew V. Roswell called 2003 "a year of rebounding" for Gallagher. Mr. Roswell, a principal and insurance brokerage analyst with Legg Mason Wood Walker Inc. of Baltimore, applauded the 0.2% drop in the ratio of salary and benefits expense to revenue. "That's just simply getting people to be more productive."

Analyst Dave Sheusi described last year as a "transition year" for Gallagher. The brokerage's "strategy to bet on people" by focusing on hiring producers "is coming to fruition," said Mr. Sheusi, a vp with J.P. Morgan Securities Inc. of Baltimore.

Noting that revenue growth has outpaced expense growth in Gallagher's brokerage business from the second quarter of 2003 through the first quarter this year, Mr. Sheusi said, "We want to continue to see that."

'I believe that in the next five years, over 90% of our business will be from clearly defined niche areas.'
J. Patrick Gallagher Jr.

Questions "continue to linger" about whether Gallagher can keep expanding its profit margin, he said. "But if anybody is going to execute that plan, it's Pat Gallagher and Doug Howell," who was appointed chief financial officer for Gallagher in March 2003, Mr. Sheusi said.

During the first quarter of 2004, revenues at Gallagher's brokerage and risk management segments increased 9%, but organic growth was only 4%, as the property/casualty market softened. That is why Gallagher again has a healthy appetite for mergers and acquisitions, Mr. Pirsos noted. Last year, Gallagher made 14 acquisitions, and it completed 10 more during the first half of 2004.

Mr. Gallagher said he expects one key part of the brokerage's business—niche business—to become an even bigger component.

Revenues from niche business grew faster than general retail brokerage revenue in 2003, and several new niches—such as higher education, mergers and acquisitions, agribusiness, and habitation and shopping center risks—were developed, according to Gallagher's annual report. Gallagher already had several established niches, including church, construction, hospitality, nonprofit, public entity, scholastic, real estate and restaurant risks.

"I believe that in the next five years, over 90% of our business will be from clearly defined niche areas," compared with 67% currently, he said.

To that end, Gallagher is tapping its niche experts from its 60 retail offices nationwide to help place coverage not only for local clients but also for any Gallagher client, anywhere across the country, in need of assistance.

"So, they have to work on increasing profits at their own office and throughout the organization," Mr. Gallagher said.

Also on the retail brokerage side, Mr. Gallagher was happy with the performance of the company's 2-year-old Manhattan office. He expects it to produce more than $10 million of revenue this year.

Among other developments at Gallagher:

- The risk management service segments reported a 14.4% growth in fee revenues to $320.7 million last year. Gallagher Bassett Services Inc., the brokers third-party claims administration subsidiary, generates more than 90% of those revenues.
- Gallagher Bassett's claim count surged past August 2001 levels of 30,000 per month to between 40,000 and 41,000. After the Sept. 11, 2001, terrorist attacks, reduced business in several key client industries had cut monthly claim volume to between 24,000 and 26,000 claims by December 2001, and Gallagher Bassett did not recover that claim volume until last year. Part of the new business came from domestic and offshore group captives and from insurers that outsource their claim functions.

During the first quarter of 2004, revenues for that segment increased by around 15%, all of which was organic.

- Gallagher Benefit Services Inc. formed eight strategic niches last year to, among other things, promote its expertise in those areas and bolster its cross-selling opportunities with its brokerage niche practice groups. The new niches are health care, higher education, hospitality, public entity, religious, restaurants, scholastic or primary education, and transportation.
- Gallagher has introduced its Gallagher Insight information management system, a Web-based portal that allows clients and the brokerage to manage policy information online. With about three dozen clients signed up for the system, Gallagher is introducing it slowly. Mr. Roswell said the system puts Gallagher on the same technology footing as the rest of the insurance industry.

Gallagher's stock closed July 9 at $30.67. Its 52-week high and low were $34.25 and $24.64, respectively.

—By Dave Lenckus

5 Wells Fargo & Co.

150 N. Michigan Ave., Suite 4100
Chicago, Ill. 60601;
312-423-2500; fax: 312-423-2508
www.acordia.com
www.wellsfargo.com

Three years after Wells Fargo & Co.'s 2001 acquisition of Acordia Inc., the Chicago-based broker's integration into its parent company's operations seems to have been realized, with both poised to reap the benefits of the relationship.

"Acordia was the largest bank acquisition in our industry and continues to be," said Kevin W. Conboy, Acordia's president and CEO. "I think a lot of people were looking at how Wells would handle the integration and the business plan of Acordia."

Three years on, however, "I think Wells has been the best owner we've ever had," Mr. Conboy said.

"We're in 83 different business lines," said David J. Zuercher, executive vp & head of the International, Correspondent Banking and Insurance Services Group at San Francisco-based Wells Fargo & Co. "What we're trying to do is develop a core competency in insurance brokerage and employee benefits," he explained.

"One of our strategic initiatives is to sell eight different products or services to every customer," Mr. Zuercher said. "So insurance becomes a big part of that equation because insurance is something every customer needs."

Acordia is "continuing to become more integrated with the bank and the bank's customer base," the Wells Fargo executive said. "We've made a lot of progress in the last 18 months or so."

"And Wells wants to be a bigger player in the business," added Mr. Conboy. "So our game plan is to continue to grow and build Acordia."

After operating briefly as a subsidiary of Wells Fargo Insurance Inc., the parent company reorganized its insurance operations late in 2001, returning Acordia's headquarters to Chicago where it operates as a wholly owned Wells Fargo subsidiary.

"It took some time for them to organize themselves within Wells Fargo and to refine their business model, and I think they, in fact, have accomplished that," said John W. Wicher, principal at insurance industry investment bank John Wicher & Associates Inc. in San Francisco. "It takes a while and you have to work at it to make it work. And they have."

Underscoring Acordia's integration into Wells Fargo, the companies have moved to report the results of all of Wells Fargo's insurance operations in a single combined fashion, including both Acordia and St. Louis Park, Minn.-based Wells Fargo Insurance Inc. Last year, Wells Fargo was still reporting the brokerage units' revenues separately.

The 2003 brokerage revenue for Wells Fargo & Co. of nearly $800.5 million was up 14.8% from 2002, placing Wells Fargo fifth among *Business Insurance's* ranking of the world's largest brokers.

While Acordia made a number of acquisitions in 2003, most of them occurred late in the year. Consequently, organic growth was the main driver of revenues for the company in 2003, according to Mr. Conboy, and the impact of the acquisitions will give a boost to the broker's 2004 figures.

Acquisitions in 2003 included the Pate Insurance Agency in Homer, Alaska; excess and surplus lines broker RMC2 L.L.C. of Chicago and West Palm Beach, Fla.; Care Insurance Services of Omaha, Neb.; Wisenberg Insurance & Risk Management of Houston; McDermott Brokerage Inc. in Omaha; Goodritz-Emanuel Insurance in Bala Cynwyd, Pa.; and Malenas Insurance Agency in Cleveland.

Continued on next page

Continued from previous page

Acquisitions made so far this year have included Feeney Durler West Insurance Services L.L.C. in Santa Rosa, Calif.; Seattle-based Sacia Risk Solutions; Baldwin & Whitney in Dayton, Ohio; and Speare & Co. in Encino, Calif.

“Just like all of our competitors, acquisitions are a major part of our business plan,” Mr. Conboy said. Acordia takes a disciplined approach to its acquisitions, however.

“Buying revenue for the sake of buying revenue has never been a good strategy,” Mr. Conboy said. Instead, the broker looks for appropriate fits in terms of business and culture while focusing on opportunities not only within Wells Fargo's territorial footprint but also elsewhere in the country as acquisition possibilities emerge that fit with Acordia's overall marketing plan.

“They're as good as anybody on the street in rolling out their selective acquisition strategy,” said Timothy J. Cunningham, principal at Chicago-based OPTIS Partners L.L.C. And when the broker acquires successful producers, it integrates them into the organization in a way that allows them to continue doing what it was that made them successful, he said.

Acordia embarked on several new initiatives in 2003.

“We started an alternative risk group last year headed by (Vp) Mark Green, and Mark and his team have done a good job of developing skill sets and new products for those customers looking at alternatives,” Mr. Conboy said.

“We've seen probably 50 different customers or prospects in the past six months who've wanted to look at that,” Scott R. Isaacson, Acordia's senior vp and chief marketing officer, said of the broker's ART activities. Acordia also is seeing significant interest in finite risk deals, Mr. Isaacson said.

Meanwhile, a Risk Finance Group started in 2003 focuses on errors and omissions, directors and officers, employment practices liability and environmental risks. “That's been a huge success,” Mr. Conboy said.

The company's Acordia Re intermediary operation, which was launched in late 2002, has “turned out to be a very good business for us,” Mr. Conboy said. “We just picked up some significant business in Latin America; in particular, Brazil.”

And American E&S, Acordia's excess and surplus lines broker, had “outstanding results in 2003,” the Acordia president and CEO said.

The broker's employee benefits operations also have been successful, Mr. Conboy said, and the company anticipates opening “one or two offices in the western part of the country.”

On the workers compensation front, Acordia expects primarily to continue pursuing business opportunities in the mid-Atlantic and Southeast regions, he said.

Acordia intends to continue its mid-market focus, which fits well with that of its parent company.

Wells Fargo focuses on mid-market companies, and “Acordia, then, is a perfect fit, because Acordia is the most prominent player in the United States in that market,” Wells Fargo's Mr. Zuercher said. “We clearly understand who we are and we stay focused on markets and products that we're very good at.”

The approach is a good one in the current market, according to Mr. Wicher, the investment banker. “Where we are in the cycle is probably a good time to be Acordia, with a large number of small to midsize clients, not necessarily in major urban areas,” he said.

“It's a big market,” said Mr. Conboy. “There's a finite number of Fortune 500 customers out there.”

And Acordia also plans to maintain its decentralized management approach, a style also in step with its parent, allowing operational authority to remain close to the customer and an entrepreneurial spirit to thrive.

“They're fairly decentralized, so a lot of the management responsibility remains out in the field,” said Mr. Cunningham of OPTIS.

“Our play is to be out there close to our customers, understand their needs and then have corporate resources that we can call on when the need arises,” Mr. Isaacson said. He conceded that with a more centralized approach “you can find efficiencies.” But, he said, “We think it's more important to stay close to the customer and truly understand their needs.”

As some of its customers look to do business abroad, Acordia continues to offer clients services in more than 90 countries around the world through HLA Global, the international network it formed in 2001 with London-based broker Heath Lambert Group Ltd.

Wells Fargo & Co.'s stock is traded on the New York Stock Exchange. It closed at $57.02 on July 9, and during the 52-week period ending then saw a high of $59.72 and a low of $48.90.

—By Rodd Zolkos

‘Just like all of our competitors, acquisitions are a major part of our business plan.’

Kevin W. Conboy

6

Jardine Lloyd Thompson Group P.L.C.

6 Crutched Friars
London EC3N 2PH, England
44-207-528-4444;
fax: 44-207-528-4185
www.jltgroup.com

Further expansion in the United States, whether through acquisitions or organic growth, continues to be a priority for Jardine Lloyd Thompson Group P.L.C.

Indeed, JLT Chief Executive Steve McGill said that the London-based brokerage has several opportunities in the works for recruiting teams of individuals both in the United States and elsewhere. But he remained tight-lipped on the details, saying that stock market regulations prevent him from elaborating ahead of the release of the company's interim results, to be announced later this month.

