Business Insurance®

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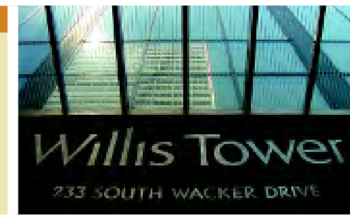
SICO WINS KEY ROUND, BUT FIGHT WITH AIG FAR FROM FINISHED / PAGE 3



SIGN OF THE TIMES AS WINDY CITY ICON GETS RENAMED / PAGE 4

In Brief

Hartford taps Andrade to lead P/C operations

Hartford Financial Services Group Inc. has named Juan Andrade president and chief operating officer of the insurer's property/casualty operations, effective immediately. Mr. Andrade, who joined the Hartford, Conn.-based insurer in 2006, replaces Neal Wolin, who left Hartford in January to join the Obama administration. Mr. Andrade previously led the insurer's property/casualty claims unit and in February assumed the role of interim co-leader of the property/casualty operations. Prior to joining Hartford, he held several leadership roles with Progressive Casualty Insurance Co. and American International Group Inc.

PartnerRe to acquire Paris Re for $2 billion

PartnerRe Ltd. has agreed to acquire Swiss reinsurer Paris Re Holdings Ltd. in a deal valued at about $2 billion. In the first step of the transaction, Partner Re—which recently acquired about 6% of Zug-based Paris Re's outstanding shares in a stock-for-stock transaction at a 0.3 exchange ratio—will acquire an additional 57% of Paris Re's outstanding common shares under the same terms and eventually will acquire all of Paris Re's shares. PartnerRe reported $46.6 million in net income and $4 billion in net premiums written in 2008. Paris Re, which includes the former reinsurance operations of AXA S.A., reported net operating income of $158 million and net written premiums of $1.2 billion in 2008. PartnerRe and Paris Re both write a variety of global specialty, property/casualty and catastrophe business. Analysts said they do not expect the

See **IN BRIEF** page 39

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Health care reform hurdles mounting

Largely partisan votes advance distinct plans in House and Senate

By JERRY GEISEL

WASHINGTON—Divisions emerged even among the Democrats that control Congress as committees began action on health care reform legislation last week, raising doubts that lawmakers can agree on a final package.

Three of the five congressional panels with jurisdiction on the issue—the Senate Health, Education, Labor and Pensions Committee and the House Education and Labor Committee and Ways and Means Committee—passed distinct packages intended to bring the United States closer to universal health care coverage.

Even as the committees acted, there were warning signals of the hurdles the legislation faces.

The first warning signal was the Senate committee's 13-10 party-line approval of legislation, with all Republican members opposing the legislation brought in the upper chamber. In the House, three Democrats on the Ways and Means and Education and Labor Committees voted with their GOP colleagues in opposing the plan introduced by House leaders.

AP PHOTO

House Speaker Nancy Pelosi last week praised votes advancing health care reform reform legislation.

That failure to garner any GOP support could be a harbinger of future problems, observers said.

"It is extremely difficult for a partisan, one-party-supported bill to survive on the Senate floor. It would require an extraordinary amount of party discipline to get all 60 (Democratic) members to vote for it," said Paul Dennett, senior vp-health care reform at the American Benefits

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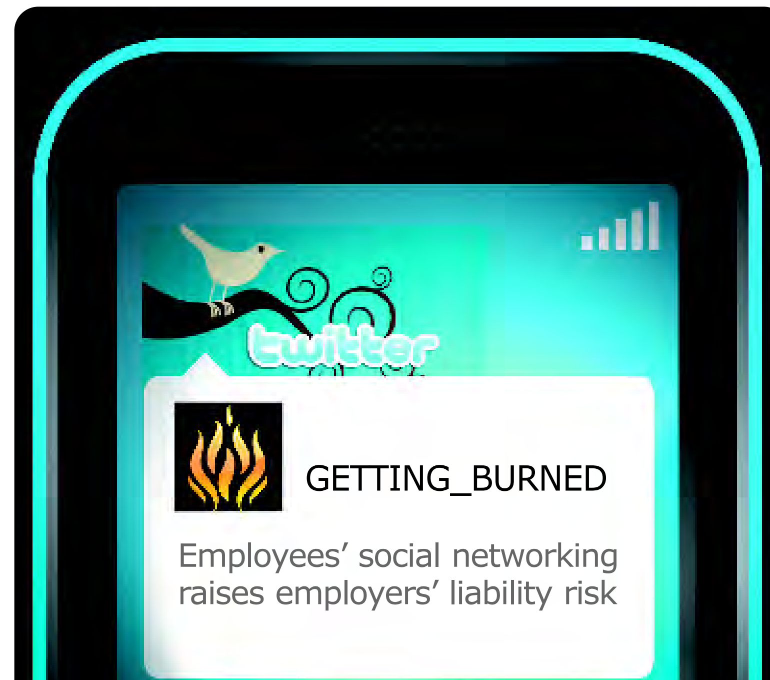

GETTING_BURNED

Employees' social networking raises employers' liability risk

By JUDY GREENWALD

You might not know it, but just 140 characters could land your organization in a whole lot of trouble.

As more and more workers tweet on Twitter or post on Facebook, employers have been slow to establish policies that would protect them from potential liability stemming from their employees' participation in the social networking sites, experts say.

Employers could find themselves held liable for employees' activity on these sites, regardless of whether their participation is on the job or during their off hours, observers say.

Complicating the issue is that some firms encourage employees to participate in social networking sites because they see it as a valuable marketing tool. At the same time, case law in this area lags as courts move to catch up with these social phenomena, experts say.

Rexford H. Stephens, a partner with Baker & Hostetler

See **TWITTER** page 39

SEC proposes board risk management disclosures

By ROBERTO CENICEROS

Public companies may soon have to disclose more information about their board's risk management role and how compensation practices affect the company's overall risk profile, potentially broadening the role of risk managers.

Under a proposed Securities and Exchange Commission rule, in proxy statements and other communications to investors, corporations would have to disclose the board's role in overseeing measures to manage company risks that include operational, credit and liquidity exposures.

The SEC proposal would challenge risk managers to expand their skill set, said Pete Fahrenthold, managing director of risk management for Continental Airlines Inc. in Houston.

But risk managers also would gain an opportunity to learn more about a wide range of corporate operational and financial risks so they can help deliver consistent information to corporate directors, said Mr. Fahrenthold, who also is vice chair of the Risk & Insurance Management Society Inc.'s enterprise risk management committee.

> **BOARD-LEVEL ACCOUNTABILITY**
>
> *The SEC's proposed rule No. 33-9052 would:*
>
> - Require proxy statements and other documents to disclose the board of directors' role in a publicly traded company's risk management process, including information on how the board interacts with senior management to manage material risks.
> - Mandate that companies disclose compensation policies if risks arising from those practices may have a material effect on the company.
> - Expand information that corporations must provide to investors about directors' qualifications, potentially including their risk assessment skills.
>
> *Source: U.S. Securities and Exchange Commission*

"It essentially creates accountability at the board level for risk," Mr. Fahrenthold said. "I think that is a good thing for risk management and the business community in general."

The SEC's proposed rule, No. 33-9052, which can be found online at *www.sec.gov/rules/proposed/2009/33-9052.pdf*, states that corporate "disclosure might address questions such as whether the people who oversee risk management report directly to the board as a whole, to a committee, such as the audit committee, or to one of the other standing committees of the board, and whether and how the board, or board committee, monitors risk."

The SEC plan is among various regulatory and legislative mandates expected to emerge as governmental entities look to shape corporate gover-

See **SEC** page 36

On the Web

ONLINE EXCLUSIVE

Additional agent/broker research, insight

The *BI* Web site features agent and broker rankings not appearing in this week's issue, including: leading U.S. retail brokers and largest employee benefits specialists. In addition, a feature article looks at brokers' views on health care reform efforts. Go to *www.BusinessInsurance.com/Brokers2009.*

***BI* VIDEO**

Video explores brokers' technology offerings

To better serve clients, brokers invest in technology. In the latest "Issues in Risk Management" video report, *BI* examines tech offerings of leading brokers. Go to *www.BusinessInsurance.com/video.*

***BI* BLOGS**

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Broker disclosure plan disappoints buyers

Risk managers, brokers voice differing views on New York's revamped set of proposed rules

By SALLY ROBERTS

NEW YORK—New York's revamped broker compensation disclosure proposal does not go far enough in protecting insurance buyers, according to the Risk & Insurance Management Society Inc.

Under the NYSID's revised proposed rule issued July 8, risk managers would have to ask their agent or broker to disclose—rather than automatically receive—information about the nature, amount and source of their compensation as well as details of any alternative quotes received.

The New York-based society said the original disclosure mandate proposed by the department in January was a step in the right direction toward strengthening the trust between insurance consumers and producers, which was severely damaged by the bid-rigging and contingent commission scandal that erupted in 2004.

NYT PHOTOS

New York Attorney General Andrew Cuomo, above, and Acting Superintendent of Insurance Kermitt Brooks are attempting to address broker compensation disclosure issues.

RIMS called the revision a "significant retreat from the regulation's premise of protecting the rights of insurance consumers."

Others, including Marsh Inc. and Willis Group Holdings Ltd., as well as risk managers contacted by *Business Insurance,* voiced varied opinions.

Acting New York Superintendent of Insurance Kermitt Brooks and New York Attorney General Andrew Cuomo are attempting to address the compensation system that resulted from various state officials' 2005 and 2006 settlements with several brokers and insurers.

In 2005, Marsh, Aon Corp. and Willis paid millions of dollars in client restitution and agreed to stop accepting contingent commissions to settle allegations that they steered business to insurers paying the highest contingents. They since have complained that the vast majority of the brokers and agents still collect contingents and are not held to the same disclosure standards as the large brokers.

The NYSID and attorney general's office held joint hearings last July on the issue and proposed new regulations in late January that would have required all agents and brokers operating in the state to provide written notification to clients of the

See **COMPENSATION** page 38

Combined IPC, Validus has cons: Analysts

Larger reinsurer could compete better, but cat risk worrisome

By COLLEEN McCARTHY

HAMILTON, Bermuda—The proposed merger between Bermuda-based rivals IPC Holdings Ltd. and Validus Holdings Ltd. is expected to create a financially stronger global reinsurer with a major presence in the property catastrophe market, observers say.

The deal has raised concerns with analysts, however, about the combined entity's large concentration of catastrophe-exposed business as the U.S. hurricane season ramps up.

Under terms of the agreement announced July 9, Validus would purchase IPC for $1.65 billion in cash and stock. IPC shareholders would receive 0.9727 of a Validus share and $7.50 in cash for each of their shares of IPC. The deal values IPC at $29.48 per share, the firms said.

The agreement ends a months-long bidding war between rival Bermuda-based insurers, which prompted Validus to revise its offer three times and significantly boost its cash component in an attempt to outbid offers from Max Capital Group Ltd. and Flagstone Reinsurance Holdings Ltd. Berkshire Hathaway Inc. also reportedly made a $1.7 billion cash offer for IPC earlier this month but was ultimately rejected.

IPC Chairman Kenneth L. Hammond cited the "significantly higher cash component" of Validus' revised offer and said the agreement "represents the best outcome for our shareholders," in a statement. Last month, IPC shareholders rejected a planned merger with Max Capital (*BI*, June 15/22).

Combined, IPC and Validus would have roughly $3.7 billion in total capital and will be well positioned to compete with larger peers, analysts said.

Brokers say the stronger balance sheet will be more attractive to buyers who are "increasingly concerned about the quality of counterparties" after the steep financial losses of 2008. "Clients are much more interested in sitting down with firms that have heartier balance sheets, in the $3 billion to $5 billion range," one market source said.

$3.7B

Combined total capital of IPC and Validus if the proposed merger of the two companies is completed.

"All things being equal, it is better to be larger than it was a few years ago," said Steven K. Bolland, president of New York-based reinsurance intermediary Gill & Roeser Inc.

Validus Chairman and Chief Executive Officer Ed Noonan said in a statement "this is a compelling strategic combination." Mr. Noonan is expected to run the company after the merger.

Market observers' concerns persist, though, over the heightened risk profile of the combined company due to the amount of property cat business both companies write.

"There is significant catastrophe exposure in the middle of the storm season," said Dean Evans, an analyst with Keefe, Bruyette & Woods Inc. in New York.

As part of its revised deal, Validus has given up termination rights in the event of catastrophe losses, meaning that if a large event occurred before the deal closes, Validus could not back out of the deal, Mr. Evans said. The provision provides IPC shareholders with

See **VALIDUS** page 38

REUTERS

C.V. Starr & Co. Chief Maurice R. Greenberg arrived at federal court in New York on June 16 to testify in a dispute with AIG over a block of shares.

SICO wins key battle in war over AIG shares

By COLLEEN McCARTHY

NEW YORK—Maurice R. Greenberg's Starr International Co. Inc. has won a key round in its fight with former sister company American International Group Inc. over a special block of AIG shares, but the dispute is far from resolved.

After a July 7 jury verdict that found in favor of SICO, AIG's lead attorney indicated an appeal is likely after the judge issues a final ruling on a key issue in the case later this summer.

"This case has a long way to go before it is over, and until all appeals are exhausted, it is premature to engage in postmortems," AIG attorney Theodore V. Wells Jr. of Paul, Weiss, Rifkind, Wharton & Garrison L.L.P., said in an e-mail after the verdict.

WHAT HAPPENED

U.S. District Court jury ruled SICO did not breach its fiduciary duty in holding AIG shares to fund an AIG executive compensation plan.

WHAT'S NEXT

Federal judge will rule on SICO's right to keep its block of AIG shares. AIG intends to press its claim of breach of fiduciary duty.

A U.S. District Court jury in New York earlier this month ruled SICO did not breach a trust to hold AIG shares solely for the purpose of funding a well-known AIG execu-

See **SICO** page 36

German legislation could spur new D&O liability coverage

By MICHAEL BRADFORD

FRANKFURT, Germany—Legislation that would require publicly traded companies in Germany to impose personal deductibles on directors and officers covered by liability insurance looks to spur new coverage and may prompt policyholders to ask for discounts on their D&O liability coverage, experts say.

The upper chamber of Germany's two legislative bodies, the Bundesrat, on July 10 ratified the Act on the Adequacy of Managerial Salaries that includes a provision that would require buyers of D&O liability insurance to impose a per-loss deductible of 10% on covered individuals. The amount would be capped at 1.5 times the director's or officer's annual fixed compensation.

REUTERS

German President Horst Köhler

Under the legislation for companies trading stock in Germany, all new D&O coverage would be required to include the deductible and policies already in force would have to be amended by July 2010 to include it. Sources said German President Horst Köhler is expected to sign the legislation, which would go into effect after publication in Germany's Federal Law Gazette.

The legislation does not preclude directors and officers from insuring the deductible under a separate policy, which is prompting insurers to consider creating such products to cover the new exposure.

Policyholders, meanwhile, are considering whether to ask for refunds of D&O liability premiums on coverage that is amended or price breaks on new coverage that includes the deductible.

"That's what insurers will be confronted with and they won't like it," said Hermann Mitterlechner, senior client adviser with Marsh GmbH's FINPRO unit in Frankfurt, Germany.

"Of course, risk managers will discuss with their insurers the effect that this will have on their premiums," said Günter Schlicht, chief executive of Deutscher Versicherungs-Schutzverband e.V., the German risk management association based in Bonn. He said it is unclear whether those discussions would include demands for rebates or discounts.

Some insurers say they are considering new products to help D&O liability buyers cover the deductible, but it is unlikely they would issue rebates or discounts on policies because of the deductible.

D&O liability claims are infrequent but severe, and imposing deductibles will not change that pattern, said Nicole Weyerstall, Frankfurt-based financial lines manager-Germany, at Zurich Gruppe Deutschland, a unit of Zurich Financial Services Group.

"If we apply deductibles, we will not give large discounts, if we give discounts at all," Ms. Weyerstall said.