Last year, JLT's gross revenues grew 9.3% to £446 million, while brokerage revenues—which do not include investment income or revenues from nonbrokerage operations—grew 10.6% to £429 million. This increase was driven both by organic growth and by acquisitions, Mr. McGill explained.

In dollar terms, gross revenues increased 18.9% to $728.8 million, while brokerage revenues rose 20.3% to $701.0 million. Despite the increase, JLT dropped one spot to No. 6 in *Business Insurance*'s ranking.

One high-profile acquisition made by the London-based company in 2003 was the addition of a 60-strong aviation team, lead by Nigel Weyman, from London-based Heath Lambert Group Ltd.

"We have always wanted to have a world-class aviation insurance broking capability for major flag carriers," he said. "We have always had a good team that has been handling aviation insurance broking, but this (acquisition) moved us much further into the big league." Terms of the deal, done in November 2003, were not disclosed.

The company's preferred method of growing "has always been acquisitions of people who fit the JLT culture," said Mr. McGill. "Bolt-on acquisitions—and (Heath Lambert) aviation was a bolt-on acquisition—also fit very neatly," allowing the broker to add an entire team at once.

Business Insurance
www.businessinsurance.com

SINGLE-COPY SALES
To order any current or back issue of *Business Insurance*, call the single-copy sales division of *BI's* Circulation Department:
1-888-446-1422

CHANGE OF ADDRESS?
If you have moved recently and would like to change your subscription address, or if you would like to report a delivery problem, please call us at 888-446-1422 toll-free or e-mail us at subs@crain.com

"We are very aggressive about developing our business in that manner, because we see it as potentially very good return and relatively low risk," he said. "We are cautious about doing acquisitions on a larger scale, and, the bigger the acquisition, the more cautious our approach."

"We are very active on the recruitment front. We have been, certainly, for the last year," Mr. McGill said. In addition to the aviation team, he said, JLT in November recruited a U.K.-based property team from Arthur J. Gallagher & Co.

"We have been strengthening our business all around the world by continued recruitment of high-caliber professionals, and we have particularly been expanding our capability on the ground in the United States. We have some very exciting initiatives underway at the present time," he added.

Mr. McGill said the company has sought to develop its U.S. business because "we absolutely recognize the importance of having a credible profile in the most important insurance market in the world." JLT currently derives about one-quarter of its brokerage revenues from clients based in the United States.

'We have been strengthening our business all around the world by continued recruitment of high-caliber professionals.'
Steve McGill

The company is working to develop wholesale revenues from America from many regional brokers and from major corporations through their captive insurance companies, Mr. McGill noted. "We have got a good spread of business, but we expect that our profile with U.S. clients is going to increase substantially over the next five years," he said.

But acquisition targets are not confined to the United Kingdom and the United States, Mr. McGill added. He said that JLT is looking at the possibility of adding certain of Heath Lambert's insurance and reinsurance businesses in Latin America.

As part of its growth efforts, JLT is looking to expand its employee benefits business, Mr. McGill said. Employee benefits accounted for about 17% of JLT's 2003 revenues, down from 19% in 2002.

In January 2004, JLT said it had acquired the business portfolio of Houston-based HCC Employee Benefits Inc. from HCC Insurance Holdings Inc. HCC Employee Benefits, which specialized in life, accident and health insurance brokering, had revenues of $22.1 million in 2002. The deal also involved the transfer of about 60 staff.

Mr. McGill said that acquisition was a great opportunity for JLT, as HCC Employee Benefits' business is complementary to that written by JLT's specialty businesses in the United States, he said.

Following the HCC acquisition, JLT reorganized its U.S. operations. The company's U.S. businesses—Capital Risk L.L.C. and reinsurance subsidiary JLT Re Solutions Inc.—are now part of a newly formed subsidiary, JLT USA Inc. Mr. McGill was named chairman of the new arm, a move he said was intended to underscore the importance of that business to JLT.

Mr. McGill also became chairman of the group's employee benefits business in the United Kingdom, another area JLT sees as ripe for growth, he said.

In the United Kingdom, JLT will seek to increase its employee benefits business through recruitment, said Mr. McGill, "but, also, we have always said that we are interested in expanding by acquisition."

For the present, JLT's focus for employee benefits will remain the United States and the United Kingdom, Mr. McGill noted. While the brokerage recognizes other possible growth areas, "the potential on our own doorstep and in the U.S. is so considerable that our primary focus is in those markets," he said.

Joanna Parsons, an analyst at ABN AMRO in London, said that JLT posted a good performance last year, noting that the company's revenues increased while expenses fell. In addition, she said that last year, JLT began to see a good margin on its employee benefits business.

She cautioned, though, that the weak dollar might hold back the company's results somewhat this year, a factor already cited by JLT Chairman Ken Carter in presenting the group's annual results for 2003.

JLT also is watching developments in issues of importance to brokers and their clients.

While the brokerage has not been subpoenaed as part of the investigation by New York Attorney General Eliot Spitzer into contingent commissions (see story, page 36), Mr. McGill said that he is hopeful the inquiry will ultimately benefit the brokerage industry.

"I hope that the Spitzer investigation results in more transparency for the brokerage industry," he said. "I view the investigation as ultimately being beneficial for the industry, as opposed to being negative."

In the United Kingdom, a key issue for brokers is the upcoming regulation of the industry by the Financial Services Authority, which already oversees the insurance industry. The London-based FSA will take over the regulation of insurance intermediaries beginning Jan. 14, 2005.

Mr. McGill said that JLT broadly welcomes the arrival of FSA regulation. "We think it is going to improve the level of professionalism in the industry and make sure that clients are even better protected going forward," he said.

He acknowledged, though, that there is a risk that FSA regulation could increase red tape for brokers. "I just hope that it doesn't increase the level of bureaucracy in the industry, so we concentrate on the issues that are really important, as opposed to ticking the right boxes," Mr. McGill said.

Mr. McGill added that JLT had committed a fair amount of resources to ensuring compliance with the FSA regime, and he noted that there may be consequences to similar burdens placed on smaller to medium-size firms.

"I believe that (this) will result in continued consolidation in the U.K. insurance broking industries," he said.

JLT's shares, which are traded on the London Stock Exchange, closed at 405 pence ($7.55) on July 9. The stock's 52-week high and low were 603 pence ($11.25) and 402 pence ($7.49), respectively.

—By Sarah Veysey

7

BB&T Insurance Services Inc.

P.O. Box 31128
Raleigh, N.C. 27622;
919-716-9777; fax: 919-716-9783
www.bbandt.com

A combination of strong organic growth and a major acquisition in 2003 vaulted BB&T Insurance Services Inc. into the ranks of the largest insurance brokers in the world, and the Raleigh, N.C.-based company is looking to keep growing.

The purchase of Birmingham, Ala.-based McGriff Seibels & Williams Inc. boosted BB&T's brokerage revenues to $604.7 million in 2003, making it the world's seventh-largest insurance broker. That represented a 70% increase from 2002, when BB&T reported brokerage revenues of $354.5 million.

The $350 million cash-and-stock deal for McGriff, which was completed in February, was part of a "three-pronged" acquisition strategy, said Wade Reece, president and chairman of BB&T Insurance Services. That strategy comprises expanding BB&T's reach nationally, growing in markets where its bank parent has a presence and building its wholesale operation.

BB&T's strategy includes expanding its reach and growing in markets where its parent has a presence.
Wade Reece

BB&T was looking for large-account agencies that were outside the current Southeastern footprint to take its retail operation to the national level, he said. While BB&T Insurance Services has some large accounts, its specialty over the years has been service to midsize businesses, small businesses and individual clients. McGriff, with its specialization in large-commercial accounts—such as Fortune 500 companies or those generating more than $50,000 in commissions—was "the perfect match," Mr. Reece said. "We wanted to make a very complementary fit to what we already had."

McGriff, which operates as a wholly owned subsidiary of BB&T, also has offices in Houston and Dallas, which is a benefit for BB&T because many large corporations are based in those cities, he added.

McGriff Chief Executive Officer Bruce Dunbar cited BB&T's platform and resources and its financial backing from parent company BB&T Corp., the nation's 12th largest financial holding company, as the rationale for joining BB&T Insurance Services. McGriff's risk management specialty areas include energy and marine, financial services, construction, surety, employee benefits, health care and public entity.

Another key aspect of BB&T's acquisition strategy is to purchase midsize agencies—those with about $5 million to $15 million in revenues—in locations where its parent company, BB&T Corp., has numerous banking operations. The bank has a much larger presence in Central and Northern Florida, Tennessee, Kentucky and Maryland than the insurance unit does, so BB&T Insurance Services is attempting to supplement its geographic presence by expanding its operations in these areas. For example, BB&T Insurance Services announced plans to buy commercial property/casualty agency Iler Wall & Shonter Insurance Inc. of St. Petersburg, Fla., in March 2004, three months after BB&T Corp. said it would buy Republic Bancshares Inc. of St. Petersburg.

"That's working as a cross-sale play," Mr. Reece said. "Part of our strategy, of course, is to follow the bank into new markets."

BB&T Insurance Services does not want to depend on its parent company to be competitive, but wants to use it as an opportunity for customers and to build a foundation, Mr. Reece said. The insurance unit tries to maintain an entrepreneurial and decentralized operation, but its parent provides capital, leads and cross-sale opportunities, he said.

"There's not much not to like about your parent when they give you money and give you leads," he said.

The final part of its strategy is to make acquisitions for its wholesale subsidiary, CRC Insurance Services Inc., concentrating on developing its managing general agent segment. CRC was the second-largest wholesale broker last year ranked by *Business Insurance*, based on gross revenues of $108 million. Wholesale operations accounted for about 23% of BB&T's gross revenues in 2003.

The company has made acquisitions such as its May 2003 purchase of Jackson, Miss.-based Southern Cross Underwriters Inc., whose specialty lines include commercial transportation, property and casualty lines, including marine and directors and officers liability.

BB&T Insurance Services' acquisition strategy drew high praise from John Wicher, principal at San Francisco-based John Wicher & Associ-

Continued on next page

Continued from previous page
ates, which provides merger and acquisition advisory and investment banking services to the insurance industry. He said BB&T has "assembled a portfolio of very fine companies."

"They've done a lot of things right," he said. "They've been very selective in the assets they acquired. They've shown themselves to be forward-leaning and assertive."

BB&T Insurance Services has been aggressive in the M&A market, having made 75 acquisitions since Mr. Reece started as head of insurance operations 14 years ago. BB&T has been in insurance since 1922, when it started as a small agency in North Carolina and has grown steadily through the rest of the Southeast and the Mid-Atlantic region. Last year, the company experienced 70% growth due to its acquisitions and 24.1% pure organic growth.

"That's something we work on very hard, and we're very glad to see it," he said. "It's a maturity of our agency."

Mr. Reece estimated organic growth this year would be about 17% to 18%, which, he said, reflects the soft market dynamics. "Are we going to be pleased with that? Absolutely," he said.

Prices are clearly moderating or declining, with even employee benefits premiums going down because of the slowdown in health care cost increases, Mr. Reece said. It is still a good market, though, and the company plans to expand its employee benefit practice through acquisitions, he said. Benefit business accounted for more than 7% of BB&T's gross revenues in 2003. In May, BB&T announced plans to buy Lexington-based Employee Benefit Services of Kentucky, which provides life, health, dental, vision and disability income insurance as part of employee benefit plans.