"D&O is really a catastrophic cover," said Markus English, financial lines manager with ACE European Group Ltd. in Frankfurt. Imposing

See **GERMANY** page 35

Employer backlash on cost hikes evident in hospital/insurer dispute

Business coalition tries intervention in Kentucky standoff

By JOANNE WOJCIK

LOUISVILLE, Ky.—An attempt by the Louisville-Kentucky Business Coalition on Health to intervene in a contract dispute between an insurer and a local hospital system shows employers are becoming more aggressive in their battle against rising health care costs, health benefit experts say.

After publication of a July article in a local newspaper by the coalition director pointing out the reason for the dispute—the hospital system's request for a 27% increase in reimbursement rates—talks between Anthem Blue Cross and Blue Shield of Kentucky and Norton Healthcare Inc. broke down, with the hospital system withdrawing from the insurer's preferred provider network effective July 1.

Jim Meyers, associate vp of managed care at the Louisville-based Norton Healthcare, defended the health care organization's reaction, saying Anthem refused to negotiate in good faith. He also said the rate increase identified in the published article was incorrect, but declined to provide a corrected figure, saying it was confidential. However, he estimated the average self-funded employer group would have seen a 2% overall increase in costs had Anthem agreed to its terms.

For its part, Anthem issued a news release saying Norton severed the ties by refusing several offers to allow nonbinding, third-party mediation resolve the dispute. It also noted that, even without Norton, Anthem still has the largest network of providers, hospitals and physicians in Kentucky.

Norton Healthcare responded with a print advertisement pointing out that it has contracts with "every managed care company—except one."

As a result of the stalemate, the coalition has begun working with Indianapolis-based Anthem to design a program for its employer

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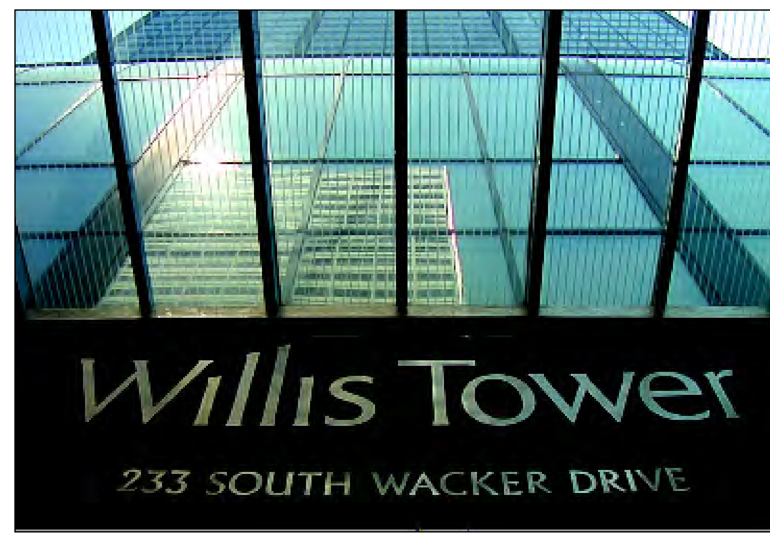


STEPHEN J. SERIO/CRAIN'S CHICAGO BUSINESS

Willis moves into iconic Chicago skyscraper

Willis Group Holdings Ltd. last Thursday unveiled its new Chicago office in the former Sears Tower, the tallest building in the Western Hemisphere. Completed in 1974, the building is now Willis Tower. The new location combines Willis employees who formerly occupied multiple offices in and around Chicago, some of which were operated by Hilb Rogal & Hobbs Co., which Willis acquired in 2008. Willis Chairman and Chief Executive Officer Joe Plumeri noted Chicago's "three tallest buildings are named after insurance-related companies." Those are: Willis Tower; Aon Center, named for Aon Corp.; and the John Hancock Building, which bears the name of a life insurer.

Bombed Jakarta hotels covered by local owners

By MARK A. HOFMANN

JAKARTA, Indonesia—The local Indonesian hotel owner obtained the insurance coverage for the JW Marriott and Ritz-Carlton properties that were attacked in deadly bombings last Friday morning, according to Marriott International Inc.

The blasts killed at least eight people and injured more than 60.

Both hotels—JW Marriott Hotel Jakarta and Ritz-Carlton Jakarta—are managed on behalf of local owners by Bethesda, Md.-based Marriott, said Bradley R. Wood, Marriott International's senior vp-risk management. "The owners procure the insurance," he said.

Additional coverage information was not available.

Mr. Wood said Marriott provides security for the hotels.

"The JW Marriott and Ritz-Carlton in Jakarta had extensive ongoing security measures in place, including four or five barriers outside the hotel, armed security personnel and magnetometers to enter the hotel," he said. "Those security systems are recognized as among the most robust and state-of-the-art in the world." He added that Marriott operations "already have loss-prevention leadership on the ground from our Asia-Pacific operations."

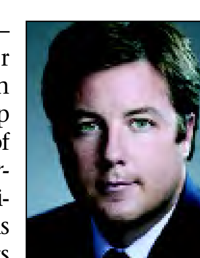
"Immediately following the incident, police and hotel security responded and sealed off the area," Marriott Chairman and Chief Executive Officer Bill Marriott wrote on his blog at the Marriott corporate Web site.

"Our guests at both properties were evacuated and moved to other nearby hotels," Mr. Marriott wrote. "Both hotels sustained damage, but it does not appear to be structural. At the time of the incident, extensive security procedures were in place at the Ritz-Carlton and the JW Marriott."

AP PHOTO/STATE SECRETARIAT

Police officers inspect damage at the Ritz-Carlton hotel after bombs exploded in Jakarta, Indonesia, on Friday.

Crain named group publisher



Mr. Crain

NEW YORK—Christopher Crain has been named group publisher of *Business Insurance* and publications Pensions & Investments and Workforce Management.

He also oversees Crain Communications Inc.'s Staffing Industry Analysts and Crain's Manchester Business in England, which he helped launch. As group publisher, he succeeds Bill Bisson, who retired.

"I am thrilled to see the next generation of the Crain family assume a leadership position in our company," said Rance Crain, president of Detroit-based Crain Communications and uncle of the younger Mr. Crain. Christopher Crain will be based in New York.

When a construction company had a problem with gravel falling off their trucks and hitting other vehicles, our Commercial Auto experts investigated the situation. Seeing that trucks were leaving their locations with loose loads, we recommended inducing vibration to help settle the load, making the roads safer for everyone. The bottom line is, our loss control programs work. Plus, should an accident occur, we investigate quickly and thoroughly, keep you and your broker informed and resolve your claim in a timely manner. That's our policy. For more information, contact your broker or agent or visit libertymutualgroup.com/commauto.

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Responsibility. What's your policy?

Commentary

In selecting a broker, size doesn't matter

REGIS **COCCIA**

Editor Regis Coccia's commentary appears periodically. He can be reached at: rcoccia@businessinsurance.com

Does size truly matter when it comes to choosing an insurance brokerage?

This question has been debated for years, and the answer would seem to be, "No." That is evident in the fact that sometimes very large, complex organizations use smaller firms. Size can correlate to service capabilities, particularly when it comes to handling risks in multiple countries, but not even the largest brokerages are equally adept at everything a client might need. A longstanding argument in favor of smaller brokers is they can give top-notch service, with attention from the highest level of the firm.

Simply put, there is more than one way to measure the size of any organization, insurance-related entities included.

For example, insurance companies often are ranked by the amount of net premiums written, but they also can be grouped by assets or policyholder surplus. Depending on the measurer's perspective, all of those are significant ways of sorting insurers.

Brokerage firms are a little different, but here too there is more than one way to stack them up.

An insurance buyer looking at brokers might consider their gross revenues, organic growth or EBITDA (earnings before interest, taxes, depreciation and amortization). Investors might consider market capitalization or the compounded annual growth rate, though market cap applies only to publicly traded companies.

Business Insurance for decades has ranked brokers based on their revenues from consulting and placing risk management and employee benefit programs for their clients. On page 14 is a chart showing the world's largest brokers by this measure, and the center spread lists the 100 largest brokers of U.S. business, measured in the same fashion, except looking exclusively at such revenues derived from U.S.-based clients.

Four years ago, rumblings from several quarters in the insurance marketplace suggested that brokers might be looked at another way: by the amount of revenue derived solely from placing coverage. *BI* researched this point and found some interesting differences among the brokers. We called this "pure placement," and it is one way of ranking brokers based on their fundamental business. Here is how such a ranking would look based on 2008 data reported to *BI*:

PURE PLACEMENT

Companies ranked by fees and commissions for placing commercial retail, wholesale, reinsurance and personal lines. Excludes consulting operations and benefits revenue.

Aon Corp.	$5,957,000,000
Marsh & McLennan Cos. Inc.	$5,327,000,000
Willis Group Holdings Ltd.	$2,856,000,000
Wells Fargo Insurance Services	$1,427,969,000
BB&T Insurance Services Inc.	$857,707,000
Arthur J. Gallagher & Co.	$852,383,000
Brown & Brown Inc.	$784,084,487
Jardine Lloyd Thompson Group P.L.C.	$747,864,215
Hub International Ltd.	$649,523,000
Lockton Cos. L.L.C.	$614,818,000

Source: BI survey

Business Insurance believes pure placement does not reflect the full role of a broker, which is to provide advice before, during and after the placement transaction. That advisory role is intrinsic to what good brokers do.

Risk managers polled recently by *BI* said "size doesn't matter" and is "not the driving force" in choosing a broker. They said "depth and quality of services," "knowledge and expertise of their people," "the right people" who are accessible and "access to insurance markets" are more important. Also, "culture and relationship," "ability to leverage technology" and ability to "serve as an extension of the risk department" trump size.

A broker can be No. 1 in more than one way, but the best brokers are those that are tops with those who matter most: their clients.

To cast your vote on which brokers are the best overall, take part in *BI*'s 2009 Readers Choice Awards at *www.businessinsurance.com/section/readers-choice-awards.*

Business Insurance OPINIONS

Will breakneck pace doom needed reform?

TO BORROW A PHRASE from Winston Churchill, it is fair to say the health care reform drive, if not at the beginning of the end, is at the end of the beginning.

As congressional panels move quickly to pass reform legislation, our previous enthusiasm about the way the Obama administration and key lawmakers were approaching the issue has diminished.

Our disappointment centers on several fronts. Following the path the Clinton administration took in its failed attempt to win approval of its reform plan in 1993, key congressional Democrats are making little effort to modify the legislation to win Republican support.

Not a single Republican member on the three congressional panels that approved reform bills last week voted in favor of the legislation.

The flaws in a partisan approach are obvious.

The flaws in a partisan approach are obvious. For one, given that neither party has a monopoly on good ideas, it almost certainly ensures that if a bill is passed, it will be flawed, probably in major ways.

We also are appalled at the brief time—a few days for the House panels—legislators are taking to examine the bill before voting. The House bill is more than 1,000 pages. We don't believe that is enough time for any legislator to give a bill this large and important the scrutiny it deserves.

The Obama administration is not without blame, either. It has been pressing its allies in the Senate and House to approve measures before the August recess so a final bill can be signed in October.

Why the rush? The reason, we surmise, is the administration and reform backers in Congress fear that, with more time, opponents will be able to muster more opposition and perhaps defeat the legislation.

To that, we say: If the legislation is so well-drafted, allowing more time for an examination of it will increase, not decrease, support.

We fully believe the nation's health care system is badly in need of reform. But a partisan bill passed at breakneck speed is not the way to make sure a reform measure will not do more harm than good.

Sour economy squeezes buyers, brokers alike

INSURANCE BROKERS of all sizes agree that times are tough for them and their clients.

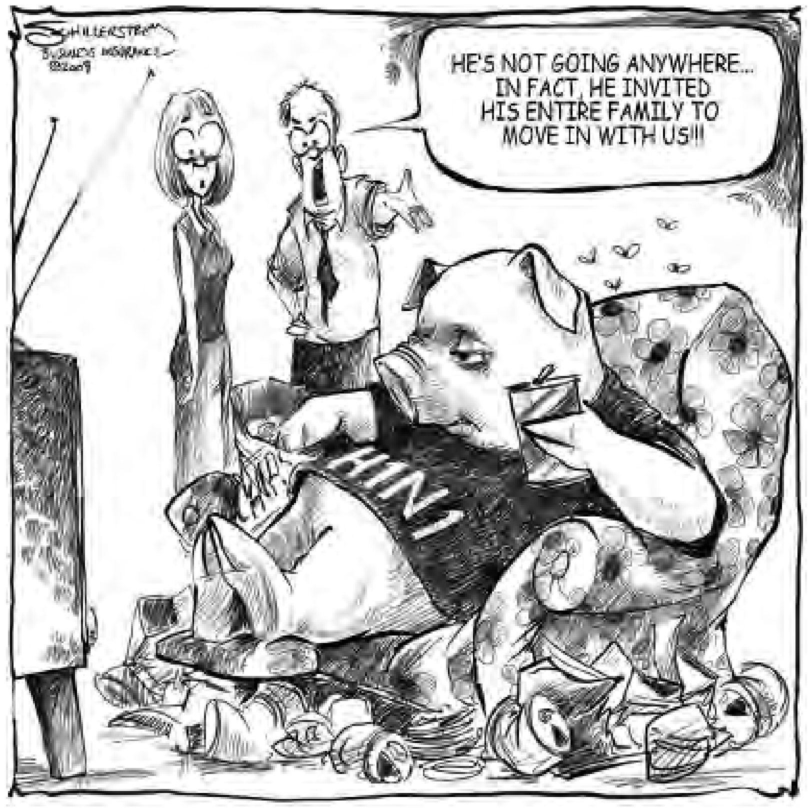
The economic recession that began in late 2007 has created big challenges in the brokerage industry, as we report beginning on page 11.

Most firms have had to cut costs, often in the form of staff, as they struggle to achieve modest revenue growth. Mergers and acquisitions, historically a key driver of growth for agents and brokers, have slowed considerably. That is due to tighter financing and declining valuations, which have made owners reluctant to sell.

Employee benefits business, a big growth area for many brokers during the past several years, is uncertain as Congress considers health care reform legislation that could spell massive changes in how benefit programs are funded. That uncertainty is making some brokers less aggressive in growing benefit practices.

Brokers' clients, facing similar head winds, often are buying less coverage so they can cut their insurance bills. This may not be prudent in every case, but it's an economic reality. Businesses everywhere are forced to make do with smaller budgets.

It adds up to a very difficult environment all around. But being in the same boat may help intermediaries and their clients work together to get safely to shore.



WRITE

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

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VOTE

in the *BI* Online Poll at *www.businessinsurance.com*

THIS WEEK'S RESULTS

Q Has Bernard Madoff made your organization look differently at its financial risks?


JASON DECROW/RAPPORT

YES, and we made changes to risk management
8%

YES, but we have not made changes
30%

NO
61%

NEXT WEEK'S QUESTION

Q: Is a health care insurance play-or-pay system fair to employers?

PERSPECTIVES

Perspectives and expert analysis online at *www.businessinsurance.com.*

Contribute your expert opinions and knowledge

Business Insurance accepts articles from experts in commercial insurance, risk management and employee benefits management for publication in its Perspectives section.

All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or employee benefits manager.

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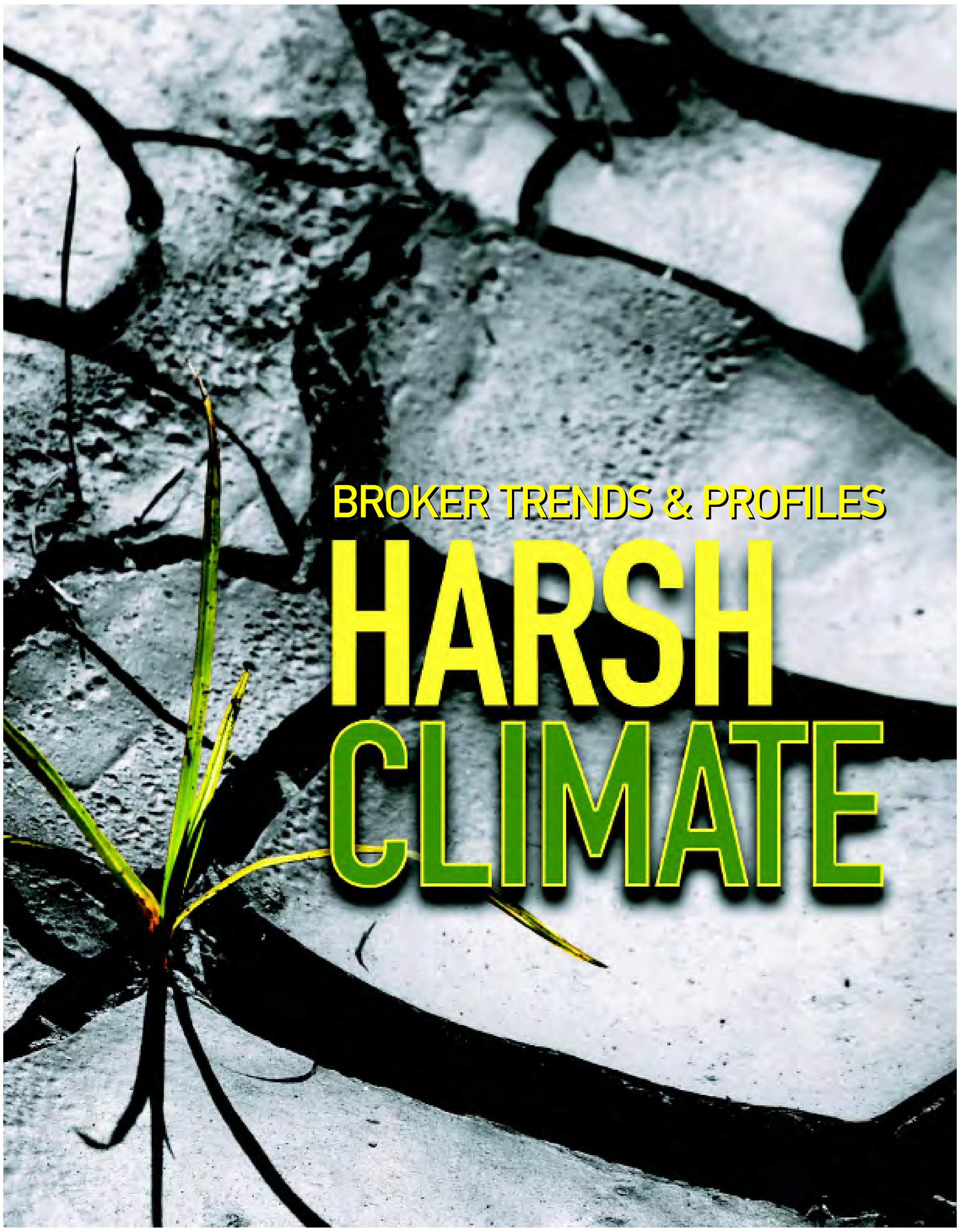

SPOTLIGHT

Economy cools M&A enthusiasm

Buyers and sellers exercise more caution in potential deals

By SALLY ROBERTS

Uncertainty about the economy, insurance pricing and the political environment, coupled with tight credit markets, have slowed the number of insurance broker mergers and acquisitions so far this year, experts say.

That's in direct contrast to the seller's market of recent years in which strong public broker valuations and abundant debt and equity capital resulted in a record number of deals and soaring agency valuations.

But just because all that has changed hasn't stopped buyers and sellers from talking today, broker M&A experts say. The fundamental drivers of consolidation remain in place—namely a fragmented agent/broker marketplace and the need to build scale.

"Unpredictable" is the way Atlanta-based Reagan Consulting Inc. described the M&A market in a recent report. "It doesn't mean that M&A has ceased, and it doesn't mean that all deals are being done at bargain values. But it does mean that buyers and sellers are more deliberate and more cautious today than they were just 12 to 24 months ago, when both sides were eagerly wading into the market. Today, it is more difficult to predict when sellers will market their agencies and where buyer interest will come from when they do."

Marsh, Berry & Co. Inc. estimates that the number of transactions closing in 2009 will drop about 9% from 2008, which saw an estimated 810 agent/broker deals take place.

"Buyers are having a difficult time coming to terms and conditions (with potential sellers) because they are not only being conservative, they're being selective; and capital and credit are tough to come by, so they've lowered their valuations and sellers are saying to themselves, 'I know the inherent value of my business. I'm not selling for a discount,' " said John Wepler, president of the Willoughby, Ohio-based M&A consulting firm. Right now, "it's worth more to many sellers to hold than to fold," he said.

"There's a lot of dating going on, but not a lot of engagements," said Kevin Donoghue, a managing director of Mystic Capital Advisors Group L.L.C. in New York.

Some firms think it might be a good time to sell because of fear that capital gains taxes are going to rise under the Obama administration, he said. But other firms are wondering if they wait a year whether insurance prices will firm and naturally inflate their values, he said.

See MERGERS page 16

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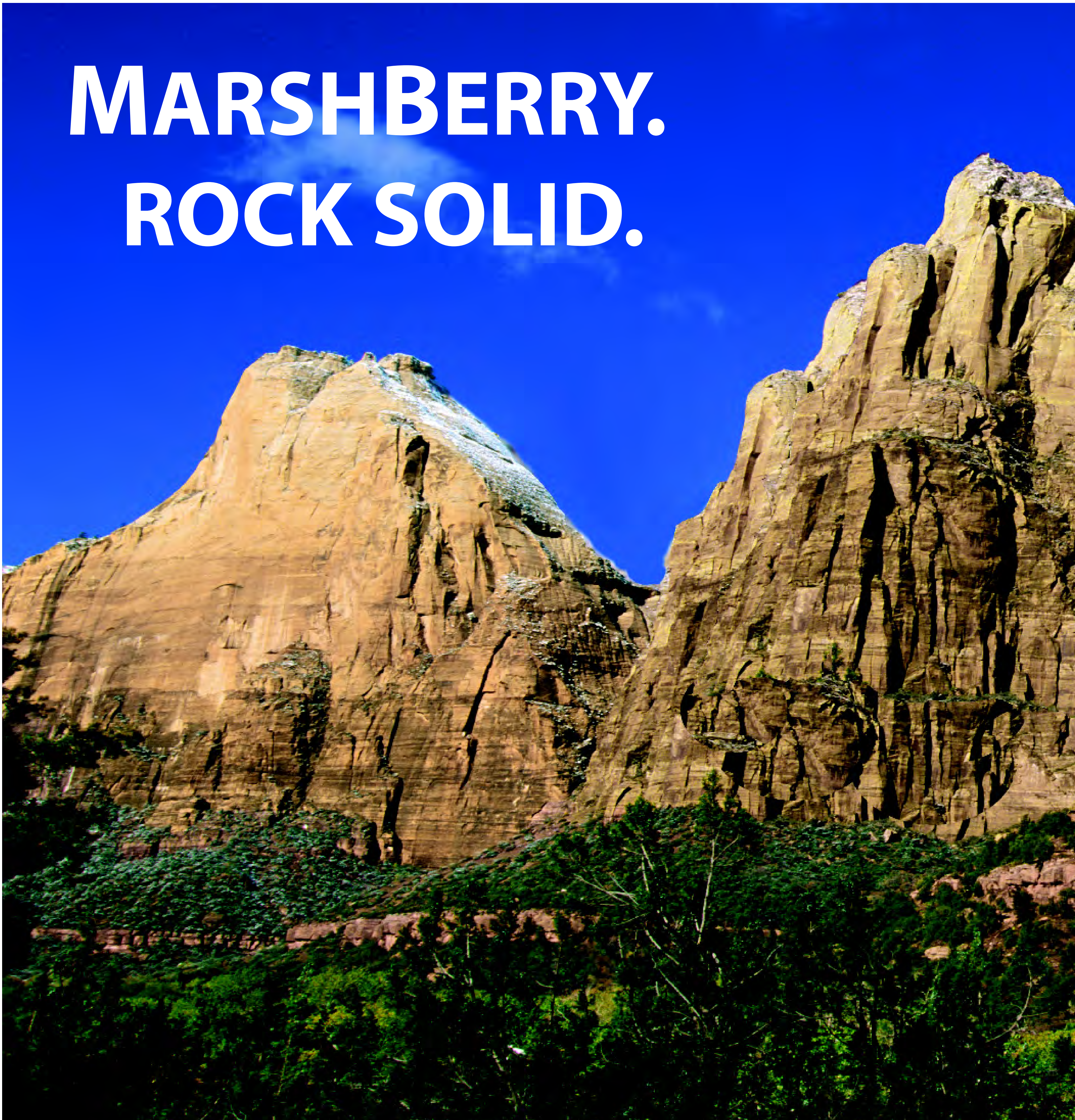
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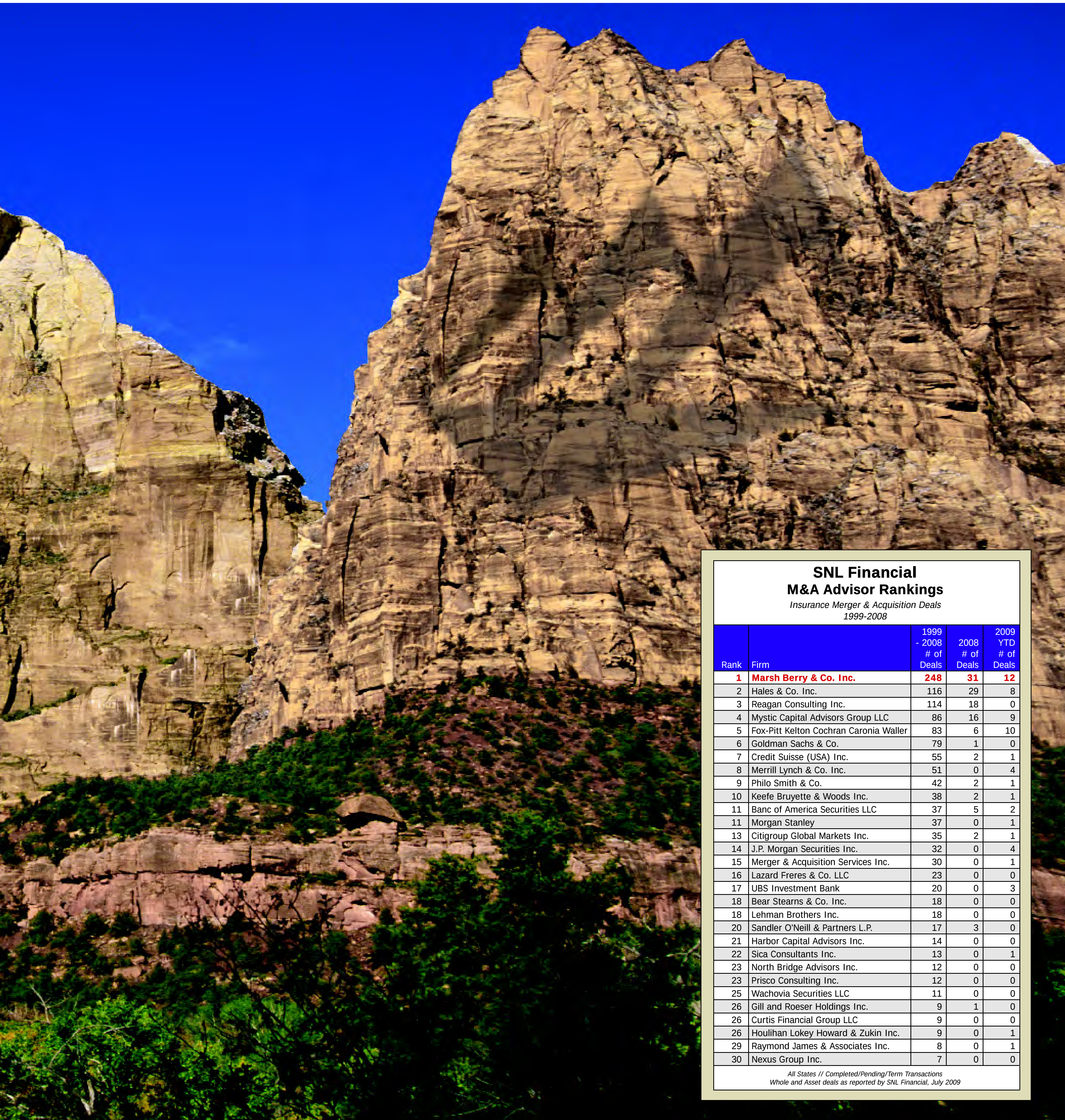

SNL Financial
M&A Advisor Rankings
Insurance Merger & Acquisition Deals
1999-2008

Rank	Firm	1999 - 2008 # of Deals	2008 # of Deals	2009 YTD # of Deals
1	**Marsh Berry & Co. Inc.**	**248**	**31**	**12**
2	Hales & Co. Inc.	116	29	8
3	Reagan Consulting Inc.	114	18	0
4	Mystic Capital Advisors Group LLC	86	16	9
5	Fox-Pitt Kelton Cochran Caronia Waller	83	6	10
6	Goldman Sachs & Co.	79	1	0
7	Credit Suisse (USA) Inc.	55	2	1
8	Merrill Lynch & Co. Inc.	51	0	4
9	Philo Smith & Co.	42	2	1
10	Keefe Bruyette & Woods Inc.	38	2	1
11	Banc of America Securities LLC	37	5	2
11	Morgan Stanley	37	0	1
13	Citigroup Global Markets Inc.	35	2	1
14	J.P. Morgan Securities Inc.	32	0	4
15	Merger & Acquisition Services Inc.	30	0	1
16	Lazard Freres & Co. LLC	23	0	0
17	UBS Investment Bank	20	0	3
18	Bear Stearns & Co. Inc.	18	0	0
18	Lehman Brothers Inc.	18	0	0
20	Sandler O'Neill & Partners L.P.	17	3	0
21	Harbor Capital Advisors Inc.	14	0	0
22	Sica Consultants Inc.	13	0	1
23	North Bridge Advisors Inc.	12	0	0
23	Prisco Consulting Inc.	12	0	0
25	Wachovia Securities LLC	11	0	0
26	Gill and Roeser Holdings Inc.	9	1	0
26	Curtis Financial Group LLC	9	0	0
26	Houlihan Lokey Howard & Zukin Inc.	9	0	1
29	Raymond James & Associates Inc.	8	0	1
30	Nexus Group Inc.	7	0	0

All States // Completed/Pending/Term Transactions
Whole and Asset deals as reported by SNL Financial, July 2009

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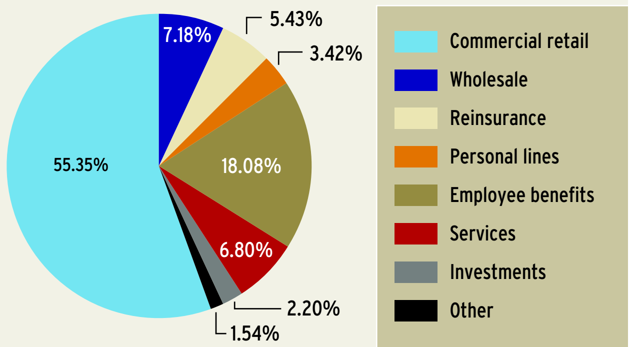
BUSINESS BREAKDOWN

Areas contributing to the largest brokers' overall revenue



Source: BI survey

LARGEST BANK-OWNED BROKERS

Ranked by 2008 brokerage revenues

COMPANY	PARENT	BROKERAGE REVENUES
Wells Fargo Insurance Services Inc.	Wells Fargo & Co.	$1,743,062,000[1]
BB&T Insurance Services Inc.	BB&T Corp.	$962,134,200
Regions Insurance Group Inc.	Regions Financial Corp.	$110,612,815
BancorpSouth Insurance Services Inc.	BancorpSouth Inc.	$93,066,992
Huntington Insurance Inc., dba Sky Insurance Inc.	Huntington Bancshares Inc.	$63,992,000
TD Insurance Inc.[2]	TD Bank Inc.	$57,305,200
BBVA Compass Insurance Agency Inc.	BBVA Compass Bancshares Inc.	$55,692,781
Associated Financial Group L.L.C.	Associated Bancorp	$55,281,833
Eastern Insurance Group L.L.C.	Eastern Bank Corp.	$51,204,320
First Niagara Risk Management Inc.	First Niagara Financial Group	$45,048,028