BB&T has been commercially focused in the past, but the company plans to increase its focus on its personal lines business as well, Mr. Reece said. It has hired Cathy Lamoreau, a former personal lines executive at The Hartford Financial Services Group Inc., to head up its personal lines business because she has a lot of experience in this area, he said.

However, the company will still maintain its focus in areas such as D&O liability and title insurance, which has been a good segment for the insurance unit because its relationship with its parent company presents many cross-sale opportunities. "All of these niches are ones that we have a lot of expertise in and we would want to continue to grow all of these," Mr. Reece said.

The McGriff acquisition puts BB&T in a better position to compete with top brokers Marsh & McLennan Cos. Inc. and Aon Corp., he said. "Obviously, we're competing with them directly head to head more than we ever have," he said.

Mr. Reece said his company has a competitive advantage over the bigger brokers because it can provide more attention to clients and places a tremendous value on understanding the client's needs and building a permanent relationship. "That's not to say our competition does not do that, but I think we are better at that," he said.

Part of BB&T's strategy is to keep key executives and former owners of acquired companies in high-profile management roles and to maintain staff acquired through acquisition. The company lost some employees through attrition but has generally increased staff as it expands operations.

In addition, BB&T has not had to institute wage freezes or layoffs because of prudent expense management, he said. "We're very cost conscious," he said. "We watch that like a hawk. Our long-term focus on expenses prevented us from doing any of those things."

BB&T's parent company, which has also been aggressive in M&A activity on the banking side, has had its stock performance ratings modified in recent months due to market speculation on a possible sale of the company that led to a 7% increase in BB&T's share price in May. Analysts for Bear, Stearns & Co. downgraded the bank's rating from "outperform" to "underperform" because they believed the run-up in BB&T shares was based on unrealistic market expectations.

Mr. Reece insisted that the rating change has no effect on BB&T Insurance Services. "It really had no effect on us, outside of it's a consideration if we were doing a stock deal," he said.

As of July 9, BB&T Corp. stock was trading at $36.68, about midway between its 52-week high of $39.69 and low of $33.02.

—By Gloria Gonzalez

8 HRH

Hilb Rogal & Hobbs Co.

4951 Lake Brook Drive
Glen Allen, Va. 23060;
804-747-6500;
fax: 804-747-6046
www.hrh.com

The name may have changed but the story remains the same: The records continue to fall at Hilb Rogal & Hobbs Co.

The Glen Allen, Va.-based brokerage, which changed its name from Hilb Rogal & Hamilton last fall to reflect the integration of Hobbs Group into its organization, continued to grow through a combination of making acquisitions, improving existing operations and branching out into new areas.

Premium volume grew 28.3%, to about $5.90 billion in 2003, compared with 2002. Brokerage revenues, which account for most of HRH's total gross revenues, rose 24.4% to $555.7 million. And that increase was enough to move HRH up two places to No. 8 on *Business Insurance's* ranking of the world's largest brokerages.

Net income, meanwhile, rose

Continued on next page

Continued from previous page
15.1% to around $75.0 million in 2003.

"We did have another record year, the sixth consecutive year that we've increased earnings more than 15%," said HRH Chairman and Chief Executive Officer Martin L. Vaughan III. He noted that 2003 marked HRH's 10th consecutive year of record earnings.

There was a slight slowdown last year—HRH missed its initial earnings forecast for the third quarter—but the company has rebounded.

"The revenue growth that we've enjoyed in the first quarter of 2004 was 11%-plus. The first quarter was a little softer than some of the historic growth that we've seen. It's partially because we were light on closing acquisitions," Mr. Vaughan said.

Mr. Vaughan, previously the company's president and chief operating officer, became HRH's top executive last year when former Chairman and Chief Executive Officer Andrew L. Rogal retired. Robert B. Lockhart—HRH vp and director of HRH's Northeast division, assumed Mr. Vaughan's former positions last summer. Meanwhile, Tom Golub, the former head of Hobbs who became an HRH executive vp when HRH acquired the firm, resigned from the company last August.

While the Hobbs acquisition became final two years ago, the integration of the Atlanta-based risk management and brokerage firm continues to be one of the defining issues for HRH, say analysts.

Finalizing the integration of Hobbs into HRH will be one of the brokerage's major challenges this year.

Martin L. Vaughan III

Hobbs Group was the 17th-largest broker of U.S. business—based on brokerage revenues of $86.2 million—in 2001, the last full year before HRH acquired it. The total cost of the deal to date—including cash paid and stock issued—is approximately $273 million.

Hobbs was "to some degree a transforming acquisition for the company. It allowed them to put their game on a higher level, and that's really the platform they've been building from," said Mark Dwelle, equity analyst with Ferris Baker Watts in Richmond, Va.

"The Hobbs acquisition, I think by most measures, was expensive. But by the same token, it gave them some capabilities they didn't previously have and probably gives them some opportunities to grow in areas" where HRH might not have before, he said.

"If you look since they had their third-quarter earnings miss, they've really performed quite well," said Nik Fisken, managing director at Stephens Inc. in Little Rock, Ark. "I think they have been able to get their arms around what exactly they own at Hobbs, and they've identified the issues that caused the third-quarter miss—mainly the slowdown and lack of internal growth."

The Hobbs acquisition was part of HRH's strategy to move beyond its traditional middle-market focus into competing for large accounts with full-time risk managers. Mr. Vaughan said that finalizing the integration of Hobbs into HRH will be one of the brokerage's major challenges this year.

As the Hobbs integration has continued, HRH has entered into new areas, notably excess and surplus lines, reinsurance brokerage and managing general agency business, said Mr. Vaughan. HRH has been "particularly successful in E&S," he said.

E&S business now accounts for about 5% of HRH's revenue and "is growing quickly and is doing well," he said.

In fact, HRH acquired two E&S operations in 2003: Dallas-based Maclean, Oddy & Associates Inc. and Redondo Beach, Calif.-based Bliss & Glennon Inc.

Timothy Korman, HRH's executive vp-finance and administration, also noted that the January 2003 acquisition of Denver-based Freberg & Co. Inc. brought MGA capabilities, while the acquisition of Boston-based Sheppard Riley Coughlin Insurance Agency Inc. added strong surety capabilities. And the acquisition of London-based Alexander, Brooks & Stephens Ltd. in November gave HRH entry into the reinsurance brokerage business.

The acquisitions have continued this year as well. Adding Fredonia Group of Lansing, Mich., in April gave HRH a stronger foothold in the Midwest, an area in which it has been focusing. In fact, HRH created a Midwest region in the Great Lakes area last year, giving the brokerage six formal regional divisions.

Mr. Korman said that although the pace of acquisition has slowed slightly this year, many attractive opportunities still exist.

"It's an interesting time—most of our competitors and ourselves say our pipelines are as full as we have ever seen them. There are a number of high-quality agencies that are looking at the decision to find the right merger partner. From our perspective, there is no shortage of quality firms. We're looking for somebody we can grow with and take them to the next level," he said.

"No one in the industry can match (Mr. Korman's) record—213 deals so far," said Mr. Vaughan. The ability to close high-quality acquisition deals "is clearly one of the areas where we feel that we have an advantage over our competitors," said Mr. Vaughan.

HRH is also looking to expand its benefits business, which now accounts for about one-fifth of HRH's revenues, said Mr. Vaughan. HRH would like to increase that percentage to 30% over the next five years, he said.

Mr. Lockhart said that HRH is pleased with the progress the brokerage has made in targeting larger accounts. "We've become a much more significant presence," he said.

"We are very pleased with the talent that we have in this organization to serve in that market segment. We think this is an area that we can continue to thrive in. We think it's going great," he said.

Part of the strategy for serving that market segment was the creation of a major-accounts team to work with local producers by providing specialized expertise for larger, more complicated risk management accounts.

Mr. Lockhart said that one edge HRH has over its competitors is that the brokerage "has a culture that is very attractive" to potential recruits. HRH has its "eye on the ball of being the employer of choice. It supports our goal to outperform, outthink and outserve the competition."

Looking ahead, Mr. Vaughan said that HRH's biggest challenges in the short term will be to finish the Hobbs integration, to finalize the major-accounts unit and make sure that it is working effectively with clients, and to continue refining HRH's sales process, which was revamped earlier this year.

HRH's stock price had a 52-week high of $38.92 and a low of $27.30 as of July 9, when it closed at $34.82.

—By Mark A. Hofmann

9

Brown & Brown Inc.

220 S. Ridgewood Ave.,
Daytona Beach, Fla. 32114;
386-252-9601;
fax: 386-239-5729
www.bbinsurance.com

Brown & Brown Inc.'s appetite for acquisitions is as voracious as ever, at a time when the pace of its organic growth has slowed.

In 2003, the Daytona Beach, Fla.-based brokerage continued its breakneck acquisition pace, gobbling up 23 agencies with around $46 million in total annual revenues. Through mid-July of this year, Brown & Brown had acquired another 21 firms, representing annual revenues of nearly $86 million.

Last year's acquisitions helped push Brown & Brown's 2003 brokerage revenues to $545.3 million, up 20.6% over its 2002 brokerage

Continued on next page

Continued from previous page

lion.

The Brokerage Division, which markets excess and surplus lines commercial insurance and reinsurance, contributed $32.7 million in revenues, a 34.3% jump from 2002. Most of that increase was due to new business rather than from the addition of commissions and fees from acquired firms.

Brown & Brown's Services Division provides third-party administration and managed health services. It produced revenues of $29.4 million, up 3% over 2002. Unlike other segments of the brokerage, the division's revenues are nearly all fee based, meaning market conditions don't have as much influence over its performance.

Part of Brown & Brown's success has been the decentralized, merit-based culture the brokerage has developed, according to Mr. Pirsos. The environment encourages employees who will work hard to produce business and provide leadership, with the promise of advancement for those who stand out.

"If you want to put your shoulder to the wheel, you can flat rise," Mr. Brown explained. "There are no ceilings."

Brown & Brown operates in eight regions that are not strictly geographical. Four of the regions report to Mr. Brown and four to Jim W. Henderson, the brokerage's president.

When looking for new hires who can produce in an environment that demands results and rewards them, Brown & Brown has found that national accounting firms have produced "very good prospects for us," said Mr. Brown. "Obviously, we're still recruiting people from other sales type businesses, and from insurance carriers."

Brown & Brown occasionally hires a producer from another brokerage, but typically the company doesn't recruit from competitors, Mr. Brown said.

"Our culture is why we have been able for 45 consecutive quarters to post a 15% earnings increase," said Mr. Brown, who illustrated the company's strategy with a football metaphor: "Our game plan is pretty doggone boring–three yards and a cloud of dust. Ad infinitum."

Brown & Brown's shares, traded on the New York Stock Exchange, closed at $43.15 on July 9. The 52-week high and low were $45.95 and $29.20, respectively.

—By Michael Bradford

10

Alexander Forbes

Alexander Forbes Ltd.

Alexander Forbes Place,
61 Katherine St.,
Sandown, 2196 South Africa
27-11-269-0000;
fax: 27-11-269-1111
www.alexanderforbes.com

South African brokerage Alexander Forbes Ltd. is gearing up for further expansion, seeing growth possibilities in reinsurance brokerage and pension business in the United Kingdom and elsewhere.

A drop in global wholesale brokerage business and adverse exchange rate fluctuations contributed to a 10.9% decline in Alexander Forbes' brokerage revenues, which fell to 3.84 billion rand in the brokerage's home currency for the year ending March 31, 2004.

In dollar terms, though, Alexander Forbes' brokerage revenues rose 22.2%, to $537.2 million, making it the 10th largest brokerage in the world in *Business Insurance*'s annual ranking.

"Currency conversion from dollars to pounds had serious bottom-line implications for our wholesale business. We were then caught further converting back into rands," said John Percy-Davis, chairman and chief executive of Alexander Forbes Risk Services U.K. Ltd. and group deputy chief executive in London.

Wholesale business accounted for 11% of Alexander Forbes' brokerage revenues last year, down from 12% in the previous year.

The brokerage's wholesale and reinsurance business was also hit by a reduction in reinsurance business coming into the London market generally and by the loss of some of its brokerage teams to competitors, said Mr. Percy-Davis.

To strengthen its reinsurance operations, Alexander Forbes recently hired Stephen Hitchcock, a reinsurance broker from its London-based rival, HLF Group P.L.C., and is looking for additional people—and companies—to boost its business.

"We are not a big player in reinsurance, and we need to grow to pick up new business," Mr. Percy-Davis said.

Reinsurance brokerage made up about 2% of Alexander Forbes' brokerage revenues in 2003.

"We would like to increase our spread of business in reinsurance and will be considering acquisitions. We did not want to buy at the peak of the market, but now that rates are coming off, there may be opportunities to buy a small or medium-sized London reinsurance broker," he said.

In the U.K. retail market, Alexander Forbes views small to midsize companies as its key customers, noted group Chief Executive Rael Gordon in London. Mr. Gordon noted that Alexander Forbes has opportunities to increase its business in that area, as "compliance issues are placing a great burden on these companies and forcing them to take risk management very seriously."

Where Alexander Forbes competes for the largest U.K. companies is in pension business.

Total revenues from international financial services increased 13%, to £57.5 million ($96.3 million), while revenue from Alexander Forbes' risk services operations in the United Kingdom and Europe grew 2%, to £100.1 million ($167.7 million).

In the United Kingdom, many companies have been struggling with swelling deficits in their defined benefit pension plans, and plan closures have become increasingly common.

A key growth area for Lane Clark

At smaller U.K. clients, 'compliance issues are...forcing them to take risk management very seriously.'

Rael Gordon

& Peacock L.L.P.—the actuarial and pension consultant Alexander Forbes acquired in 2002—is advising pension trustees, as well as companies, about how best to manage underfunded pension plans, said Quintin Heaney, chief executive of financial services at Alexander Forbes in London.

LCP produced a 27% increase in revenues, to £30.3 million ($50.8 million) in 2003.

While plan sponsors and trustees historically have focused on how best to maximize a fund's assets, LCP now is working with them to achieve the greatest deficit reduction, he explained.

In addition, Alexander Forbes Financial Services is currently is "finding a very fertile market among companies looking to close their defined benefit pension schemes," Mr. Heaney said.

AFFS is working with LCP, which is helping pension plans manage liabilities through both short- and long-term investment strategies.

To complement its U.K. pension services, Alexander Forbes has brought in a multimanager investment solutions operation, which has proved highly successful in South Africa. The arrangement allows investors to pool their funds

Continued on next page

Commentary

Senate has its own attention deficit

Sept. 7 is National Attention Deficit Disorder Awareness Day.

Even if you're an observant individual, odds are that you have been blissfully unaware of this particular occasion. That's understandable, for this is a brand-new commemoration, officially designated as such by the unanimous consent of the U.S. Senate on July 6.

This is the same Senate that hasn't been able to agree on much of anything of importance in the past year or so. While their counterparts in the House of Representatives have managed to get some substantive work done, the senators really don't have a lot to show for their time in D.C. this session. Part of the reason lies in the unique rules by which the upper chamber operates, such as allowing a determined minority to use a filibuster to block legislation favored by a majority of their peers.

Mark A. Hofmann

The representatives, after all, did pass both medical malpractice liability reform legislation and a class action reform bill. House members on both sides of the aisle recently introduced legislation that would extend the Terrorism Risk Insurance Act through Dec. 31, 2007. That's a goal shared by risk managers, insurers and business in general.

House leaders declined, though, to get involved with asbestos compensation reform legislation. They maintained, quite understandably, that because they'd done all the heavy lifting on other tort issues, they would wait for the Senate to move first on asbestos reform by passing a measure that could be sent to the House. The House is still waiting, just as it is still waiting for the Senate to pass medical malpractice reform legislation—which it has failed to do several times—and class action reform.

Class action reform, which had at least the theoretical support of enough senators to choke off a filibuster, died a particularly ignominious death a few days ago amid a dispute over how many and what sort of amendments could be offered. While there remains some infinitesimal chance that the class action issue could be resurrected and resolved, most observers would agree that it's dead in this Congress.

Forget the adage that work expands to fill the time available. That's simply not always true on Capitol Hill, where, as the time available shrinks in a simple arithmetic progression, the amount of work seems to expand exponentially.

Part of the reason for this imbalance is that the U.S. Congress, like most other legislatures, has its own calendar. Of course, this calendar consists of the same months, dates and days of the week as the one on your desk. And if you were to look at your calendar, you would figure that the year 2004 is only slightly more than half over—having reached the halfway mark at precisely noon July 2. Even taking vacation days, holidays and trips to the dentist into account, odds are you've still got better than 100 workdays left in your year.

But that's not the case with Congress. As you read this, Congress probably has fewer than 20 workdays left this year. The rest of the 2004 session consists of breaks, holidays, recesses and political conventions, punctuated by a week here and a week there of legislative activity. Further complicating the matter is the fact that the House and Senate calendars don't always track perfectly.

Meanwhile, the legislation left to be dealt with is piling up rapidly.

Given the amount of unfinished business, a post-election lame-duck session is a possibility that grows more and more likely by the day. Lame-duck sessions, which include retiring and defeated lawmakers, are a legislative crapshoot. On the one hand, the lame-duck session of 2002 finally gave us TRIA, which the Senate had failed to pass during the regular session. On the other hand, the 1980 lame-duck session gave us Superfund, which businesses are still grappling with after nearly a quarter-century.

History indicates that the only thing predictable about such a session in 2004 would be its very unpredictability.

Meanwhile, lawmakers take up time debating measures that have no chance of passage and approving resolutions that have little, if any, impact on the public's business. Perhaps the republic is a better place thanks to the time taken to declare Sept. 7 National Attention Deficit Disorder Awareness Day. But you can't help wondering if a bit more senatorial self-awareness and attention to the legislative achievement deficit would have resulted in a far better use of the public's time and money.

Senior Editor Mark A. Hofmann can be reached at mhofmann@businessinsurance.com

Comings & Goings

Mr. Webster

Mr. Jones

Ms. Levy

Insurers:

William F. Dove has been named president of Philadelphia-based ACE Financial Solutions. Previously, Mr. Dove was senior vp and actuary at ACE USA.

Cameron Waite has been named executive vp of strategic operations at Penn Treaty American Corp. Previously, Mr. Waite was chief financial officer.

Also at Penn Treaty, **Mark Cloutier** has been appointed senior vp and CFO. Before his promotion, Mr. Cloutier was vp and chief accounting officer.

Mike Sibthorpe has been named underwriting director of the London Market center at Brit Insurance Holdings P.L.C. Previously, Mr. Sibthorpe was underwriting director for the accident and financial division of Brit Insurance Ltd.

Andrew Webster has been named director of loss prevention at the London-based TT Club, a transportation insurance mutual. Previously, he was loss prevention manager.

Reinsurance:

Hamilton, Bermuda-based ACE Tempest Reinsurance Ltd. has named **Andreas Lewin** as president. Before his appointment, Mr. Lewin was chief underwriting officer, U.S. property, for ACE Tempest Re.

J. Ruffin Branham Jr. has been named president and chief operating officer of Markel Re. Before joining the Richmond, Va.-based company, Mr. Branham was managing partner of the risk management practice at brokerage Palmer & Cay Inc.

Employers Reinsurance Corp. has made two senior-level appointments. **Richard F. Smith** has been named chief operating officer; he previously was in charge of property/casualty reinsurance operations. In addition, **Marc Meiches**, the company's CFO, has been named chief investment officer. Both will continue as vps of the Kansas City, Mo.-based company.

Managed care:

Gregory A. Arms has been named senior vp of Minneapolis-based UnitedHealth Group Inc. Before joining UnitedHealth, Mr. Arms was president and worldwide director of the group management division of American International Group Inc.

Agents/Brokers:

London-based Heath Lambert Group Ltd. has appointed **Merise Wheatley** as managing director of Heath Lambert Insurance Management, the company's captive management division. Previously, Ms. Wheatley was director.

Todd Jones has been appointed national leader of Willis Group Holdings Ltd.'s Executive Risk Practice in New York. Previously, Mr. Jones was Northeast regional practice leader.

Other providers:

Gayle P. Levy has joined New York-based Edwards & Angell as a partner in the law firm's insurance and reinsurance department. Previously, Ms. Levy was a partner at Dewey Ballantine L.L.P.

James Hardie says it will add to controversial fund but needs cap on liabilities

Asbestos trust may get funding boost

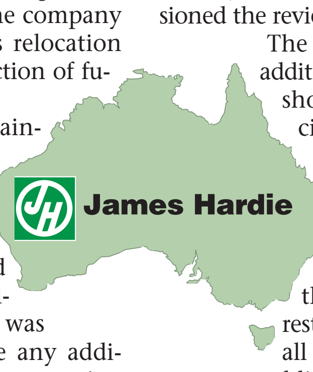
By ELIZABETH FRY

SYDNEY, Australia—James Hardie Industries N.V. has offered to establish an additional compensation program for victims of asbestos-related injuries making claims against the company.

But the building products company, which relocated from Australia to Amsterdam, Netherlands in 2001, stopped short of assuming full liability for all future asbestos claims. In addition, James Hardie said that any agreement to establish the fund would have to include a liability cap for the company.

The announcement follows months of criticism of James Hardie stemming from determinations that the $293 million Australian ($213.3 million) in funding for asbestos liabilities that the company established prior to its relocation would cover only a fraction of future claims.

James Hardie had maintained that the funds, held in the Medical Research and Compensation Foundation, were established following sound actuarial analysis and that it was not obliged to provide any additional funding, despite mounting political pressure to do so (*BI*, March 8).



In the most recent estimate, Sydney-based KPMG Actuaries last month put MRCF's funding shortfall at $1.6 billion Australian ($1.16 billion). James Hardie commissioned the review.

The offer of unspecified additional funding comes shortly before the special Commission of Inquiry—set up by the New South Wales government earlier this year to investigate the company's 2001 restructuring—makes all inquiry submissions public, which is set for July 28. The commission was due to report its findings to the New South Wales state government on June 30 but was granted an extension to Sept. 21.

In a statement announcing the proposed fund, James Hardie said: "The company confirms it is willing to contribute to a resolution in the best interests of all parties, including current and future asbestos claimants."

The company proposed that additional funding, which requires shareholder approval, would be contingent on certain conditions being met. They are:

- Speedy and fair compensation for all existing and future claimants based on objective criteria.
- Determination of contributions to be made in a manner that provides certainty to claimants as to their entitlement, the program's administrator as to the amount available for distribution and the con-

See HARDIE/page 55

Norwegian oil refinery insured for fire loss

PHOTO: AFP

A fire at a Statoil refinery near Bergen, Norway, has halved production of crude oil at the facility.