1 2008 revenues are pro forma including Wachovia Insurance Services Inc. purchased December 2008.
2 formerly TD Banknorth Insurance Agency Inc.
Source: BI survey

LARGEST PRIVATELY OWNED BROKERS*

Ranked by brokerage revenue

Lockton Cos. L.L.C.	$778,345,000[1]
Leavitt Group	$177,254,000
Keenan & Associates	$133,778,000
Frank Crystal & Co. Inc.	$126,250,000
Bollinger Inc.	$103,767,372
Hays Group Inc., dba Hays Cos.	$103,400,000
J. Smith Lanier & Co.	$102,768,548
John L. Wortham & Son L.L.P.	$99,359,848
Holmes Murphy & Associates Inc.	$92,705,124
Hylant Group Inc.	$90,501,577

** Brokerage firms that are not owned by banks or private equity firms.*
1 Fiscal year ending April 30
Source: BI survey

World's 10 largest insurance brokers

Ranked by 2008 brokerage revenues

Rank	Company/Address	Phone/Web site	Chief executive	2008 brokerage revenues	% change	2008 employees	2008 offices	PERCENTAGE OF REVENUES*: Commercial retail	Wholesale	Reinsurance	Employee benefits	Personal lines	Services	Investments	Other
1	**Marsh & McLennan Cos. Inc.** 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-6000 *www.mmc.com*	Brian Duperreault, president/CEO	$11,516,000,000	3.80%	54,400	700	38.88%	0	6.90%	31.30%	0	21.89%	1.61%	-0.58%
2	**Aon Corp.** 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 *www.aon.com*	Gregory Case, president/CEO	$7,310,000,000	4.50%	37,700	397	64.92%	0	13.14%	15.29%	0	2.44%	3.47%	0.73%
3	**Willis Group Holdings Ltd.**[1] 51 Lime St., London, EC3M 7DQ England	44-203-124-6000 *www.willis.com*	Joe Plumeri, chairman/CEO	$3,362,000,000	36.50%	17,000	400	57.87%	5.39%	16.98%	13.94%	2.52%	0.72%	2.52%	0.06%
4	**Wells Fargo Insurance Services Inc.**[2] 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 *wfis.wellsfargo.com*	David J. Zuercher, chairman	$1,743,062,000	35.95%	7,905	213	60.32%	2.01%	0.09%	12.06%	8.51%	3.59%	3.68%	9.73%
5	**Arthur J. Gallagher & Co.** The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 *www.ajg.com*	J. Patrick Gallagher Jr., chairman/president/CEO	$1,611,302,000	5.76%	9,863	200	38.26%	12.52%	0	18.10%	1.04%	28.03%	2.05%	0
6	**Jardine Lloyd Thompson Group P.L.C.** 6 Crutched Friars, London, EC3N 2PH England	44-207-528-4444 *www.jltgroup.com*	Dominic Burke, group chief executive	$992,843,665[3]	4.80%	5,488	76	51.71%	6.03%	13.00%	15.73%	1.66%	7.99%	3.73%	0.14%
7	**Brown & Brown Inc.** 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 *www.bbinsurance.com*	J. Powell Brown, president/CEO	$965,982,617	5.61%	5,398	132	56.58%	15.54%	1.70%	15.32%	6.38%	3.29%	0.62%	0.56%
8	**BB&T Insurance Services Inc.** P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 *www.bbt.com*	H. Wade Reece, chairman/CEO	$962,134,200	9.66%	4,462	109	51.82%	22.52%	0	10.14%	8.94%	0	1.82%	4.75%
9	**Gras Savoye & Cie** 2-8 rue Ancelle, Neuilly-sur-Seine, 92200 France	33-1-41-43-5000 *www.grassavoye.com*	Patrick Lucas, managing partner/CEO	$786,368,400[4]	15.58%	3,650	102	64.24%	0	1.40%	28.14%	4.82%	0	1.40%	0
10	**Lockton Cos. L.L.C.** 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 *www.lockton.com*	David M. Lockton, chairman	$778,345,000[5]	6.89%	3,850	48	68.90%	7.74%	1.13%	20.78%	0.37%	0	1.08%	0

* Percentage of revenue may not total 100% due to rounding. 1 2008 revenues are pro forma including Hilb Rogal & Hobbs Co., purchased October 2008. 2 2008 revenues are pro forma including Wachovia Insurance Services Inc., purchased December 2008. 3 British pound=$1.8545 (2008) fiscal year ending Dec. 31. 4 Euro=$1.4711 (2008) fiscal year ending Dec. 31. 5 Fiscal year ending April 30.
Source: *BI* survey
Researched by Kevin Edison

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Ranked by 2008 total compensation

NAME, PRINCIPAL POSITION	COMPANY	SALARY	TOTAL
Brian Duperreault, president and CEO	Marsh & McLennan Cos. Inc.	$927,083	$13,317,091
Gregory C. Case, president and CEO	Aon Corp.	$1,500,000	$12,876,647
Joseph J. Plumeri, chairman and CEO	Willis Group Holdings Ltd.	$1,000,000	$9,657,100
Dominic Burke, group chief executive	Jardine Lloyd Thompson Group P.L.C.	$960,150*	$2,795,350*
J. Patrick Gallagher Jr., chairman, president and CEO	Arthur J. Gallagher & Co.	$1,000,000	$2,773,704
Steven L. Gerard, chairman and CEO	CBIZ Benefits & Insurance Services Inc.	$650,000	$2,184,043
J. Hyatt Brown, chairman	Brown & Brown Inc.	$658,406	$1,687,588
Robert S. Cubbin, president and CEO	Meadowbrook Insurance Group Inc.	$620,000	$1,280,443

*Source: Company reports *British pound=$1.85*

Mergers: 'A lot of dating,' but very few 'engagements'

CONTINUED FROM PAGE 11

"The large, active buyers, which set consolidation trends, have definitely grown more cautious and more conservative," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago. "They can't predict when the economy is going to recover and when the insurance market is going to firm. As such, many are taking the stance that "no call is the best call" and it's hard to criticize caution in this environment, he said.

New York-based Marsh & McLennan Agency L.L.C. is one agency with an strong acquisition appetite. The small- to middle-market account unit of broker Marsh Inc. launched earlier this year and now is in the process of finding the right agency platform to give it the foundation it needs to grow.

"From an activity standpoint, I've never seen this type of activity in this short amount of time in people showing a willingness to talk to us and developing an interest in us," said David Eslick, who was named chairman of the agency in January.

"We just don't want to make acquisitions for acquisition's sake. We want to find good, quality partners," he noted.

In terms of multiples, Mr. Eslick said they are down, "but nobody should be saying it's a hyperbuyers market and that the values are absolutely at the low end because they're not."

Strong privately held firms don't have to sell. "They can continue to run their business. So you've got to give them a compelling reason to do so," Mr. Eslick said.

Others say they expect more subdued acquisition activity this year.

"There seems to be about as many opportunities, but we're being very picky," said J. Hyatt Brown, nonexecutive chairman of Brown & Brown Inc. in Daytona Beach, Fla. In some cases, potential acquisitions want to get their values back up before they sell. "A lot of people say, 'We're interested, but it's going to be six months or a year,' " Mr. Brown said.

The pace of acquisitions has dropped off this year for the agency. After completing 45 acquisitions generating about $120 million in annualized revenues in 2008, it's acquired only six properties so far in 2009 with $18 million in total annualized revenues, Mr. Brown said.

"The inventory is as great as it's ever been, but at the moment there's a bit of lull," said David Zuercher, chairman, president and chief executive officer of Wells Fargo Insurance Services Inc. in Chicago. He said the broker continually looks for acquisitions, but it tends to be driven by market conditions. WFIS acquired 12 firms in 2008, but only four so far in 2009.

After completing 37 acquisitions in 2008, Arthur J. Gallagher & Co. has slowed its pace this year.

Not only is the broker in the midst of integrating renewal rights acquired from Liberty Mutual and Wausau Signature Agency this year, but the economy also is a factor, said J. Patrick Gallagher Jr., chairman, president and CEO of the Itasca, Ill.-based broker. "It's a point in time now where it's difficult to just buy and pass results," he said. "So, yes, things are slower, but the pipeline and what we're doing in terms of strategically picking our partners is still moving forward quite nicely," Mr. Gallagher said.

Mark A. Hofmann, Zack Phillips and Rodd Zolkos contributed to this report.

Risk managers have mixed views on Marsh liability cap

Hundreds of broker's clients have accepted; others say, 'No way'

By ROBERTO CENICEROS

Marsh Inc. says hundreds of clients have accepted its new service agreement limiting its professional liability to $10 million should mistakes be made in arranging insurance, but other large brokerages are not following suit.

However, several risk managers said they would not sign such a contract.

"They brought it up and I laughed at them," said Jane A. Keegan, a Marsh client and enterprise risk manager for the Port of Oakland in California.

New York-based Marsh began asking middle-market and large-account customers to sign the revised service agreements and engagement letters in March, saying parent Marsh & McLennan Cos. Inc. had mandated the move across its units and that such limits are common among many professions.

At the time, Marsh Chief Executive Officer Daniel S. Glaser questioned how a broker and risk adviser could accept "unlimited liability for very limited and finite amounts of remuneration" in defending the $10 million cap on the broker's professional liability.

'The expectation is that, either way, the buyer of insurance will be fully protected. So, it is a disservice, in my opinion, for brokers to limit their exposure.'

Fred O. Pachón, Select Staffing Inc.

MMC said the worldwide market for professional liability errors and omissions coverage contracted in 2001 and has stayed that way, prompting MMC to increase its levels of self-insurance.

Since then, several hundred clients have agreed to Marsh's terms and only a limited number of clients have negotiated to raise the cap amount, according to a statement from Marsh. The cap does not apply to claims of willful or intentional misconduct.

"Our clients have been accepting of this important and sensible (enterprise risk management) initiative," Marsh said in the statement. "In taking this step, we are helping to ensure the long-term viability of our company for the benefit of our clients, colleagues and shareholders."

Several risk managers said a large insurance purchaser could face a loss larger than $10 million because of poorly handled insurance arrangements.

The Port of Oakland underwent a new broker selection process just before Marsh began asking clients to agree to a cap on its liability, Ms. Keegan said. Her arguments for selecting a large broker, rather than a smaller firm, rested with the sizeable amounts of liability that a large entity, such as Marsh, can handle as well as the complex technical knowledge available from a large broker, she said.

The port regularly contracts with construction entities that seek to contractually limit their professional liability, but "we don't allow limitations of liability from anybody we deal with," Ms. Keegan added. Yet she, like other risk managers, said she understands Marsh's desire to limit its liability.

It's logical for Marsh, given the broker is in the risk management business, to try to mitigate its exposure, said Fred O. Pachón, vp of risk management and insurance for Santa Barbara, Calif.-based Select Staffing Inc.

"On the other hand, it is certainly a very bad deal for companies such as Select that buys and needs high amounts of coverage," said Mr. Pachón, who contracts with Beecher Carlson Holdings Inc. for most of the company's brokerage services.

"Clearly, the higher the amount of insurance purchased, the higher the exposure for all—insured, insurer and broker," added Mr. Pachón. "It is no secret that insurance is complicated and errors are made daily. Some are more costly than others. But the expectation is that, either way, the buyer of insurance will be fully protected. So, it is a disservice, in my opinion, for brokers to limit their exposure."

Every business practicing good risk management wants to cap its liability and it's a point for negotiation, said Ellen Vinck, director of risk management for BAE Systems Ship Repair Inc. in San Diego. So Ms. Vinck said she applauds Marsh for its risk management effort.

But she wouldn't sign such an agreement and it must be difficult to convince clients to change the rules they have operated under by agreeing to cap the broker's liability, said Ms. Vinck, who is not a Marsh

See **LIMIT** on next page

Brokers fear risk regulation may create dual system

Efforts to monitor systemic risks seen as potential problem

By MARK A. HOFMANN

WASHINGTON—Brokers have some concerns that a federal framework for overseeing systemic risk could result in a system of dual state and federal insurance regulation, industry lobbyists say.

The Obama administration's white paper on financial services regulatory reform does not dwell on insurance to any great extent. Instead, it lays out six principles for insurance regulatory reform, including the possibility that a federal charter for insurers could help promote regulatory uniformity.

The document did not, however, endorse the optional federal charter concept favored by some insurers and producers as well as the New York-based Risk & Insurance Management Society Inc.

The white paper also mentioned insurance in passing regarding systemic risk regulation.

Citing American International Group Inc.'s near-collapse, the paper said, "the problems of associated affiliates outside of a consolidated insurance company's traditional insurance business can grow to threaten the solvency of the underlying company and the economy. Any new regulatory regime must address the current gaps in insurance holding company regulation."

In another section of the paper, the administration again cited AIG in calling for heightened, consolidated supervision and regulation of all large, interconnected financial firms.

The paper advocated giving the Federal Reserve Board the authority to supervise and regulate such firms, which it designates as Tier 1 financial holding companies.

Even before the paper's release, industry observers questioned whether property/casualty insurance can present a systemic risk.

"We agree with the industry sentiment that property/casualty insurance is not in and of itself a systemic risk," said Joel Wood, senior vp of the Washington-based Council of Insurance Agents & Brokers, which supports the OFC for insurers and brokers.

"The biggest concern is that we have an overlay of federal oversight that doesn't do anything about the underlying flaws in state-by-state oversight. One of the reasons why there's been something of delay in the prioritization of this reform is that the administration is very sensitive to some of the perils of holding company regulatory oversight," Mr. Wood said.

"The ultimate nightmare scenario is a gravitational pull toward the feds overseeing solvency with the states overseeing rates," he said.

"In the systemic risk bill, insurance should be part of the regulatory scheme," said Kevin McKechnie, executive director of the American Bankers Insurance Assn., which also supports the OFC. Congress should take a comprehensive approach, he said.

"We urge the Treasury Department to support Bean/Royce," he said, referring to the National Insurance Consumer Protection Act that Reps. Melissa Bean, D-Ill., and Ed Royce, R-Calif., introduced in April. The bill would establish a system of federal licenses for insurers and producers.

Mr. McKechnie said establishing national brokerage licenses as part of systemic risk legislation may help avoid the risk of dual regulation.

Mr. McKechnie noted that bank-owned enterprises might have to deal with heavier regulatory burdens than their non-bank-owned competitors.

"Because financial institutions considered systemically important may face additional regulatory burdens...businesses banks own will necessarily see more regulation than other independent enterprises in the same market," he said.

That could be especially true of insurance brokerages, he said, and those brokerages may face unnecessary requirements which would "thus create a competitive disparity Gramm-Leach-Bliley was designed to remove," he said, referring to the 1999 act that lowered the barriers that separate the businesses of banking, insurance and securities.

"Conversely, we are also optimistic that Congress will finally address the deficiencies of state insurance regulation and the problem of federal control of AIG by establishing a federal insurance authority that can charter insurers and insurance agents," he said. "Were Congress to include chartering authority for insurers, the inefficiencies of the current system would be resolved, all to the benefit of consumers."

"Like many others in the insurance industry, we are concerned with dual regulation for the property/casualty marketplace," said Charles Symington, senior vp of the Alexandria, Va.-based Independent Insurance Agents & Brokers of America, which opposes the OFC.

However, there is a persuasive case to be made that the property/casualty marketplace does not pose a systemic risk, he said.

European risk managers spurn extra broker fees

Controversial levy by large brokerages gains little traction

By MICHAEL BRADFORD

European brokers trying to increase revenues by charging insurers a controversial 2.5% fee are finding it's not an easy levy to collect.

In the United Kingdom, where the charge is applied most frequently, risk managers often negotiate a lower fee or ask that it not be assessed, said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers.

In other parts of Europe, brokers are not as apt to levy the charge, according to market sources.

Controversy around brokers' intentions to collect the fee began in 2007 when Willis International, a unit of London-based Willis Group Holdings Ltd., said it would levy the charge on U.K. accounts. At the time, Marsh Inc. also said it would charge the fee and was in discussions with insurers to implement it in Germany.

Aon Corp. already was charging a 2.5% levy on total premiums paid in the United Kingdom.

The fee is charged only with a client's prior consent; it is not contingent on profit or volume of business, but rather for unspecified services. Willis' announcement prompted risk manager concerns that the fee would cause conflicts of interest and higher premiums.

Aon, Marsh and Willis did not respond to requests to discuss the fee. Two brokers that partner with Marsh and Willis said they do not assess the fee; other sources said buyers have resisted the levy, which often is reduced at clients' request.

LARGEST EUROPEAN COMMERCIAL RETAIL BROKERS*

COMPANY	2008 COMMERCIAL BROKERAGE REVENUE	2008 EMPLOYEES	2008 OFFICES
Aon Corp.	$2,180,000,000	14,004	189
Marsh & McLennan Cos. Inc.	$1,706,000,000	8,600	138
Willis Group Holdings Ltd.	$643,000,000	5,826	120
Gras Savoye & Cie.	$457,242,300[1]	2,892	51
Jardine Lloyd Thompson Group P.L.C.	$333,068,200[2]	3,073	21
Verspieren	$281,575,846[1]	1,605	9
Funk Gruppe GmbH	$139,897,000[1]	880	32
Lockton Cos. L.L.C.	$124,131,000	750	11
Siaci Saint Honore	$119,280,600[1]	766	8
HLG Holdings Ltd.	$88,659,936[2]	1,408	24

**Ranked on commercial brokerage revenue from European offices. 1 Euro=$1.4726 Fiscal year ending Dec. 31. 2 British pound=$1.8545 Fiscal year ending Dec. 31.*

Source: BI survey

Willis Chairman and Chief Executive Officer Joe Plumeri said in the weeks after the broker announced that it would collect the levy that doing so helps level the playing field in the U.K. Insurers had been paying 2.5% on fee accounts and brokers that took the payment were able to offer reduced fees to clients, he said.

Mr. Hopkin said some brokers are charging AIRMIC members the fee of 2.5% or even a bit more. "Most consider that a matter for negotiation," he said of AIRMIC members, who often negotiate to lower or waive the fee.

In fact, just 9% of U.K. insurance buyers said in a mid-2008 AIRMIC survey that they allowed their brokers to retain any additional commissions in full.

Marie-Gemma Dequae, who was president of FERMA when Willis sparked the controversy, said the charge does not appear to have been widely implemented outside the United Kingdom.

Ms. Dequae, who retired this year as group risk and insurance manager at N.V. Bekaert S.A., a Kortrijk, Belgium-based metals group, said her broker did not charge the fee and she was unaware of other Belgian risk managers whose brokers were levying it.

The fee also seems to be largely absent in other countries.

Martin E. Kessler, managing partner of Kessler & Co. A.G., a Zurich, Switzerland-based partner of Marsh Inc., said Kessler does not collect the 2.5% fee and, to his knowledge, no Swiss brokers are charging it.

"As far as I know, it has not been implemented in Switzerland," said Lorenz Stampfli, vp of the Swiss Assn. of Insurance & Risk Managers and officer in charge of insurance and risk management at the European Organization for Nuclear Research, the particle physics laboratory in Geneva. Brokers have not approached CERN about assessing the fee, he said.

Gras Savoye & Cie, the Neuilly-sur-Seine, France-based broker that is 48% owned by Willis, also does not charge the fee, said Patrick Lucas, Gras Savoye's chairman and chief executive officer. The broker will not assess such fees except in countries where it is required to act as an agent of the insurer and must collect income from the underwriter, Mr. Lucas said.

Germany's Funk Gruppe GmbH in Hamburg does not assess the fee, said Yorck Hillegaart, executive board member. However, it will in some cases arrange additional services a client requests from an insurer and accept payment from the insurer for that work, he said.

"It's not a contingent commission" but a fee for arranging additional services, said Mr. Hillegaart.

Ms. Dequae said the concern is not so much that brokers are seeking extra compensation but that it is properly disclosed.

Limit: Cap on liability unwelcome

CONTINUED FROM PREVIOUS

client.

"Depending on the client, $10 million in this day and age isn't much," Ms. Vinck said. "I can't blame them, but I just wouldn't agree to it."

Several competing brokers said they are reviewing Marsh's concept.

"We're taking a look at it," said Joe Plumeri, chairman and chief executive officer of London-based Willis Group Holdings Ltd. "Obviously, there are very few claims that are over $10 million. Marsh has a different business than we do. They have a bigger large-account practice, and so as a result it may be more applicable to them, but we're taking a look at it."

A spokesman for Kansas City, Mo.-based Lockton Cos. L.L.C. said, "we are reviewing the issue and the approach others have taken, but haven't taken action ourselves."

Other brokers, such as Aon Corp. and Beecher Carlson, declined comment. Still, others already have rejected the idea of approaching clients with a liability cap.

Chicago-based Wells Fargo Insurance Services Inc. considered the concept but decided against implementing one, said Dave Zuercher, chairman and CEO.

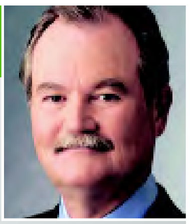
Ultimately, the market will decide how well a plan such as Marsh's will work, said Robert H. Easton, deputy superintendent and general counsel of the New York State Insurance Department.

Jeff Casale and Zack Phillips contributed to this report.

TOP BROKERS

RANK

1



Brian Duperreault, president/CEO

MARSH & McLENNAN COS. INC.

2008 GROSS REVENUES
$11,635,000,000 ▲ 3.2%

2008 BROKERAGE REVENUES
$11,516,000,000 ▲ 3.8%

After little more than 18 months at the helm, the top leaders of Marsh & McLennan Cos. Inc. and retail brokerage subsidiary Marsh Inc. have done what their predecessors could not—improve profitability at the world's largest insurance brokerage.

Since being tapped to become Marsh's chairman and chief executive officer in December 2007, Daniel S. Glaser has cut expenses, simplified the business, and focused the brokerage's efforts on delivering the right products and services to its clients.

Those efforts paid off in 2008 as MMC's risk and insurance services segment, which comprises Marsh and reinsurance brokerage unit Guy Carpenter & Co., posted a 34.5% increase in operating income to $460 million. The segment's adjusted operating margin improved to 13.3% from just 8.6% for the year prior.

Overall, brokerage revenues rose 3.8% to $11.52 billion, making MMC the largest brokerage worldwide in the 2009 *Business Insurance* ranking.

However, MMC overall reported a $73 million loss for 2008 due to impairment charges related to restructuring at risk consulting unit Kroll Inc.

With the foundation now in place, executives say Marsh is poised to grow and acquisitions will play a key role in that effort.

Compared with 2007, "we're in a much better position," said Mr. Glaser, a former London-based American International Group Inc. executive. "We're better organized. We're better financially. We're better strategically. Our colleague turnover is far, far lower. Our client retention is high, and our hit ratio on (request for proposals) is better."

"Dan and Marsh are really the story of the last 12 months or so," said Brian Duperreault, who came out of retirement in January 2008 to become president and CEO of MMC, instantly boosting morale within the lagging company.

Fixing Marsh, which had yet to recover fully from its 2004 fraud and bid-rigging suit and resulting $850 million settlement with former New York Attorney General Eliot Spitzer, was one of his first key priorities.

"It's a complete 180" for Marsh, said Keith Walsh, an analyst with Citigroup Research in New York. "Brian Duperreault is fantastic, but Dan Glaser is the key, in my view, at the company. In the five quarters he's been there, there have been five consecutive quarters of margin expansion. Obviously, the first four of those are going against a weak '07, but in the first quarter of '09, it's probably the best quarter they've had in at least five years—pre-Spitzer even. It's just remarkable."

Adjusted operating margins, which measure operating efficiency, for MMC's risk and insurance services segment was 25% in the first quarter of 2009 vs. 17.6% in the same period of 2008.

MMC's brokerage margin expansion has been "a phenomenal success," said Meyer Shields, an analyst with Stifel, Nicolaus & Co. in Baltimore. "It's really just a matter of having management that understands what services insurance clients need, getting paid for those, and not providing stuff they don't need. It's not complicated, but it was sorely lacking under the previous management team."

Daniel S. Glaser has cut expenses, simplified the business, and focused the brokerage's efforts on delivering the right products and services to its clients.

Much of 2008 at Marsh was focused on reducing expenses. The brokerage eliminated 2,200 positions—700 of which were outsourced—and eliminated an additional 300 positions in the first quarter of this year. Mr. Glaser said while most of the restructuring is complete, further layoffs are expected.

Another key initiative of Marsh's transformation in 2008 was the creation of a centralized placement process in the United States.

The placement hubs, which are located in larger cities across the U.S. and are segmented by line of business, help streamline the placement process and eliminate redundancies, Mr. Glaser said. The hub system places risks individually rather than in aggregate, which led to abuses in the past.

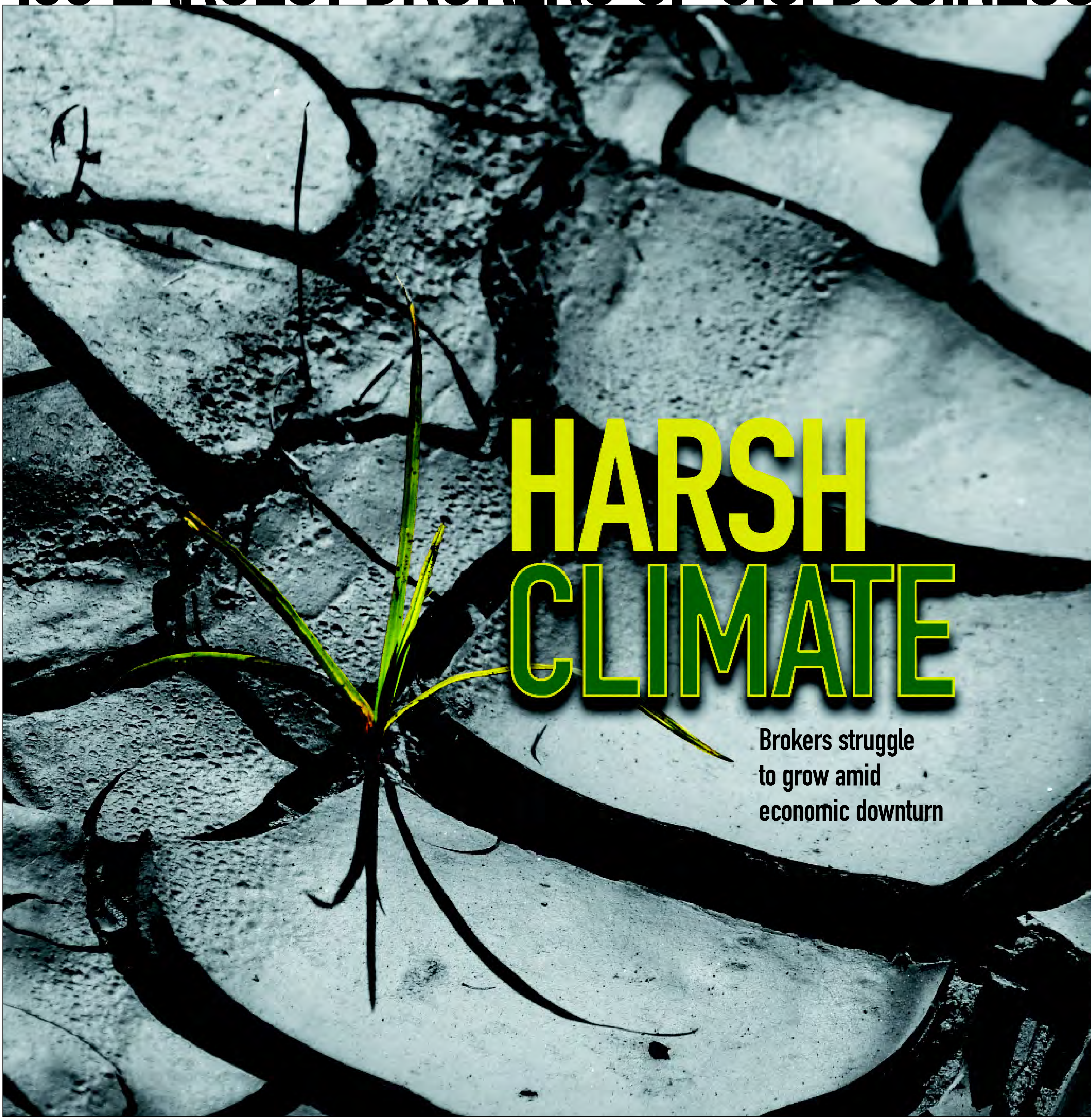
A key component of its placement strategy is its technology platform called Marsh Market Connect, which allows Marsh to more efficiently interact with insurers within the placement hubs. On the system, for example, insurers can set their preferences or risk appetite based on such criteria as geography, industry or class of business against Marsh's upcoming renewing business.

As a result of the hub system, clients receive better terms and conditions and more contract certainty, while underwriters see better bind-to-quote ratios and more document standardization, Mr. Glaser said, noting that 80% of Marsh's U.S. premiums flowed through the hubs in the first quarter of 2009.