By PETA MILLER

BERGEN, Norway—Statoil A.S.A. has insurance coverage for potential losses stemming from a fire at a crude-oil terminal near Bergen, Norway, that injured two workers and has halved production at the facility.

A spokesman for Stavanger, Norway-based Statoil said the company is insured for property damage, business interruption and third-party liability with its captive, Statoil Forsikring A.S., which is reinsured in international markets. The spokesman declined to elaborate further on the insurance coverage.

Statoil also is a member of oil and energy mutual Oil Insurance Ltd. and its sister companies Oil Casualty Insurance Ltd. and sEnergy Insurance Ltd., all of Hamilton, Bermuda. OIL provides property damage coverage and OCIL provides excess general liability and directors and officers insurance, while sEnergy provides business interruption and excess property damage coverage.

The fire cut the production capacity of the refinery's crude-oil facility from 180,000 barrels a day to about 90,000, though other plants at the site are operating normally, according to a Statoil statement. Two employees hurt in the blaze, whose cause is under investigation, have been released from hospital care, the company noted.

Repair work will take "some weeks," during which time crude-oil capacity will remain at 50%, Statoil said.

E.U. panel to review aviation cover options

By PETA MILLER

BRUSSELS, Belgium—Officials from European Union member states are gathering in Brussels today to consider their response to the impact on the aviation industry from a planned exclusion by underwriters of certain terrorism risks.

Aviation underwriters contend that war risk coverage needs to be updated and narrowed to reflect new terrorism risks, such as using commercial aircraft to deliver "dirty bombs" or biological and chemical weapons.

But airlines are concerned that if there are gaps in their war risk policies, it could put them in breach of various international and regional regulations. Airline representatives contend that, in the absence of private coverage, governments must step in to provide protection. One suggestion has been for a government-supported guarantee to cover the risk.

A spokesman for the European Commission confirmed that a meeting of the Ad-Hoc Insurance Group—which was formed after the Sept. 11, 2001, terrorist attacks—will take place today in Brussels. The meeting is intended to evaluate possible consequences of aviation insurers withdrawing terrorism coverage from airlines, he confirmed.

London underwriting associations in April said they planned to develop a new aviation war clause that would exclude certain types of terrorist risk.

"After Sept. 11, the market felt it was time to review the war exclusion clauses that had been in the market for many years in order to evaluate whether they reflected the new terrorist threats that were now evident throughout the world," explained Rod Dampier, chairman of the Lloyd's Aviation Underwriters Assn.

A new war exclusion clause, AVN48C, was drafted that totally excludes coverage of damage resulting from the hostile use of: radioactive contamination or matter, such as in so-called dirty bombs; electromagnetic pulses; and chemical or biological weapons, Mr. Dampier said.

Under the market's current war exclusion clause, AVN48B, these and other war risks can be written back into coverage for an additional premium, said Mr. Dampier, who is aviation underwriter at Lloyd's of London insurer Amlin P.L.C.

Under the proposed clause, though, they would be grouped, along with hostile nuclear detonation, as uninsurable risks.

Although the new war exclusion clause has been finalized, it has yet to be ratified by regulators around the world, Mr. Dampier said.

Even with regulatory approval, the LAUA and the London-based International Underwriting Assn., which has also been involved in drafting the new clause, cannot mandate its use by underwriters. It will be up to underwriters to decide whether to use it.

However, he said there is "marketwide support" for the new clause and that he has no reason to think underwriters won't use it.

The adoption of the clause would create significant problems for airlines, according to Sefik Yuksel, general manager of trade affairs at the Assn. of European Airlines in Brussels.

Insurers are planning to exclude risks from airlines' policies that must be covered to comply with international conventions and national regulations governing airline liability, he said.

"We cannot fly without any insurance for such risks," explained Mr. Yuksel. "We cannot fly with only partial cover."

Governments impose such regulations in the expectation there will be insurance available to cover air-

See AIRLINES/page 55

World Updates

Watson Wyatt expands in Ireland

Watson Wyatt L.L.P. is acquiring KPMG International's pension and actuarial operation in Ireland. Watson Wyatt said in a statement that the deal was part of its plan to expand in Ireland. Terms were not disclosed. The addition of 10 KMPG staff members will bring Watson Wyatt's total staff in Ireland to 60, a spokesman said. The KPMG division advises clients on the design, implementation, communication and running of employer-sponsored plans.

GlaxoSmithKline settles antitrust class action

London-based GlaxoSmithKline P.L.C. has agreed to a $92 million settlement in a U.S. antitrust class action suit over the antibiotic Augmentin. Producers of a generic form filed a complaint in 2003 alleging that because GSK spent so long unsuccessfully trying to defend its patent, they had lost competitive advantage when they were allowed back into the market. The company declined to say whether insurance would cover the settlement, which is subject to court approval.

RSA sells Pakistani P/C business

London-based Royal & SunAlliance Insurance Group P.L.C. has announced the sale of its Pakistan-based property/casualty business to International General Insurance Co. of Pakistan Ltd. for about £700,000 ($1.3 million). RSA said in a statement that its premiums in Pakistan for the 2003 year totaled about £2.4 million ($4.3 million).

Lloyd's policy slips must comply with LMP

Slips used for the placement of binding authority business at Lloyd's of London must comply with so-called London Market Principles starting in January 2005. The standard slip aims to create certainty of contract wording at the time a risk is placed, among other things. Most business placed at Lloyd's is now subject to the LMP slip.

Atradius expands in United States

Amsterdam, Netherlands-based credit insurer Atradius Group has acquired Chicago-based International Collections Inc. Terms were not disclosed. ICI will do business as Atradius Collections, the company said. Atradius already operates in the United States, the statement noted, and has operations in eight European countries. The company said the acquisition of ICI was part of an expansion plan.

Professional MarketPlace

*To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@BusinessInsurance.com*

Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

HELP WANTED

key strategies L.L.C.

"The Risk Management Career Experts"

Executive Recruiting • Career Coaching

- Corporate Risk Management
- Insurance Brokerage
- Risk Management Consulting
- RMIS

100 Eagle Rock Ave. East Hanover, NJ 07936
Tel. 973-887-2300 Fax 973-887-4334
www.keystrategies.com

- Mike Tannenbaum
- Barry Citron

HELP WANTED

INSURANCE

Surpass your own speed limit.

Exceed

You have a determination that demands attention - you seize the day and make the most out of it. Certainly there are career opportunities out there for an entrepreneurial spirit like you, but will they utilize all of your talents? You're looking for a different kind of company... one with an incomparable edge.

At ACE INA, people with your ambition thrive.

As a growing and dynamic force in the Property and Casualty business, our diversified range of products and services is making an impact. People look to us for superior financial solutions for everything from home insurance to portfolio management - and we do it with innovation.

We currently have the following opportunities available in our **Philadelphia, PA**; **Chicago, IL**; **San Francisco, CA**; **Atlanta, GA** and **New York, NY** locations:

Corporate Risk Underwriters

These are great opportunities to get in on the ground-floor! You will review and analyze new business, renewals, and endorsements from producers, as you consistently establish and achieve aggressive growth, quality and profitability goals. In addition, you will monitor producer activity, provide support to producers, respond to service inquiries and prepare correspondence and reports. Your college degree and a minimum of 5 years of underwriting experience with an emphasis on workers compensation insurance for accounts generating $100,000 - $1,000,000 is a must. Thorough knowledge of various state workers compensation bureau rules & regulations is essential.

Join us and find the kind of environment that will grow your skills and help lead you to a successful career. ACE INA offers an excellent compensation and benefits package that includes retirement savings plan (we provide 6% base contribution to all eligible employees and 100% match on the first 6% of the eligible earnings that you contribute), 100% tuition reimbursement up to $15,000 per year, employee stock purchase plan, and more.

To join our team, please send your resume to:
ACE INA, Attn: M. Bell
Regional HR Manager
1 Beaver Valley Road
Wilmington, DE 19803.
E-mail: megan.bell@ace-ina.com
ACE INA is an equal opportunity employer, M/F/D/V.

ACE SM
ace ina

HELP WANTED

RMA (888) RMA-Search
RICHARD MEYERS & ASSOCIATES, INC
INFO@RMAINC.COM
WWW.RMAINC.COM

Building on Our Trusted Reputation in Executive Recruitment

TALENT ACQUISITION	TALENT MANAGEMENT
· Executive Search	· Executive Coaching
· On-Boarding	· Leadership Development
· Contract Labor	· Culture Assessment
· Salary & Comp Surveys	· CompetencyModels

Risk · Brokerage · Sales · Safety · Claims · Underwriting
Loss Control · RMIS/HRIS · Finance · Human Resources

HELP WANTED

Recruiting • Mergers & Acquisitions for the Insurance Industry

National Search Firm
(866) HEADHUNTER
PRODIGYSG.COM

Prodigy SEARCH GROUP

"It is literally true that you can succeed best and quickest by helping others to succeed." – Napoleon Hill

HELP WANTED

COMM'L SALES PRODUCERS
ACCOUNT EXECS
(PA, NJ, BALT AREAS)

AMATO & ASSOCIATES LLC

INSURANCE RECRUITERS
WWW.AMATORECRUITS.COM
610-853-9696

HELP WANTED

G

BARRY M. GOLD & CO.

- Executive Recruiting Firm
- P&C/Benefits Specialists
- Extraordinary People for Extraordinary Opportunities
- Over 35 Years Experience

www.insurancerecruiting.com
Fax: 949-660-5611

LEGAL NOTICE

IN THE MATTER OF THE REHABILITATION OF
FRONTIER INSURANCE COMPANY
SUPREME COURT, SULLIVAN COUNTY
Index No. 1357/03

NOTICE

The Superintendent of Insurance of the State of New York as Rehabilitator (the "Rehabilitator") of Frontier Insurance Company ("Frontier") hereby gives you notice that he has presented to the Supreme Court of the State of New York a petition for an order ratifying and approving certain transactions with National Indemnity Company ("NICO") as set forth in the petition. A hearing is scheduled on the Petition on September 17, 2004 at 9:30 A.M. before the Supreme Court of the State of New York, Sullivan County at the Lawrence H. Cooke Courthouse, 414 Broadway, Monticello, New York 12701. If you wish to object to the Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Rehabilitator at the address appearing at the end of this notice, and the Clerk of the Court, on or before August 13, 2004.

The Petition and Report are available for inspection at the address appearing at the end of this notice. The Petition is summarized below. In the event of any discrepancy between the summary herein and the petition, the petition controls.

The Petition

In an Order to Show Cause dated August 27, 2001, the Court appointed the Superintendent of Insurance of the State of New York as temporary Rehabilitator of Frontier. On October 15, 2001, the Superintendent was appointed as Rehabilitator and directed to take possession of Frontier's property, conduct its business and rehabilitate the company. The Rehabilitator discusses, in the Petition, the financial circumstances, which led to the order of Rehabilitation, Frontier's financial arrangements with NICO and recent transactions with NICO since the Rehabilitator's appointment and seeks ratification and approval of such transactions.

Requests for further information should be directed to Barton W. Bloom, attorney for the Rehabilitator, at (845) 807-5169.

Superintendent of Insurance
of the State of New York
as Rehabilitator of Frontier
Insurance Company
195 Lake Louise Marie Road
Rock Hill, NY 12775
Attention: Barton W. Bloom, Esq.

MORE CLASSIFIEDS ONLINE!
www.businessinsurance.com

HELP WANTED

Assistant Treasurer & Director of Insurance

Finance: Treasurers Office
Location: Federal Way, WA

Weyerhaeuser Company's vision is to become the best forest products company in the world. We are already an industry leader with $20 billion in sales, $28 billion in assets and 500 locations. Retirement of our current Assistant Treasurer/Director of Insurance has created an outstanding opportunity at our corporate headquarters in Federal Way, WA.

This position is responsible for the establishment of operating policy, planning, management and execution of the corporate risk management and insurance program for the company and its subsidiaries worldwide. This position's mandate is to minimize the cost and cash flow impact of accidental loss through identification, elimination, loss control, claims handling and funding of potential risks. Funding vehicles used include self-insurance, two captive insurance company profit centers, alternative financing facilities, non-traditional risk management tools and traditional insurance products. This position works closely with the company's senior management and manages a team of 10 professionals.

To qualify you must have college degree in finance, business, risk management, accounting or equivalent. Experience to include 10 years in financial related areas with a minimum of 5 years of risk management. Experience should include dealing in insurance markets, contract negotiations, underwriting, claims handling, reinsurance and captive insurance management. Strong analytical and conceptual skills. Ability to learn quickly and adapt to changing markets. Knowledge of practice and principals of accounting, business and contract law, captive insurance companies tax laws. Excellent management, leadership and interpersonal/communication skills. Ability to represent the interests of the company and maintain relationships with brokers, insurance markets, insurance and reinsurance company executives and peers from other companies. Ability to learn and use a variety of information systems and software applications.

To apply, please send resumes to: **resume@weyerhaeuser.com** or fax to (206) 374-2210. Please indicate Job Requisition # BI-002847. Weyerhaeuser is an Equal Opportunity Employer, building a capable, committed, diverse workforce.

Weyerhaeuser

LEGAL NOTICE

THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED
(in liquidation)
("BFMIC")
NOTICE UNDER THE SCHEME

NOTICE IS HEREBY GIVEN that following approval of an Amending Scheme of Arrangement dated 15th April 2004 (the "Scheme") by the requisite majorities of BFMIC's Scheme Creditors under Section 99 of the Companies Act 1981 of Bermuda and Section 425 of the Companies Act 1985 of Great Britain, sanction by the Bermudian and English Courts and the making of a permanent injunction order ("the Section 304 Order") under Section 304 of the United States Bankruptcy Code by the US Bankruptcy Court, the provisions of the Scheme became effective on 25th June 2004 (the "Amending Scheme Effective Date").

As stated in the Scheme, the Bar Date for the purposes of the Scheme is 11:59 pm Greenwich Mean Time on 29th September 2004. Unless they have agreed the quantum of their claim with the Liquidators under Part 2 of the Scheme before the Bar Date, Scheme Creditors MUST submit a Claim Form and full Supporting Information to the Liquidators in accordance with Part 8 of the Scheme, so as to be received by them before the Bar Date. Scheme Creditors who do not make such a submission before the Bar Date will not be entitled to receive any payments under the Scheme in respect of Scheme Claims which are not already established at the Amending Scheme Effective Date.

The rates of interest to be used by the Liquidators in determining the net present value of future Scheme Claims (including outstanding losses and IBNR) in accordance with the Estimation Methodology, based on the US Treasury bond yields published in the Financial Times on 2nd April 2004, range from 1.0% to 5.3% for claims which would become payable in 2004 and 2022 (or later years) respectively. A schedule of the rates of interest applicable to each year from 2004 to 2022 and beyond is available in the "Documents" tab of the BFMIC website www.bfmic.bm or in hard copy from the BFMIC Creditor Helpdesk at John Stow House, 18 Bevis Marks, London, EC3A 7JB, United Kingdom or by email from creditor.helpdesk@bfmic.bm.

If you are a Scheme Creditor or believe yourself to be a Scheme Creditor of BFMIC and have not received by 30th July a letter dated 16th July 2004, including a notice in the form of this advertisement please contact the Liquidators as soon as possible by email at liquidator@bfmic.bm or in writing to the BFMIC Liquidators at John Stow House, 18 Bevis Marks, London, EC3A 7JB, United Kingdom.

By the Section 304 Order, the Scheme has full force and effect under United States law and is binding on and enforceable against all Scheme Creditors in the United States that have claims against BFMIC, which claims are covered by, or afforded treatment under the Scheme. Specifically, pursuant to the Section 304 Order, Scheme Creditors are restrained from taking actions against BFMIC, and parties are enjoined from relinquishing or disposing of property of BFMIC, except as explicitly provided in the Scheme. You are hereby given notice of this Order, copies of which are available from www.bfmic.bm.

For communication purposes, the Scheme permits the Liquidators to treat those acting on behalf of Scheme Creditors in the ordinary course ("Representatives") as being fully authorised to represent the Scheme Creditor concerned. Accordingly, unless informed by the relevant Scheme Creditor in writing to the contrary, where the Liquidators have previously been authorised by a Scheme Creditor to make payments to Representatives or others they intend to correspond with and make payments under the Scheme to those other parties.

If you have any queries in connection with this Notice please contact the BFMIC Creditor Helpdesk at the above address. Copies of the documents referred to above are also available from www.bfmic.bm.

JOHN CHRISTOPHER MCKENNA
GARETH HOWARD HUGHES
BFMIC Liquidators
16th July 2004

Hardie: Trust boost

Continued from page 53

tributors as to the ultimate amount of their contribution.

• Limitation of legal avenues outside of the scheme.

Such an approach would reduce legal costs, the company said.

A spokeswoman for James Hardie would not reveal the extent of its proposed funding for the program.

"Our proposal signals a preparedness to help find a solution. Until the Commissioner agrees to it, it is simply that," she said.

James Hardie also said that it would put forward detailed arguments in response to issues raised in an issues paper released by the Counsel Assisting the Inquiry on June 28.

Aside from questions over where the MRCF was properly funded, the paper notes that when James Hardie relocated to the Netherlands, it applied to the New South Wales Supreme Court for approval. The court-approved plan included 100,000 partly paid shares that carried the right for a shell company that remained in Australia to make a call on the new Dutch company if it was unable to meet its debts. In March 2003, James Hardie canceled those shares.

Airlines: Panel to review cover

Continued from page 53

lines' exposure, Mr. Yuksel noted.

However, he acknowledged that a terrorist incident involving these types of agents carried by an airliner could cause widespread damage, such as radiation spreading over towns or cities, resulting in potential liability.

Without private insurance for this risk, the airline sector needs governments to step in, Mr. Yuksel said.

The Assn. of European Airlines and broker Marsh Ltd. in February drafted what he termed a "common sense paper" on the issue. The paper calls for the creation of a guarantee, backed by E.U. member states, that would cover the risk for European airlines.

The proposed guarantee is modeled on the Eurotime pool, an excess-of-loss pool that was proposed in 2002 to cover airlines' third-party terrorism liability risks. The Eurotime pool proposal was withdrawn after it failed to gain sufficient support.

Later that year, the European Union instead endorsed a similar proposal offered by the International Civil Aviation Organization for a pooling vehicle known as Globaltime. Though, Globaltime still has not garnered sufficient government support to begin operations.

The proposed new version of Eurotime would require member states to provide an as yet unspecified layer of primary hull, passenger and third-party liability coverage arising from dirty bombs, nuclear detonation, biological, chemical and electromagnetic pulse attacks, according to the draft.

Above this layer, unlimited coverage for "extreme damages" anywhere in the world would be provided by an E.U. member states' solidarity instrument, which in the past has been used to pay compensation in the event of natural catastrophes. Precise details of the structure of the guarantee have yet to be formulated.

Other aviation organizations support the Assn. of European Airlines proposal.

"Our position is simple: It's clear the market has no appetite for the kinds of risks that are mentioned, there is clearly a role for government to play," said Eugene Hoeven, director of risk management and insurance at Montreal based International Air Transport Assn. "Our view is that these acts are directed at the state using the airline industry as a proxy," he added.

IATA supports the AEA initiative and is involved in European discussions, Mr. Hoeven said.

IATA intends to raise the issue of inadequate insurance at the International Civil Aviation Organization's tri-annual assembly at the end of September, when it will argue that airlines need government guarantees to operate, as well as a limitation of their liability for war and terror losses, Mr. Hoeven said.

"Our position is that if we do not get any substitute for this cover we have to stop flying," said Wolf Müller-Rostin, general counsel for Deutsche Lufthansa A.G.'s captive insurer, Delvag Luftfahrtversicherungs A.G., based in Cologne, Germany.

"The liability for damages caused by, for example, dirty bombs is part of our liability," Mr. Müller-Rostin said. "As a carrier we have to make sure we have insurance for all our liabilities. If one segment cannot be insured, even if it's relatively small, we cannot operate any more," he added.

"We have two choices, either discontinue flying, or adopt a state guarantee because they will not have Eurotime in place fast enough," Mr. Müller-Rostin warned.

Once aviation underwriters approve the proposed war exclusion clause, they would likely implement it at renewal, or cancel existing policies within seven days of a terrorist incident that involved a dirty bomb or biological or chemical agents, Mr. Müller-Rostin said.

A spokeswoman for British Airways P.L.C. in London said the airline is aware of the issue and is in talks with the U.K. government and its insurers.

"All airlines, except those in the United States, would be affected by these changes," she said.

U.S. airlines have benefited since September 2001 from a Federal Aviation Administration program that covers hull and passenger/third party liability war cover.

The U.S. protection was due to expire in December 2004, but the FAA Re-Authorization Act, passed in late 2003, gave the Department of Transportation authority to extend the coverage until March 2008.

Audits: Cutting health plan costs

Continued from page 3

are enrolling people who are not eligible. But it is still an issue, obviously."

Common examples of ineligible dependents include children who have left full-time education and divorced spouses, benefits experts say.

"We're seeing an increased interest in auditing across the board—not just eligibility audits—because of where plan costs have gone in the last few years," observed Tom Will, vp and practice leader of Aon Consulting's medical claims audit practice in Somerset, N.J.

"It's very smart for employers to be looking at this. Plan sponsors want to be able to demonstrate to their employees that they're doing everything they can to manage the plan and its costs effectively before they start asking employees for greater payroll deduction contributions or other forms of cost sharing," said Maureen Cotter, president of Maureen Cotter & Associates, a consulting firm in Dearborn, Mich. "As an employee, if I felt like I had to pay a higher percentage of the health insurance but there were 10% of the people covered who shouldn't be, I wouldn't be happy about that."

Budco, a Highland Park, Mich.-based benefits communications and dependent database developer that completed about 10 audits on behalf of Fortune 100 companies in the last two years and is conducting Delta Air Lines' audit, is seeing greater demand for its services.

"Right now, we have about 22 companies seeking audits," said Jim Bevins, director-health care services at Budco.

Benefits experts say eligibility audits can help employers reduce their benefits costs now, just when those savings are needed most.

Atlanta-based Delta, which commenced its audit on May 18, expects to save as much as $13 million next year alone by ensuring that only eligible dependents are covered under its plan, a company spokesman said. A Delta spokesman would not reveal the company's total healthcare costs.

"The savings could help offset some of the health care cost increases that Delta people and the company will experience in the coming year," Mr. Bevins added.

Dearborn, Mich.-based Ford, which began conducting regular eligibility audits in January 2000, has removed from its coverage rolls a total of 50,000 ineligible dependents, nearly 10% of its total 560,000 plan members, a company spokeswoman said. She declined to say what amount of savings that translated into.