He also said due to Marsh's more efficient placement strategy, more

Continued on next page

100 LARGEST BROKERS OF U.S. BUSINESS



100 largest brokers of U.S. business

*Ranked by 2008 brokerage revenues generated by U.S. based clients**

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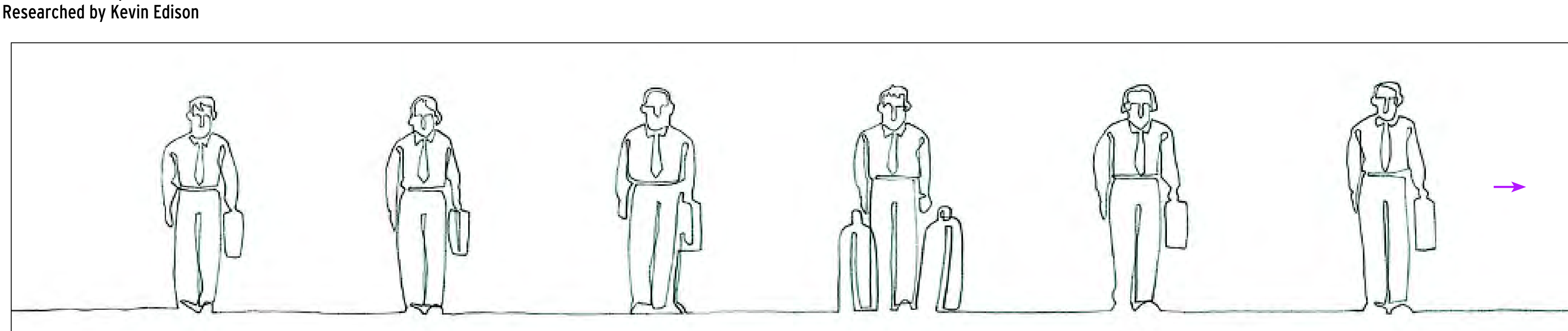
2008 rank	2007 rank	Company	Headquarters	2008 revenue	% change	Type of firm	% commercial retail brokerage	% employee benefits
1	1	Marsh & McLennan Cos. Inc.	New York	$5,297,360,000	-0.52%	Broker	38.88%	31.30%
2	2	Aon Corp.	Chicago	$2,558,500,000	-1.15%	Broker	64.92%	15.29%
3	5	Willis Group Holdings Ltd.[1]	London	$1,781,860,000	68.24%	Broker	57.87%	13.94%
4	4	Wells Fargo Insurance Services[2]	Chicago	$1,743,062,000	35.95%	Agent/Broker	60.32%	12.06%
5	3	Arthur J. Gallagher & Co.	Itasca, Ill.	$1,401,832,740	4.56%	Agent/Broker	38.26%	18.10%
6	7	Brown & Brown Inc.	Daytona Beach, Fla.	$963,084,669	5.30%	Agent/Broker	56.58%	15.32%
7	6	BB&T Insurance Services Inc.	Raleigh, N.C.	$962,134,200	9.66%	Agent/Broker	51.82%	10.14%
8	9	USI Holdings Corp.	Briarcliff Manor, N.Y.	$633,155,000	2.60%	Broker	29.38%	50.12%
9	11	Hub International Ltd.	Chicago	$537,604,900	10.92%	Broker	57.04%	12.64%
10	10	Lockton Cos. L.L.C.	Kansas City, Mo.	$537,058,050[3]	6.89%	Broker	68.90%	20.78%
11	13	Alliant Insurance Services Inc.	Newport Beach, Calif.	$332,867,399	14.25%	Broker	64.85%	26.11%
12	14	Leavitt Group	Cedar City, Utah	$177,254,000	1.43%	Agent/Broker	60.79%	13.11%
13	16	CBIZ Benefits & Insurance Services Inc.	Cleveland	$156,800,000	7.54%	Broker	13.37%	53.49%
14	17	Keenan & Associates	Torrance, Calif.	$133,778,000	8.47%	Agent/Broker	17.48%	22.39%
15	15	Jardine Lloyd Thompson Group P.L.C.	London	$129,069,676[4]	-19.86%	Broker	51.71%	15.73%
16	18	Frank Crystal & Co. Inc.	New York	$126,250,000	5.49%	Broker	77.29%	10.94%
17	20	Meadowbrook Insurance Group Inc.	Southfield, Mich.	$113,343,000	9.08%	Agent	41.22%	2.07%
18	21	Regions Insurance Group Inc.	Memphis, Tenn.	$110,502,202	8.58%	Agent/Broker	67.15%	14.86%
19	19	Bollinger Inc.	Short Hills, N.J.	$103,767,372	-0.81%	Agent/Broker	35.96%	34.94%
20	23	Hays Group Inc., dba Hays Cos.	Minneapolis	$103,400,000	6.16%	Agent/Broker	53.45%	41.76%
21	24	J. Smith Lanier & Co.	West Point, Ga.	$102,768,548	6.42%	Agent/Broker	64.43%	24.24%
22	22	John L. Wortham & Son L.P.	Houston	$99,359,848	-0.50%	Agent	81.64%	12.90%
23	34	BancorpSouth Insurance Services Inc.	Tupelo, Miss.	$93,066,992	26.53%	Agent	62.21%	24.03%
24	28	Holmes Murphy & Associates Inc.	West Des Moines, Iowa	$92,705,124	5.40%	Agent/Broker	47.31%	39.41%
25	25	Hylant Group Inc.	Toledo, Ohio	$90,501,577	0.29%	Agent/Broker	69.91%	19.73%
26	27	Mesirow Insurance Services Inc.	Chicago	$89,968,189[5]	1.02%	Broker	66.17%	28.30%
27	29	Allied North America	Jericho, N.Y.	$88,054,503	2.44%	Broker	89.19%	1.54%
28	30	Neace Lukens Holding Co.	Louisville, Ky.	$81,583,384	5.21%	Agent	55.68%	23.02%
29	36	Beecher Carlson Holdings Inc.	Atlanta	$81,552,366	13.72%	Broker	76.20%	6.77%
30	35	IMA Financial Group Inc.	Wichita, Kan.	$80,397,667	10.66%	Agent/Broker	63.33%	12.03%
31	32	Insurance Office of America Inc.	Longwood, Fla.	$77,099,818	2.13%	Agent/Broker	71.75%	10.26%
32	38	Thomas Rutherfoord Inc.	Roanoke, Va.	$76,316,095[6]	7.56%	Agent/Broker	83.32%	6.18%
33	31	Conner Strong Cos. Inc.	Marlton, N.J.	$75,873,560	-0.30%	Agent/Broker	52.56%	34.07%
34	33	NIA Group L.L.C.	Paramus, N.J.	$69,650,000	-6.89%	Agent/Broker	50.47%	26.60%
35	37	Heffernan Group	Walnut Creek, Calif.	$67,888,000	-2.24%	Broker	66.95%	9.31%
36	41	Trion Group Inc. dba Trion	King of Prussia, Pa.	$67,700,000	8.15%	Agent/Broker	0.00%	100.00%
37	26	T&H Group Inc.[7]	New York	$65,553,077	4.17%	Broker	65.04%	23.97%
38	40	Huntington Insurance Inc., dba Sky Insurance Inc.	Bowling Green, Ohio	$63,992,000	0.94%	Agent/Broker	38.12%	28.37%
39	42	Oswald Cos. & Affiliates[8]	Cleveland	$63,899,550	4.37%	Agent/Broker	63.42%	22.70%
40	48	Barney & Barney L.L.C.	San Diego	$62,942,220	22.54%	Broker	48.19%	47.23%
41	55	TD Insurance Inc.[9]	South Portland, Maine	$57,305,200	1.33%	Agent	30.28%	17.08%
42	44	Woodruff-Sawyer & Co.	San Francisco	$56,810,000	-0.33%	Broker	75.57%	21.31%
43	39	Guaranty Insurance Services Inc.	Austin, Texas	$56,330,534	-17.58%	Agent	56.28%	7.40%
44	43	BBVA Compass Insurance Agency Inc.	Houston	$55,692,781	-7.61%	Agent	57.61%	27.36%
45	45	Associated Financial Group L.L.C.	Minnetonka, Minn.	$55,281,833	1.85%	Agent	11.59%	55.97%
46	47	Frenkel & Co. Inc.	New York	$53,906,892	4.81%	Broker	60.54%	30.37%
47	51	Cottingham & Butler Inc.	Dubuque, Iowa	$53,845,000	7.04%	Agent/Broker	47.18%	12.40%
48	56	Capacity Group of Cos.	Mahwah, N.J.	$52,499,034	9.18%	Agent/Broker	47.59%	7.69%
49	50	Western States Insurance	Missoula, Mont.	$51,759,596	2.52%	Agent	53.77%	24.52%
50	49	Integro USA Inc.	New York	$51,480,000	18.67%	Broker	91.23%	0.00%

2008 rank	2007 rank	Company	Headquarters	2008 revenue	% change	Type of firm	% commercial retail brokerage	% employee benefits
51	63	Eastern Insurance Group L.L.C.	Natick, Mass.	$51,204,320	25.48%	Agent	41.32%	16.33%
52	68	Higginbotham & Associates Inc.	Fort Worth, Texas	$48,086,881	25.05%	Agent	48.07%	44.41%
53	53	Marshall & Sterling Enterprises Inc.	Poughkeepsie, N.Y.	$47,063,937	-3.41%	Agent/Broker	61.52%	5.83%
54	54	Mahoney Group	Mesa, Ariz.	$46,391,290	-3.98%	Agent	76.38%	10.04%
55	46	InterWest Insurance Services Inc.	Sacramento, Calif.	$46,103,635	-11.62%	Broker	75.17%	17.97%
56	60	Horton Group Inc.	Orland Park, Ill.	$46,016,396	6.08%	Broker	49.98%	33.12%
57	59	William Gallagher Associates Insurance Brokers Inc.	Boston	$45,713,028	-0.46%	Agent/Broker	74.00%	26.00%
58	57	Van Gilder Insurance Corp.	Denver	$45,145,723	-5.36%	Agent/Broker	75.79%	14.32%
59	58	First Niagara Risk Management Inc.	Buffalo, N.Y.	$44,597,548	-3.46%	Agent	56.38%	15.12%
60	62	DeWitt Stern Group Inc.	New York	$43,426,350	1.95%	Agent/Broker	55.48%	7.61%
61	69	INSURICA Insurance Management Network[10]	Oklahoma City	$42,840,489	12.61%	Agent/Broker	69.78%	7.15%
62	67	McQueary Henry Bowles Troy L.L.P.	Dallas	$41,850,000	8.83%	Agent	63.28%	31.40%
63	64	Riggs, Counselman, Michaels & Downes Inc.	Baltimore	$41,687,190	2.23%	Agent/Broker	68.98%	18.13%
64	61	Graham Co.	Philadelphia	$40,170,504	-5.94%	Agent/Broker	94.72%	2.18%
65	76	Propel Insurance	Tacoma, Wash.	$39,690,000	17.17%	Broker	65.75%	21.58%
66	74	Assurance Agency Ltd.	Schaumburg, Ill.	$39,211,000	12.48%	Broker	79.42%	15.13%
67	NEW	Rose & Kiernan Inc.	East Greenbush, N.Y.	$38,639,700[3]	-5.29%	Agent/Broker	48.06%	36.06%
68	70	Andreini & Co.	San Mateo, Calif.	$38,300,000	2.13%	Agent/Broker	73.37%	24.02%
69	72	Lawley Service Inc.	Buffalo, N.Y.	$38,280,568	6.02%	Agent	53.17%	28.94%
70	65	Kinloch Holdings Inc.	West Orange, N.J.	$38,115,000	-6.10%	Agent/Broker	54.12%	31.19%
71	71	Bowen, Miclette & Britt Inc.	Houston	$37,836,400	4.24%	Agent	53.45%	14.98%
72	73	Old National Insurance[11]	Indianapolis	$37,380,041	5.67%	Agent	43.17%	20.94%
73	NEW	Ascension Insurance Inc.	Kansas City, Mo.	$36,958,000	N/A	Agent	47.53%	26.71%
74	78	Fred A. Moreton & Co.	Salt Lake City	$34,652,000	4.18%	Broker	63.76%	30.26%
75	80	Loomis Co.	Wyomissing, Pa.	$34,454,400	5.03%	Agent/Broker	40.23%	50.04%
76	NEW	SullivanCurtisMonroe Insurance Services L.L.C.	Irvine, Calif.	$34,250,000	-0.72%	Agent/Broker	78.98%	17.81%
77	79	Fringe Benefits Management Co.	Tallahassee, Fla.	$33,856,630	2.78%	Agent/Broker	0.00%	100.00%
78	83	Payne Financial Group Inc.	Missoula, Mont.	$33,345,856	7.87%	Agent	72.70%	12.71%
79	77	Scott Insurance	Lynchburg, Va.	$33,319,000	-0.34%	Agent	71.66%	19.09%
80	81	Frost Insurance Agency Inc.	Fort Worth, Texas	$33,306,629	6.72%	Agent	53.33%	30.72%
81	75	Roger Bouchard Insurance Inc.	Clearwater, Fla.	$32,896,580	-4.38%	Agent	60.21%	23.18%
82	NEW	Charles L. Crane Agency Co.	St. Louis	$32,000,000	3.23%	Broker	72.87%	14.26%
83	89	SilverStone Group Inc.	Omaha, Neb.	$31,692,000	9.19%	Agent/Broker	28.99%	64.39%
84	85	Dawson Cos.	Rocky River, Ohio	$31,422,897	3.46%	Agent	64.31%	7.47%
85	86	Parker, Smith & Feek Inc.	Bellevue, Wash.	$30,165,000	-0.17%	Broker	77.91%	12.96%
86	NEW	Sterling & Sterling Inc.	Woodbury, N.Y.	$30,000,000	11.11%	Agent/Broker	73.33%	13.33%
87	NEW	Edgewood Partners Insurance Center	San Mateo, Calif.	$29,411,000	N/A	Agent/Broker	58.63%	27.59%
88	88	Lovitt & Touche Inc.	Tempe, Ariz.	$29,313,992	0.82%	Agent	58.39%	35.68%
89	84	Seitlin	Miami	$29,216,626	-5.25%	Agent	54.41%	30.67%
90	87	Cobbs, Allen & Hall Inc.	Birmingham, Ala.	$28,881,019	-3.94%	Agent/Broker	49.30%	22.36%
91	NEW	M3 Insurance Solutions Inc.	Madison, Wis.	$28,165,600	14.74%	Agent/Broker	45.31%	52.75%
92	90	Starkweather & Shepley Insurance Brokerage Inc.	East Providence, R.I.	$28,042,000	-2.21%	Agent/Broker	55.81%	7.84%
93	94	Risk Strategies Co.	Boston	$27,994,500	13.69%	Broker	79.30%	12.20%
94	82	TrueNorth Cos. L.L.C.	Cedar Rapids, Iowa	$27,951,000	-10.27%	Agent	69.61%	22.55%
95	99	PSA Financial Center & Affiliates	Hunt Valley, Md.	$26,257,503[3]	18.60%	Agent/Broker	36.80%	30.10%
96	93	Robertson Ryan & Associates Inc.	Milwaukee	$25,889,137	3.94%	Agent	77.01%	8.65%
97	91	Haylor, Freyer & Coon Inc.	Syracuse, N.Y.	$25,812,270[12]	0.44%	Agent/Broker	54.56%	8.19%
98	92	R.C. Knox & Co. Inc.	Hartford, Conn.	$25,232,000	-0.58%	Agent	73.30%	11.15%
99	97	RJF Agencies Inc.	Minneapolis	$24,160,000	6.22%	Agent	68.96%	26.90%
100	95	Daniel & Henry Co.	St. Louis	$23,706,000	1.20%	Broker	61.73%	24.05%

* Companies that derive less than 20% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 2008 revenues are pro forma including Hilb Rogal & Hobbs Co. purchased October 2008. 2 2008 revenues are pro forma, including Wachovia Insurance Services Inc. purchased December 2008. 3 Fiscal year ending April 30. 4 Converted at applicable rate, British pound=$1.8545. (2008) fiscal year ending Dec. 31. 5 Fiscal year ending March 31. 6 Fiscal year ending June 30. 7 Formerly Tanenbaum-Harber Co. Holdings Inc. 8 Formerly James B. Oswald Co. dba Oswald Cos. 9 Formerly TD Banknorth Insurance Agency Inc. 10 Formerly North American Insurance Agency Inc. dba North American Group. 11 Formerly ONB Insurance Group. 12 Fiscal year ending Aug. 31. N/A=Not applicable

Source: *BI* survey
Researched by Kevin Edison



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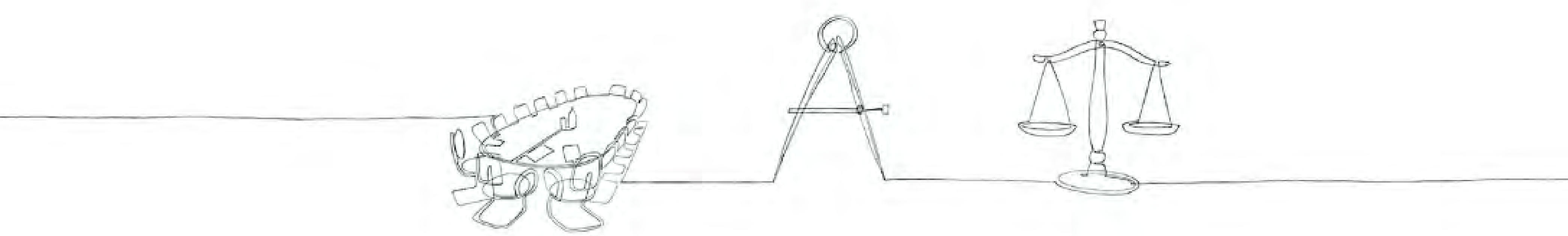
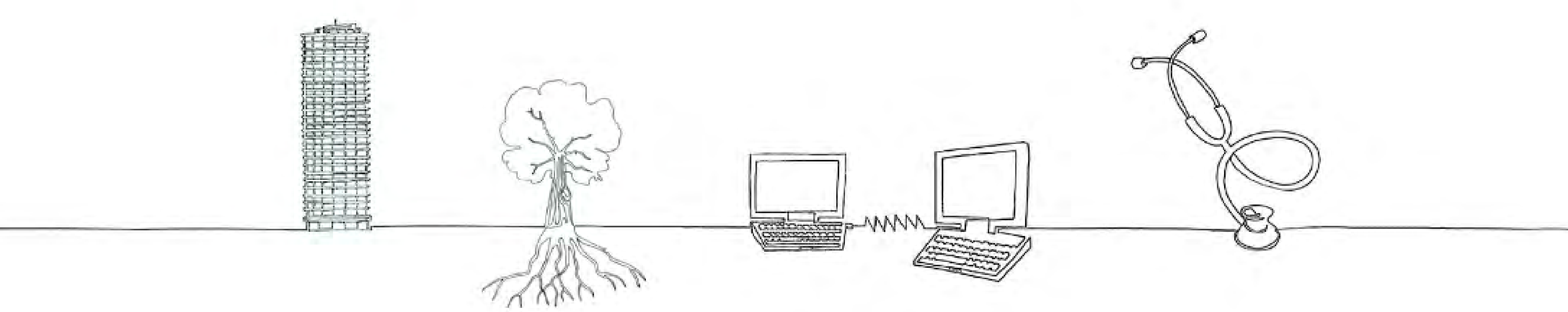


D&O, employment practices liability, fiduciary

architects and engineers professional liability

lawyers professional liability



property

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Continued from previous page

than 30 insurers have agreed to pay Marsh enhanced commissions and about 70% of its client base has consented to the commissions.