"What we have seen is, on average, and it's been pretty consistent, employers are able to remove ineligible dependents equivalent to 10% to 15% of their contracts. So if you have 100,000 employees, you can expect 10,000 to 15,000," estimated Mr. Bevins. "So if an employer is anticipating a 10% to 15% increase in benefit plan costs, they could potentially cancel that cost increase."

Employers can also seek the repayment of any health care services or insurance premiums it has paid on behalf of ineligible dependents.

Ford employees that were found to have ineligible dependents were required to repay any claims or premiums the Dearborn, Mich.-based automaker paid on their behalf during the period of ineligibility, a company spokeswoman said. The money was repaid using payroll deductions, she added.

Delta is not seeking to recover benefit payments, the Delta spokesman said.

Savings aside, employers that

> **'It's very smart for employers to be looking at this...to demonstrate...that they're doing everything they can to manage the plan.'**
>
> *Maureen Cotter*
> *Maureen Cotter & Associates*

have ineligible dependents enrolled in their plans could be in violation of the Employee Retirement Income Security Act, as employers are in violation of ERISA if they do not follow the terms of its summary plan descriptions, according to Karen McLeese, vp of regulatory affairs at CBIZ Benefits & Insurance Services in Cleveland.

But eligibility audits are not feasible for all employers, benefits experts say.

Small employers, by virtue of their size, aren't as likely to reap great savings with audits, they point out.

Eligibility audits also pose considerable administrative challenges.

"The real issue is how will the verification be done," said Mr. Ostuw. "It might just be done by an employee certification. Or it might be done, as in the Delta situation, where they actually require submission of documents," which could be time-consuming.

"Most employers wouldn't just kick out the other dependents without some kind of a follow-up, and that's part of the administrative difficulty," he said.

Instead of taking the audit route, many employers are assessing "spousal surcharges" on those employees who enroll their spouses when coverage is available through those spouses' own employers.

In a recent survey, the National Business Group on Health found 39% of its members now impose a spousal surcharge, up from 16% in 2003, according to Helen Darling, president of the Washington-based employer coalition.

But even a spousal surcharge can be difficult to impose, benefits consultants say.

"It sounds easy, but it can be fairly complex to administer," said Tom Billet, a senior consultant at Watson Wyatt in Stamford, Conn.

For example, if an employer decides to assess the charge on employees whose spouses have "access to other coverage," it must be explicit in defining what that means, he said.

"Their contributions could be astronomically high. So when you say 'access to other coverage,' you've got to define exactly what 'access' means," Mr. Billet said.

There also must be provisions for when circumstances change, such as when a spouse who had coverage elsewhere loses his or her job and no longer has coverage or, conversely, when a spouse becomes employed and gains access to coverage, he added.

Perhaps the smartest thing for an employer to do to prevent ineligibility creep is to examine its plan's criteria and enforce them going forward, advised MaryAnne Watson, vp, claims auditing services, at The Segal Co. in Washington.

"A clear plan document allows you to enforce eligibility requirements," Ms. Watson said. "What you do from this day forward can eliminate the need for doing a full-blown eligibility audit on the entire population."

Late News

Continued from page 1

Stiles vs. Workers' Compensation Appeal Board, the claimant argued that disability benefits should be reinstated and the compromise and release agreement voided because "post-concussion syndrome" resulting from a 1995 work injury rendered her incapable of understanding the agreement. The appeals court found the claimant understood the full significance of the contract she signed.

Premera for-profit conversion bid blocked

Nonprofit health insurer Premera Blue Cross can not convert to a for-profit company, Washington Insurance Commissioner Mike Kreidler ruled. Mr. Kreidler said in a statement that he denied Premera's conversion request for several reasons, including its possible negative impact on policyholders and the public interest. The move, he said, would place subscribers and the public "at an unacceptable risk for excessive rate increases," especially in eastern Washington, where Premera has a significant market share.

Noneconomic damages barred in dismissal cases

The United Kingdom's highest court has ruled that employees cannot claim noneconomic damages in unfair dismissal cases. The unanimous decision by the House of Lords, overturns an appeals court decision earlier this year that a £10,000 ($18,733) award to a victim of workplace bullying for injury to feelings was lawful. In overturning the appeals court decision, the five Law Lords cited section 123(1) of the U.K.'s Employment Rights Act 1996, which provides for the making of compensatory awards for unfair dismissal. The "plain meaning" of the word "loss" in the law excludes noneconomic loss, the Law Lords ruled.

Morgan Stanley settles sex bias suit

Morgan Stanley has agreed to pay $54 million to settle claims of sex discrimination that the U.S. Equal Employment Opportunity Commission brought against the investment broker on behalf of more than 300 female employees.

PHOTO: REUTERS

Allison Schieffelin filed the bias complaint against Morgan Stanley.

The suit, filed Sept. 10, 2001, charged Morgan Stanley with a pattern of unfair treatment of women in its institutional equity division, alleging that female workers were denied the same pay and promotion opportunities as those afforded to their male colleagues. About $12 million of the total settlement will be awarded to the lead plaintiff in the case, Allison Schieffelin, a former bond trader whose complaints to the EEOC in 1998 prompted the suit.

Delta Air Lines takes pension charge

Delta Air Lines Inc. is taking a $117 million noncash settlement charge related to its defined benefit pension plan as a result of greater-than-expected pilot retirements, the company reported. In a filing with the U.S. Securities and Exchange Commission, the airline said it was making lump-sum distributions to 356 retiring pilots, forcing it to accelerate the recognition of its actuarial losses in accordance with federal reporting requirements.

Newspaper publisher's D&O coverage lapses

Media giant Hollinger Inc. has allowed its directors and officers liability insurance to lapse as the company faces a potentially controversial shareholder vote over the future of an important subsidiary. The unit, Hollinger International Inc., has proposed selling its U.K. interests to the Barclay Brothers for about $1.2 billion. According to an investor relations representative, the D&O policy lapsed June 30 in part because it was "horribly expensive." The coverage, which provided $130 million of limits after a $2.5 million deductible per loss, had cost $698,000 annually. American International Group Inc. led the coverage.

Briefly noted

Wausau Benefits, a unit of Fiserv Inc. in Wausau, Wis., has unveiled a high-deductible health plan for self-funded employers seeking to offer tax-favored health savings accounts. Wausau Benefits' new plan, with a deductible of at least $1,000 for single coverage and $2,000 for family coverage, will initially be linked to HSAs provided by Associated Bank, a Midwestern regional bank based in Green Bay, Wis....**Oklahoma Insurance Commissioner Carroll Fisher** invoked his constitutional right against self-incrimination when he declined to testify before the Oklahoma House of Representatives' Special Committee to Investigate the Insurance Commissioner. Mr. Fisher, who is also a Democratic candidate for the U.S. Senate, faces allegations that he embezzled insurance education funds and operated a children's charity illegally....Torrance, Calif.-based broker Keenan & Associates has partnered with Aetna Inc. to offer California employers a private-label **consumer-driven health plan**, ConsumerAdvance. The new product package, an enhanced version of Aetna's HealthFund product, will be available Oct. 1.

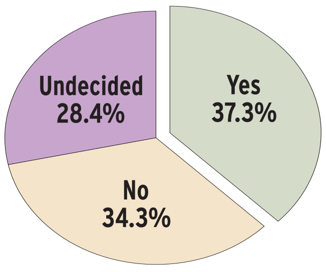
Check out *BusinessInsurance.com*

Items in the Late News column originally appeared in *BI*'s Daily News feature on *www.businessinsurance.com.* Visit the *BI* Web site to sign up to receive *BI*'s Daily News by e-mail.

Online Poll

[07/12-07/16]

Does your organization intend to terminate or freeze its defined benefit pension plan in the next 12 months?



BI Stock Index

[07/12 -07/16]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at *www.businessinsurance.com.*

Percentage change of *BI* Stock Index vs. key indicators

***BI* Stock Index**	2221.81	-0.52
Dow Jones	10139.80	-0.72
S&P 500	1101.39	-1.03

Largest gains

ACE Ltd.	15.15%
Humana Inc.	10.10%
United HealthGroup	8.95%
Sierra Health Services	6.85%
Oxford Health Plans	6.49%

Largest losses

Trenwick Group Ltd.	-25.00%
Vesta Insurance Co.	-12.31%
SCOR	-5.66%
CNA Surety	-3.53%
Axis Capital Holdings Ltd.	-3.46%

Weekly change by market segment

Brokers	-0.10%
Insurers/Reinsurers	-1.07%
Managed Care Organizations	5.03%

Source: FinancialContent Inc. (*http://financialcontent.com)*

AIK Comp: Kentucky mulls rehab prospects

Continued from page 1

retroactive premiums from fund members that purchased AIK coverage between 1997 and 2003, according to documents filed with Kentucky's OWC. The Kentucky law under which the fund was organized holds members jointly and severally liable for AIK's liabilities. Additionally, a self-insurance fund formation agreement with the state holds members liable for any reserve funding necessary to meet AIK's claims obligations.

Such a remedial plan, if approved by regulators, could help AIK remain a viable organization, or at least help it to continue paying claims past May 2005, when its cash would otherwise run dry, according to Donald Vish, AIK's general counsel.

But even with such measures, AIK may have to cease providing coverage, Mr. Vish warned. Policyholders have left AIK to seek coverage elsewhere because of the fund's financial disclosures, he said. As a result, AIK "may not be able to stay in business."

Fund members have reacted in shock and anger over AIK's disclosure of financial troubles and attempts to collect retroactive premiums to cover its shortfall, Mr. Vish said.

Employer representatives who attended a June 29 public hearing on AIK's remedial plan questioned why AIK and regulators didn't discover the fund's financial troubles earlier. Had they done so, they could have stemmed the increase in AIK's liabilities, which will be borne by its members, according to an employer who attended the meeting but asked not to be identified.

Why regulators didn't uncover the fund's financial shortfall earlier is "one of the things that we are taking a look at," said a spokesman for Kentucky's Environmental and Public Protection Cabinet, which oversees the OWC.

A former OWC commissioner who recently quit his post acknowledged that his staff could have done a better job of monitoring AIK's condition, the spokesman said.

An insurer trade group contends that AIK got in trouble by chasing premiums and underpricing risks in recent years.

AIK rapidly increased its premium volume over the past few years by reducing rates, said Nancy Schroeder, assistant vp workers compensation for the Property Casualty Insurers Assn. of America in Des Plaines, Ill. Workers comp costs in Kentucky, meanwhile, were increasing, she noted.

"Many in the (insurance) industry recognized a couple of years ago that AIK Comp was having problems and things were happening that didn't look good," Ms. Schroeder said.

From 1997 to 2003, AIK charged its members rates below the average charged by workers compensation insurers in Kentucky, according to a presentation at the OWC's June 29 public hearing.

In 1997, for example, AIK, on average, charged $1.54 per $100 of payroll, while the statewide average was $2.44 per $100. In 2003, the fund charged an average rate of $1.57 per $100, while the average rate for other insurers was $1.75 per $100.

Meanwhile, the fund paid out more in claims than it collected in premiums during some of those years. To do so, it drew down its surplus, which declined from about $11.5 million in 2000 to $47,000 in 2002, Mr. Vish confirmed.

The fund's $40 million deficit is net of excess insurance it purchases.

"There is no question that, for at least two years, the company was intentionally using surplus to subsidize rates so a statement that the premium is a true statement," Mr. Vish said. "But that doesn't account for the whole (story)."

During other years, AIK believed it was collecting enough premium to cover its losses, Mr. Vish said. But an actuarial review of reserves later found that losses during those years were greater than expected, which caused AIK's surplus to shrink.

"Then, all of a sudden, you wish you hadn't taken underwriting losses," Mr. Vish said. "That is the part we didn't see."

To prevent similar problems from recurring, the PCI, which represents insurers that write workers comp, wants greater regulator scrutiny of self-insurance funds in the state. Among other changes, the PCI wants oversight of the self-insurance funds to be transferred from Kentucky's OWC to the state's Office of Insurance, which regulates workers comp insurers.

That issue may be studied later, but currently it is not under consideration, according to a spokesman for Kentucky's Environmental and Public Protection Cabinet.

Because self-insurance fund members in Kentucky are liable for each other's claims, the funds do not need greater regulator scrutiny, contends Greg Buie, executive director for KESA, a Louisville-based self- insurance fund with more than 4,000 members.

Calling for more regulatory involvement because one fund experienced problems is an overreaction, he said.

"There are far more insurance companies that become insolvent than there are group insurance funds, so how is (more regulation) going to help?" Mr. Buie questioned.

BI 07-19-04 A 60 7/16/04 4:28 PM Page 1

Class action: Senate inaction dooms reform effort

Continued from page 1

reason, are opposed to us, but it's very frustrating to see some members of the Senate playing both sides."

"What we had was 62 senators who said they were willing to support the underlying class action bill," said Carl Parks, senior vp-government relations for the Property Casualty Insurers Assn. of America. "Majority Leader Frist offered to consider all germane amendments that any senator wanted to offer as long as that took and at least one significant nongermane amendment that was critical to the minority. But at the end of the day, a number of these senators who said they were committed to the underlying bill were unwilling to draw any line anywhere that would end debate and move to consideration of the underlying bill."

"I think it's just a symbol of how dysfunctional the Senate is these days," said Lawrence Fineran, vp-regulatory and competition policy for the National Assn. of Manufacturers in Washington. "I think there's enough blame to go around in the end, but it's just disappointing that they were unable to get it done."

The measure could come up again "only if they miraculously could find some vehicle that could be attached," Mr. Fineran noted. "Do we become one of those nongermane amendments that we didn't want added to our bill?" he asked.

It's "highly unlikely" the bill will re-emerge this year, said Melissa Shelk, vp-federal affairs for the American Insurance Assn. in Washington. Both time constraints and election year politics work against its re-emergence, Ms. Shelk said.

The Risk & Insurance Management Society Inc., though, has not written off the possibility that the Senate will reconsider the measure.

"Tort reform was adopted by RIMS as a focus issue because of the indelible impact it has on our economy and the number of our members who are facing the repercussions of frivolous lawsuits," said Janice Ochenkowski, RIMS vp-external affairs, in a statement. Despite its disappointment, New York-based RIMS remains "hopeful that this important issue will return to the Senate floor prior to the adjournment of this legislative session," Ms. Ochenkowski said in her statement.

In addition, "proponents of reform shouldn't despair, because we're only a few months away from the critical 2004 elections," said PCI's Mr. Parks. "This is an opportunity to elect senators and politicians at all levels who will come back and demand real reform," he said.

"Any substantial controversial legislation that passes in Congress often requires several sessions of Congress to push it through to enactment," Mr. Parks noted. "We shouldn't despair; we need to keep working to achieve this." The next place to work is the election, he said, because the election "will determine who sets the agenda."

Mr. Parks also said that even a defeat on Capitol Hill could raise the profile of the tort reform issue on the state level. "They understand the message even though we sometimes can't pass things in Congress," he said.

"The state agenda has remained essential regardless of what Congress has or has not done," said Sherman Joyce, president of the American Tort Assn. in Washington. "Our view is that proposals in the Congress can only be accomplished in the Congress, and we're disappointed that they weren't accomplished. The environment, process and politics of the situation were just too much to overcome."

The AIA's Ms. Shelk also stressed the importance of state action. "I don't think the focus has ever gone away from the states. We have been very active in a number of states, and that will continue," she said.

But opponents of the class action bill and other civil justice changes say that broad reform bills generally are doomed.

"There have been very few that Congress has ever passed," said Jackson Williams, legislative counsel at Public Citizen's Congress Watch in Washington. "What they had in common was that they were pretty narrow, and they had the backing of people whom you would typically expect to be plaintiffs in the cases."

Mr. Williams cited as an example of such narrow legislation the 1994 General Aviation Revitalization Act, which granted the manufacturers of small planes some relief from product liability.

"Pilots were willing to back GARA because they figured it would spur the manufacture of new airplanes," he said.

"My feeling is the class action bill was too broad. They tried to sell it as a pro-consumer bill, but they never got consumer advocates on board," said Mr. Williams.

Business-backed tort bills have failed for a variety of reasons, said Pamela Gilbert, an attorney with Cuneo Waldman & Gilbert in Washington and a tort reform foe. "They have different constituencies and, often, different lead champions and lead opponents, so their demise have different reasons for them," Ms. Gilbert said.

She acknowledged, though, that the defeat of the class action act so quickly came as a surprise.

"We were gearing up for a much more substantive debate. Everybody had been gearing up for weeks," she said. "It was just breathtaking, because Bill Frist did everything to have the class action bill not be successful." Even though Sen. Frist was one of its chief backers, she said, "every move he made moved the bill toward defeat."

Still, Ms. Gilbert noted that federal product liability reform was a "live issue" for 20 years. "To say that the class action bill has been around for six years isn't saying much. It's got lots of life left—if supporters want to spend the money."

Marijuana: Employers fear risks from medical use

Continued from page 1

ees who work here."

Among the many other complexities created by this legislation is that while state laws may permit the use of medical marijuana, federal law forbids it.

The Controlled Substances Act of 1970 classified marijuana as a "Schedule 1" drug that has no medicinal value.

Furthermore, while many state laws establish that employers do not have to accommodate marijuana use, their language may be ambiguous, if not muddled. It often remains unclear whether employers can only forbid employees from smoking at work, or whether they can demand a clean drug test, which would make it difficult for employees to ingest it after hours as well.

It may be years before these issues are resolved by the courts. For now, many employers are putting medical marijuana in the same category as prescription drugs, which means they require employees to tell them if they are using it and then, based on their particular job function, determine whether the employee needs a job transfer or other accommodation.

This issue is unlikely to go away. Eleven states have legalized medical marijuana since 1996, according to the Washington-based National Organization for the Reform of Marijuana Laws: Alaska, Arizona, California, Colorado, Hawaii, Maine, Maryland, Nevada, Oregon, Vermont and Washington state. Medical marijuana legislation also is pending in several other states.

While many observers say there is still no hard scientific evidence that establishes marijuana's efficacy, proponents attribute to it a wide variety of therapeutic applications, including relief from nausea, reduction of muscle spasms and relief from chronic pain. Marijuana has been used to treat conditions including AIDS, glaucoma, cancer, multiple sclerosis and epilepsy.

While many suffering from these conditions are unable to work, others still can. Despite its potential ameliorative effects, marijuana use raises major liability concerns for employers, say observers.

"The liability issue is huge if you don't recognize the potential danger if an employee gets into an accident and hurts somebody or themselves…or something blows up" and the incident is traced to an employee who was under the influence of marijuana, said Corbett Gordon, an attorney with Fisher & Phillips in Portland, Ore.

A complicating factor is the dissonance between state and federal law.

Because marijuana is a Schedule 1 drug, employers can prohibit employee use if the workers are federally regulated, such as Department of Transportation-regulated truck drivers. Also, employers subject to the Drug-Free Workplace Act of 1988, which applies to some federal contractors and all recipients of federal grants, must prohibit medical marijuana use.

A recent congressional attempt to resolve the conflict between state and federal law failed. In a 268-148 vote last month, the House defeated a bill that would have allowed the use of medical marijuana with state approval.

Meanwhile, the U.S. Supreme Court later this year will review the 9th U.S. Circuit Court of Appeals' 2003 decision in *Ashcroft vs. Raich*, which deals with the issue of whether the federal government can prosecute people who smoke marijuana on a doctor's advice.

In overturning a lower court decision and ruling against the federal government, the appellate court held that "the appellants have demonstrated a strong likelihood of success on their claim that, as applied to them, the (Controlled Substances Act) is an unconstitutional exercise of Congress' Commerce Clause authority," under the U.S. Constitution.

A Supreme Court ruling, though, may not necessarily clarify the issue for employers, said John Sahlberg, a Boise, Idaho-based attorney. The current Supreme Court has the tendency to issue narrow rulings that raise more questions than they answer, he said.

Employers that do not accommodate employees who use medical marijuana in the 11 states that allow it risk violating their state's disabilities law, said Ms. Gordon. "I think it's risky to continue to rely on the federal standard," she said.

But state law can be ambiguous. The Oregon Medical Marijuana Act, for instance, "says employers don't have to accommodate the 'use' of medical marijuana in the workplace, so what does that mean?" asked Stacey E. Mark, an attorney with Ater Wynne L.L.P. in Portland. "You obviously don't have to let them smoke or ingest at work," but if employers do not have to accommodate users of medical marijuana who have a positive drug test, "then what's the point of the law?" she asked.

One of the complicating issues surrounding marijuana is that, unlike drugs that come in pill form, there is no set dose. Nor is there an established standard for determining what size dose can cause impairment. This "leaves the employer in a very difficult situation" in situations where somebody under the influence of marijuana causes an injury, said Dr. Barela.

Various approaches

Employer reaction to the issue varies. Some do not accommodate medical marijuana, say observers.

"Employers are following federal law," said Mark A. de Bernardo, an attorney with Winston & Strawn, who is also executive director of the Institute for a Drug-Free Workplace, both in Washington. "There's been a lot of concern in this regard, but employers are not going to compromise their programs because of what (are) well-intentioned, but often abused, state initiatives."

Others disagree. "Most employers I deal with are pretty progressive, and unless they have a really dangerous workplace, like some place where any drug use at all would be life-threatening to other employees, they want to make sure that employees who have these diseases or conditions that benefit from medical marijuana" can be accommodated, said Ms. Mark.

Jeff Webster, director of human resources at Stockton, Calif.-based Pac-West Telecomm Inc., said that while the situation has not yet arisen, if a potential employee were to test positive for marijuana during pre-employment testing and presented a prescription to support it, "we would pull in legal counsel and review the situation based on the circumstances at hand."

"I think there's a few factors that could go into influencing that decision," including the nature of the position and the type of work involved, said Mr. Webster.

Observers say the best approach may be to treat medical marijuana as many already handle prescription drugs whose side effects can affect performance.

An employer should require employees to inform their supervisors if they are using marijuana before any drug testing takes place so that the company can make any necessary accommodations, if possible, say observers. This could include giving the employee a leave of absence, finding him or her another job, or even monitoring that employee more closely, said Ms. Gordon.

Treating marijuana like a prescription drug is the approach being taken by the city of Anaheim, Calif., said the city's risk manager, Tom Vance. Under this policy, "the only way you can qualify for medical marijuana is have a prescription. We don't treat it differently than any other drug," he said.

Employees "have to be able to do their job without being impaired or under the influence of any type of mood-altering substance," said William F. Current, president of Coral Springs, Fla.-based WFC & Associates, a consulting firm.