Unlike contingent commissions, which are based on volume and profitability and which Marsh is prohibited from taking from insurers, enhanced commissions are based on the value Marsh creates for insurers, though how those commissions are calculated vary by insurer, Mr. Glaser said.

New focus

In addition to enhanced commissions, Marsh also is looking to its recently launched Marsh & McLennan Agency Inc., which will focus on companies nationwide that generally have less than $100 million in revenue, for future growth.

The broker, which has an inconsistent record in the smaller account space, announced the formation of the stand-alone agency in late 2008. Then in January, it hired veteran agency leader David S. Eslick, who most recently was CEO of USI Holdings Corp., to be its chairman.

Acquisitions will play a big part in the agency's growth and it is in the process of finding the right agency platform to give it the foundation it needs.

"Dave has a very rich pipeline of opportunities," Mr. Glaser said. "Obviously, there needs to be a cultural fit and the valuation has to be right. But he is getting a lot of access to a lot of interesting companies."

At the end of 2008, MMC filed a shelf registration with the U.S. Securities and Exchange Commission to issue up to $500 million in stock to fund potential acquisitions. That, coupled with roughly $1.7 billion in cash, gives the firm more than $2 billion to spend.

Mr. Glaser said most, but not all, of the capital will go toward building Marsh & McLennan Agency. "I'm very open to global opportunities," he said.

An initiative Marsh began earlier this year was a new service agreement limiting its professional liability to $10 million, should mistakes be made in insurance arrangements.

Marsh says hundreds of clients have accepted the cap, but other large brokerages are not following suit (see story, page 3).

In addition to Marsh, Guy Carpenter also has shown signs of recovery since new management was installed last year. The reinsurance broker's revenues rose 7% in the first quarter of 2009 and in April it completed the acquisition of rival John B. Collins Associates Inc.

Overall, Mr. Duperreault said he feels "much more encouraged today" about MMC than a year ago. "There's a lot more we've got to do...but we're encouraged to see where we've come in a year."

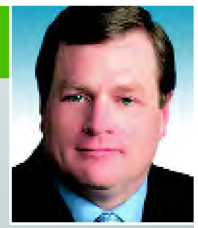
Weathering the difficult economy is MMC's biggest challenge today, Mr. Duperreault said, noting that Mercer L.L.C. and Oliver Wyman Group are "feeling the brunt" of the economic downturn.

MMC's stock closed July 10 at $18.65 per share, down from its 52-week high of $35 and closer to its 52-week low of $17.23.

—By Sally Roberts

TOP BROKERS

RANK
2



Gregory Case, president/CEO

AON CORP.

2008 GROSS REVENUES
$7,631,000,000 ▲ 3.7%

2008 BROKERAGE REVENUES
$7,310,000,000 ▲ 4.5%

Despite the ongoing recession and soft insurance pricing, Aon Corp. continues to grow while taking steps to more effectively serve insurance buyers and the insurers with which the Chicago-based brokerage works.

Two moves last year are seen as key factors in advancing Aon's strategy: combining its global retail brokerage operations into a single Aon Risk Services unit and its $1.43 billion acquisition of London-based reinsurance broker Benfield Group Ltd.

"Probably the two biggest strategic things we did last year—and probably the biggest strategic things that we've done in the past five years—were the Aon-Benfield partnership, which created the largest and most distinctive reinsurance broker in the world and, on the retail side, the creation of Aon Risk Services, which is the pulling together of our global retail assets into one unit with over $5 billion of revenue, $54 billion of premium, over 26,000 Aon colleagues around the globe," said Ted T. Devine, president of Aon Risk Services in Chicago.

Aon furthered its business with last year's $30 million acquisition of most of the U.S. and U.K. reinsurance brokerage business of Arthur J. Gallagher & Co.

"We continue to be on a journey to reach our full potential," Mr. Devine said. "And we've taken major steps over the past five years to build on the great platform that (Aon founder) Pat Ryan and many great leaders at Aon have built over time."

Aon posted $7.31 billion in brokerage revenues in 2008, up 4.5% from nearly $7 billion in 2007, making the company the world's second-largest brokerage in the 2009 *Business Insurance* ranking.

"Their execution has been very good. They're continuing to grow their business both in the U.S. and overseas. They're adding people selectively. They're attracting talent," said Mark Lane, principal and equity research analyst at William Blair & Co. in Chicago. "It's been a good year for them in a tough environment."

Continued on next page

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"When we look at the steps that we're now taking in Aon Risk Services, it's around delivering highly distinctive value to our clients by bringing the best of Aon to our clients in a highly coordinated fashion across the world," said Stephen P. McGill, chairman and chief executive officer of Aon Risk Services.

The move also allows Aon "to deliver world-class solutions to our clients from the insurance markets, obviously at competitive terms and conditions," Mr. McGill said. Aon Risk Service's focus centers on four themes: client excellence, broking excellence, operational excellence and talent management, he said.

In particular, ARS has allowed Aon to pursue three key business initiatives, Mr. Devine said. The first is the Aon Client Promise, through which clients evaluate Aon on 10 key elements (*BI*, July 6). "By this time next year, we'll probably have over 5,000 Client Promise plans done globally," Mr. Devine said.

The Aon Client Promise "was designed by our clients for our clients," Mr. McGill said. "We wanted to actually develop something with our clients which was measurable, tangible, impactful and would clearly define the value proposition that Aon brings around 10 key components."

The second major initiative facilitated by the global ARS organization is establishing a real-time broking and information platform called Global Risk Insight Platform. Mr. Devine said GRIP provides information about insurance placements by industry, geography and local insurance market.

The Aon Client Promise is about developing 'something with our clients which was measurable, tangible, impactful and would clearly define the value proposition that Aon brings around 10 key components.'

Stephen P. McGill,
Aon Risk Services

"What GRIP allows us to do on behalf of clients and markets is understand on a real-time basis what is happening to pricing, terms and conditions, exposures worldwide across the global insurance marketplace," Mr. Devine said. "Since its rollout, over $12 billion in premium has been placed into GRIP, over 115,000 individual trades and, by this time next year, it will probably be north of $30 billion of premium and 300,000 trades."

GRIP "gives benchmarking information in real time," Mr. McGill said. "And it's not just what's happened in the last 90 or 120 days; it's forward looking as well as looking backwards."

The third element Mr. Devine said ARS allows is the Aon Leadership Model, "a singular set of criteria" on which all Aon employees, from Aon Corp. President and CEO Gregory Case and Mr. McGill on down, are evaluated.

"None of those three things would have been viable without the pulling together of our ARS leadership team," Mr. Devine said of 28 executives who lead major geographic and industry practices around the world.

"Twenty-one of the 28 have non-U.S. passports, so it's truly a global team," Mr. Devine said. "And we meet monthly face to face, and we spend at least an hour every meeting talking about how to better serve clients."

One key personnel change recently was the June announcement that Peter Harmer, Aon Ltd.'s CEO, would return to his native Australia in September, though he'll remain with the company. Until a replacement is found, Mr. Devine will spend additional time in London.

"Given the current economic environment, there's clear cost pressure on everyone," Mr. Devine said. "That's required us to be very clear in helping our clients understand the terms and conditions, helping them reduce the insurance premiums they're paying, and make sure they're buying the right amount of risk cover for their risk tolerance," he said. "It really starts with listening to the client."

'Their execution has been very good. They're continuing to grow their business both in the U.S. and overseas. They're adding people selectively. They're attracting talent. It's been a good year for them in a tough environment.'

Mark Lane, William Blair & Co.

A major international development for Aon was the June announcement that it will become principal sponsor of the Manchester United soccer team. Starting with the 2010-2011 season, the broker's name will replace AIG on Man U's shirts. It has been widely reported that Aon paid $131.2 million for the sponsorship.

"We feel incredibly blessed to have been in a position to secure the primary sponsorship along with Nike for the most well-known sports franchise in the world," Mr. Devine said. "We believe it speaks volumes about who we are as a firm."

Looking at the challenges ahead for Aon, Mr. Devine cited the economy's impact and the insurance market cycle. "So our biggest challenge, but it's a great one, is to continue to build our firm in the face of that economic environment," he said. "We talk to our team constantly about how we're building this firm for the next 20 years. This is a long-term investment cycle."

Aon credited its 2008 reinsurance acquisitions for a 54% jump in first-quarter 2009 reinsurance brokerage revenues, offsetting declines in other risk and insurance brokerage services. Aon also said, as of March 31, 1,900 positions had been eliminated in its ongoing 2007 restructuring plan and it had reduced pension and other post-employment liabilities by $248 million.

While he recognizes the need for the firm to deliver quarterly results and an adequate return to shareholders, "the lens with which we solve problems is over decades," Mr. Devine said. "And we think that will help us because our clients want a long-term view, our people want a long-term view, our market relationships are long-term. And while there is a challenge, that's really the opportunity."

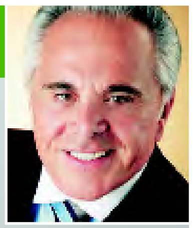
Aon's stock closed at $36.68 on July 10, with a 52-week high of $47.98 and a 52-week low of $35.26.

—By Rodd Zolkos

TOP BROKERS

RANK

3



Joe Plumeri, chairman/CEO

WILLIS GROUP HOLDINGS LTD.

2008 GROSS REVENUES	$3,451,000,000	33.9%
2008 BROKERAGE REVENUES	$3,362,000,000	36.5%

Willis Group Holdings Ltd. completed the $2.1 billion buyout of Hilb Rogal & Hobbs Co. as the U.S. recession rippled around the world, but observers say the integration seems to have been successful so far.

The 2008 acquisition combined Willis North America with HRH to establish Willis HRH Inc., doubling the size of Willis' North American operations and giving the London-based brokerage critical mass in certain segments and areas, said Don Bailey, chairman and chief executive officer of New York-based Willis HRH.

Willis reported 2008 brokerage revenues of $3.36 billion, up 36.5% from 2007, thanks in large part to the HRH acquisition, while commercial retail brokerage revenues rose 37.9% to just shy of $2 billion. Its 2008 U.S. business rose to a majority of clients, 53%, and brokerage revenue, 57%.

That makes Willis the world's third-largest insurance brokerage in the 2009 *Business Insurance* ranking based on 2008 brokerage revenues.

Mr. Bailey said Willis HRH has exceeded expectations on two metrics often used to evaluate acquisitions: reducing expenses and retaining producers.

On savings, Willis achieved $23 million in synergies in the first quarter of 2009 and projects $140 million in savings by the end of 2010.

Willis leaders say cost reductions have come largely from consolidating human resources and information technology functions and real estate. Willis closed HRH's Richmond, Va., headquarters and moved five Chicago-area offices into the Sears Tower, which changed its name last week to Willis Tower.

Willis Chairman and Chief Executive Officer Joe Plumeri said annual rent for 140,000-plus square feet of office space at the tower is $14.50 per square foot, far below what it paid for its previous Chicago-area leases.

Analysts say Mr. Plumeri and his team deserve credit.

While early in the process, "Willis does seem to be making good progress on integrating Hilb Rogal with respect to things like expense savings," said Gregory Dickerson, director of insurance for Fitch Ratings in New York. "With respect to things Willis can actually control, the integration so far seems to be on the right track."

At the same time, Mr. Plumeri said the combined brokerage has retained 97% of its producers since the merger was announced last year. Client retention was 92% in the first quarter of this year, Willis officials said.

"Keep the (producers) and you tend to keep the clients and that'll drive the results," Mr. Bailey said. "From the day this thing was announced, our people were made aware of all the (job) opportunities that existed in this market. We're very proud of the fact that they stayed at Willis HRH."

"Willis North America and HRH don't exist anymore. We have a new company that we created called Willis HRH, and that has been the mindset, I think, that has been at the foundation of the success of this thing," Mr. Bailey said. "We don't talk about whether you were from the HRH organization or the Willis organization. We've kind of stricken those words from our vocabulary."

That new North American unit, however, is not without its challenges.

On June 17, Fitch affirmed its negative outlook on the brokerage, saying the softening insurance cycle and global economy could make it challenging for Willis to achieve all of the expected benefits of the HRH merger.

The acquisition reduces "confidence that they'll be able to replicate past results," Fitch's Mr. Dickerson said.

Of chief concern, Mr. Dickerson said, is debt. To finance the HRH deal, Willis purchased a 12-month, $1 billion bridge loan, which it later refinanced by selling $500 million in senior notes at nearly 13% interest to Goldman Sachs Group Inc. subsidiary Mezzanine Partners.

"That increases their interest expense and puts a lot of pressure to deliver…to cover the increased debt load," Mr. Dickerson said.

Willis has reduced the bridge loan to $50 million and expects to pay the rest by the end of the second quarter, Mr. Plumeri said. But analysts said global economic problems diminished the value of HRH, making financing the purchase more expensive.

"Hindsight is 20/20, but to some extent…they overpaid for HRH and then had to take on very expensive

Continued on next page

Mr. Plumeri said it did not cost the brokerage anything extra to get its name on the Willis Tower.

Continued from previous page

debt for that payment," said Meyer Shields, a principal with Stifel Nicolaus & Co. Inc. in Baltimore.

Mr. Plumeri admitted the financial crisis has been difficult for two of the largest parts of the firm's North American business: construction and employee benefits. Willis cited those areas and its focus on integration as factors for a decline in North American organic commissions and fees in the first quarter of 2009, despite rises internationally. But Messrs. Plumeri and Bailey said Willis acquired HRH for long-term reasons, and the credit crisis has not changed the firm's strategy.

"That scenario that we had envisioned in June of 2008 obviously evolved to the point where we had to be a little more creative than what we had planned on being just four months earlier," Mr. Bailey said. "There's a lot of unforeseen things that come up when you do deals like this and this (financial crisis) is the one that confronted us. So it doesn't change our…knowledge that it was the right deal to do."

The acquisition of HRH in 2008 'evolved to the point where we had to be a little more creative than what we had planned on being just four months earlier.'

Don Bailey, Willis HRH

Still, in April, Willis sold Redondo Beach, Calif.-based wholesaler Bliss & Glennon Inc.—acquired as part of HRH—in a deal analysts attributed to the broker's need for cash. Willis leaders, who said the sale resulted in $41 million in gross proceeds, said the wholesaler did not fit into its long-term North American strategy of focusing on its retail business.

In June, Willis said it would try to sell part of its 48% stake in Paris-based brokerage Gras Savoye & Cie (see story, page 31). Willis had intended to own a majority of Gras Savoye by 2010. Analysts said the move could help Willis avoid liquidity problems should Gras Savoye's shareholders exercise their "put" option—obligating Willis to buy their shares.

Mr. Plumeri said Willis still intends to eventually acquire a majority share in the company. "There's nothing that has been poured in concrete yet, but we might want to embark upon a strategy where we have other partners that help us build Gras Savoye…so that in the future when we do take a majority share, they're in a better position," Mr. Plumeri said.

Meanwhile, Willis said it has converted 70% of HRH's contingent commissions—$50 million in 2008—into upfront commissions. About 2% of Willis' 2008 income came from such supplemental, underwriter-paid commissions. An agreement with New York state allowed Willis and other brokers to collect contingent commissions on acquired businesses for three years. Mr. Plumeri said even if regulators allowed a return of contingent commissions with improved disclosure, Willis still would not accept them.

"A contingent (commission) says I'm going to get paid based on how much volume I give somebody, which is a conflict of interest," Mr. Plumeri said. "That doesn't mean I don't want to get paid. I'll continue to take upfront" commissions.

Incidentally, he said it did not cost the brokerage anything extra to get its name on the Willis Tower. "If you're a dreamer, you think big things and that's the biggest thing in the Western Hemisphere," Mr. Plumeri said.

At the close July 10, Willis' stock was $24.47 per share with a 52-week high of $34.59 and a 52-week low of $18.83.

—By Zack Phillips

TOP BROKERS

RANK 4

David J. Zuercher, chairman/president/CEO

WELLS FARGO INSURANCE SERVICES INC.

2008 GROSS REVENUES	$2,012,973,000	35.8%
2008 BROKERAGE REVENUES	$1,743,062,000	36.0%

It's largely business as usual for Wells Fargo Insurance Services Inc., the bank-owned insurance brokerage that keeps gaining in market presence and revenue by acquisitions that include former competitor Wachovia Insurance Services Inc.

While growth in a soft market is generally seen as a challenge, WFIS has grown through large acquisitions such as Wachovia—now called Wells Fargo Insurance Services USA Inc.—and smaller ones, such as Las Vegas-based retail brokerage Grady & Associates Insurance Services.

Additionally, cross-selling insurance products to its bank customers has helped offset some of the downward pressure on the brokerage presented by the soft market, said David J. Zuercher,

Continued on next page

Continued from previous page

chairman of WFIS.

Gross revenues for San Francisco-based WFIS rose 35.8% to $2 billion in 2008 compared with 2007, while brokerage revenues climbed 36% to $1.74 billion in 2008 from 2007, making WFIS No. 4 in *Business Insurance*'s 2009 ranking of the world's largest brokers.

Since Wells Fargo combined with Norwest Corp. in 1998, the financial institution has taken in a string of banks and large insurance brokerages, including Acordia Inc., ABD Insurance & Financial Services and, in late 2008, Wachovia, which had purchased Palmer & Cay Inc. in 2005. The acquisitions have given WFIS strength in numbers, providing greater capabilities in risk management as well as better service to clients and markets, Mr. Zuercher said.

Scott Isaacson, WFIS executive vp, said the Wachovia acquisition increased Wells Fargo's reach in upper middle-market risk management accounts by 25%, bringing its total number of risk management accounts to 125. He said the brokerage's revenue since acquiring Wachovia has increased about 50%, as Wachovia had "some larger accounts."

Mr. Zuercher said the brokerage's banking parent defines middle-market accounts as those businesses that make $10 million to $500 million in revenue a year.

> **'Until the acquisition of ABD, we had a lot of spots around the country that we couldn't compete in, particularly the risk management area.'**
>
> Scott Isaacson,
> Wells Fargo Insurance Services Inc.

"Until the acquisition of ABD, we had a lot of spots around the country that we couldn't compete in, particularly the risk management area," Mr. Isaacson said. "Since then, we've gained talent in analytics and areas of integrated risk. That is the biggest thing Wachovia and ABD brought for us, the upper-end middle-market (customers) and the lower-end risk management capabilities."

Blending cultures during the transition phase with Wachovia has been "smooth," Mr. Zuercher said. WFIS' footprint since has expanded in the U.S. East and Southeast with little overlap in services. The brokerage had 213 offices in 36 U.S. states and the District of Columbia in 2008 vs. 171 offices in 37 states in 2007.

"What's really going to be revealing is what WFIS looks like in 18 months when they have completed the integration of cultures and people from Wachovia and really define themselves organizationally," said John Wicher, principal at San Francisco-based John Wicher & Associates Inc. "Wachovia gives them the Southeast, which is an area of economic growth, and the brokerage's presence on the West Coast is in large part due to acquiring ABD. It's a pretty impressive footprint, and the next 18 months will be telling of their ability to exploit it."

While WFIS continues to grow and cross-sell its products through a variety of outlets, some rocks have been thrown in its otherwise smooth path. The credit crisis created problems for the banking arm of the Wells Fargo operation, which took $25 billion in Troubled Asset Relief Program money and rules on executive compensation attached to that federal bailout money.

Mr. Zuercher said the brokerage operation is subject to the same rules as the bank when it comes to the funds, but added that to date, "none of those rules has had any real effect on our business."

"I think there is a lot of negative press that surrounds banks, but it really gets to be about that personal relationship between our customers and us that tends to be the most important driver of business," Mr. Zuercher said.

WFIS continues to accept contingent and supplemental commissions, Mr. Zuercher said, adding that the brokerage "performs a very valuable service" to insurers in assessing and placing risks.

According to WFIS, 98% of its 2008 retail brokerage revenue was from commissions, while 2% of revenue was from fees. Its 2008 commercial retail brokerage revenue was $1.21 billion, up 37.4% from 2007. About 2.5% of the brokerage's revenue is derived from supplemental commissions, which includes contingent commissions.

As WFIS continues to navigate the soft market and the recession, Mr. Zuercher said the brokerage has seen an uptick in cross-selling in its personal lines and small-business offerings as well as the middle market.

Tim Cunningham, a principal with OPTIS Partners L.L.C. in Chicago, said further growth for WFIS in today's economic climate will be tough, as there is "a fair amount of caution for those on the buy side of doing acquisitions."

"I don't think anyone would readily admit that remaining flat in 2009 is OK, but I think a lot of organizations that do remain flat this year will be satisfied," Mr. Cunningham said. "Not doing a lot of deals in 2009 is probably a prudent call."

While the brokerage is managing expenses tightly, Mr. Zuercher said WFIS still has an appetite for further acquisitions and growth.

"(Acquisitions) are clearly part of our growth strategy," Mr. Zuercher said. "We're pleased with where we are in the industry and continuing to look for ways to grow, whether it's cross-selling customers, general market growth or acquisition."

On July 10, Wells Fargo stock closed at $22.87 per share. Its 52-week high was $39.80 and its 52-week low was $8.12.

—*By Jeff Casale*

TOP BROKERS

RANK

5

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

ARTHUR J. GALLAGHER & CO.

2008 GROSS REVENUES
$1,645,000,000 — 1.3%

2008 BROKERAGE REVENUES
$1,611,302,000 — 5.8%

A focus on the company's culture, an emphasis on client needs, and attracting talent and acquisition partners that are a proper fit are keeping Arthur J. Gallagher & Co. growing even in a challenging environment.

"If you continue to hire and retain the best people and you continue to focus on your clients' needs and getting new clients—because we're very much of a new-business organization—there's no limit to what you can do in this business," said J. Patrick Gallagher Jr., chairman, president and chief executive officer of the Itasca, Ill.-based broker. "There's no limit to the growth."

"We grew our business in 2008, and that's what we're all about," Mr. Gallagher said. "We're blessed to be in a business that is hugely fragmented and internationally vast."

While acquisitions have long been a key element of Gallagher's strategy, particularly as it looks to strengthen positions in industry or geographic niches, Gallagher did a record 37 deals in 2008. Those acquisitions averaged $5 million in revenue, Mr. Gallagher said. When Gallagher considers whether to buy a company, "due diligence is literally 90%-plus (based) on cultural fit."

"What I'm most proud of…these great entrepreneurs have a choice," Mr. Gallagher said of acquisitions. "And the fact that they choose to join our company, it's another signal to me that this culture that I talk about so frequently really is a strong magnet."

"People want to come into this company," he continued. "They find that teamwork is the norm here. Our branches do work together well. Our people do like each other, generally have fun together, and that leads to better production."

Despite the soft insurance market, Gallagher posted more than $1.61 billion in brokerage revenues in 2008, up from more than $1.52 billion in 2007, ranking it No. 5 in *Business Insurance*'s 2009 ranking of the world's largest brokers.

"Sure, we're facing headwinds," Mr. Gallagher said. "Of course, when our clients hurt from the incredible recession we're in, that is a drag on our income. But still, we're incredibly profitable. We have a prudent balance sheet. We're not overly leveraged. We've got a tremendous dividend that our shareholders appreciate."

"I think Arthur J. Gallagher is doing a solid job in a difficult environment, particularly the economy," said Jay Gelb, director in equity research at Barclays Capital, the investment banking division of Barclays Bank P.L.C., in New York.

"The reported revenue growth in Arthur J. Gallagher's insurance brokerage unit is running well ahead of the organic growth," Mr. Gelb said. "So the brokerage organization's revenue growth is being driven by acquisition at this point and that's a long-standing strategy that they've had success with."

Earlier this year, the broker made what Mr. Gallagher expects to be another key acquisition in purchasing renewal rights for Liberty Mutual Group Inc.'s Midwest and Southeast middle-market commercial property/casualty and Wausau Signature Agency business.

The deal included an initial payment of $44 million in cash and stock; additional payments up to $120 million will be based on revenue generated in the two years after the deal's close in February. Producers and support staff from 42 locations involved in the deal have joined Gallagher's operation.

> **'Of course, when our clients hurt from the incredible recession we're in, that is a drag on our income. But still, we're incredibly profitable.'**
>
> J. Patrick Gallagher Jr.,
> Arthur J. Gallagher & Co.

"That is a very big deal for us, the biggest deal we've ever done," Mr. Gallagher said, adding that he expects the deal to boost Gallagher's earnings in 2010.

Gallagher's brokerage operations remain niche-focused, a strategy Mr. Gallagher said allows the company to deliver specialized expertise to clients.

"Whether it's construction or public entity or religious and not-for-profit or health care or higher education, we bring a lot to the table," Mr. Gallagher said. "There's virtually no one that we fear as competition in those areas where we have tremendous expertise. And in many of those, we view ourselves as the largest player."

Despite the company's success in the face of a difficult economy, Mr. Gallagher said the brokerage remains "incredibly focused on cost containment." In the first quarter, "we had significant margin improvement. We're harvesting the work of many years in terms of reducing overall costs in the company, but we are tight."

Among budget cuts are elimination of nonclient-related travel, cancellation of various meetings, and a cautious approach to filling vacancies. "Frankly, I think that's the pru-

Continued on next page

TOP BROKERS

RANK

6

Dominic Burke, group chief executive

JARDINE LLOYD THOMPSON GROUP P.L.C.

2008 GROSS REVENUES
$1,032,900,865 ▲ 12.3%

2008 BROKERAGE REVENUES
$992,843,665 ▲ 4.8%

Acquisitions and organic growth pushed up revenues at Jardine Lloyd Thompson P.L.C. in 2008 and, despite poor economic conditions and largely stagnant insurance rates, the company's top executive remains optimistic that the brokerage will report further revenue growth for 2009.

The London-based brokerage's model of limiting its operations to fields where it can excel and its "entrepreneurial" approach should ensure that growth, he said.

Dominic Burke, JLT's group chief executive officer since December 2005, has focused on building revenue through organic growth and bolt-on acquisitions, a strategy that seems to be bearing fruit.

In 2008, in its home currency, JLT saw gross revenue rise 12.3% to £557 million ($1.03 billion) from £495.9 million ($992.9 million) in 2007, and operating profits rose 13% to £92 million ($170.6 million). Profit after tax in 2008 fell 12.9% to £64.8 million ($120.2 million). Brokerage revenue increased to £535.4 million ($992.9 million) in 2008, a 13.1% increase over the prior year.

The revenue growth was due to "good management across the group, strategic planning and execution of those strategies. We have really got the engine room going in terms of revenue growth," he said.

In 2008, JLT's revenue grew 8% on consistent rates of exchange, with notable contributions from its commercial retail and reinsurance brokerage operations, and employee benefits unit. Internationally, JLT saw good performances across Asia, Latin America, Canada and Australia, Mr. Burke said.

Acquisitions made during the past two years also played their part in JLT's revenue growth. The brokerage had made 18 acquisitions between Jan. 1, 2007, and Dec. 31, 2008, for a total of £45 million ($83.5 million), the largest being the June 2008 acquisition of specialist Lloyd's of London reinsurance brokerage Harman Wicks & Swayne.

"The acquisition demonstrates JLT's commitment to the reinsurance market and its determination to grow in the nonmarine treaty reinsurance space," he said. Revenues at JLT Reinsurance Brokers Ltd., the company's reinsurance and aviation brokerage unit, grew by 5.5% at constant rates of exchange in 2008 to £48.9 million ($90.7 million).

The broker also has added staff as consolidation continues in the reinsurance brokerage market, Mr. Burke said.

"People see JLT as an attractive home because it is independent. It is in our DNA to be entrepreneurial, and perhaps less bureaucratic than other firms. We have a stable management team and a clearly defined strategy that everyone in the group understands and that has been fully understood by our shareholders. This has enabled us to attract peo-

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dent way to be right now," Mr. Gallagher said.

Even so, Gallagher's employee count grew 750 this year, due primarily to acquisitions.

Given the economy and soft insurance market, Mr. Gallagher said he doesn't expect the need to control costs will end anytime soon. "Certainly, it will be better and certainly the recession will end and there will be economic growth because that's the way of the world," he said. "But we 're going to wait until we see it before we're changing anything in terms of this focus on costs."

"But you can't cut yourself to greatness, either," Mr. Gallagher said. "You've got to be investing in your future."

The broker also is aware how the economy affects its clients. "There's not a business out there, for the most part, that's not under some form of duress," Mr. Gallagher said. "And people are saying, 'When's the market going to harden?' Well I think we're lucky the market is not hard right now because I don't think clients would pay" more.

Today's clients are willing to take higher deductibles, reduce limits or drop broader coverages "because they are cost-constrained," he said.

"Clearly, the economy is having an impact on our clients that we're very cognizant of. And they are asking us for help," Mr. Gallagher said. "It's client-by-client, sitting down with them, understanding their business, getting the exposure units right, making sure the audits are done right, and helping them do the best they can for the dollars they spend."

Gallagher had a "solid first quarter," Mr. Gallagher said, with brokerage revenue up 12% over the same quarter in 2008.

As it works to serve its clients, Mr. Gallagher sees his firm's culture as its "single biggest differentiator."

With that in mind, the broker this year is celebrating the 25th anniversary of the Gallagher Way, 25 statements of shared values written by Robert E. Gallagher, the company's late chairman, that Mr. Gallagher said are at the heart of the Gallagher culture.

Arthur J. Gallagher's stock closed July 10 at $20.51, with a 52-week high of $28.54 and a 52-week low of $15.04.

—By Rodd Zolkos

Continued from previous page

ple, but it has also proved attractive to clients who like the stability and skill sets of JLT," he said.

Based on 2008 year-end figures, JLT performed extremely well compared with its peers, said Joanna Parsons, insurance analyst with RBS Global Banking and Markets in London. At 6%, JLT's organic growth in revenue in 2008 was the best among the leading brokers, she noted.

"JLT has had a difficult period, but there is a strong argument that it is now coming out the other side. And looking at recent performance, the evidence shows that JLT is back on track and ahead of its peers," Ms. Parsons said.

JLT is unlikely to be a big beneficiary of recent market hardening because its nonmarine reinsurance broking business, where rates for some catastrophe-exposed business have risen, is not as large as its larger competitors, she said. But the broker should benefit from any hardening in marine, aviation and energy, sectors where JLT has a strong presence, Ms. Parsons said. "Overall, JLT is in a much stronger position than it was a few years ago," she said.

Mr. Burke anticipates "good" levels of organic growth in 2009, although the global slowdown in economic activity and the softer-than-expected insurance market will limit JLT's growth potential, he added.

'JLT has had a difficult period, but there is a strong argument that it is now coming out the other side.'

Joanna Parsons,
RBS Global Banking and Markets

"Our pipeline of prospects in our risk and insurance business is encouraging and, whilst we remain cautious of economic conditions facing the group internationally, on the basis of our first quarter results, we remain on track to achieve our financial objectives in 2009—that is, to show year-on-year profitable growth in 2009," Mr. Burke said.

There has been little evidence of a hard market in the first half of 2009, except in some specialty areas, he said. And in some areas where rates are increasing, such as catastrophe exposures in the Gulf of Mexico, many clients have chosen not to buy insurance cover at all because it is not available inexpensively, Mr. Burke added.

"The U.K. and international property/casualty markets are soft, and at times even very soft. Coupled with the global economic downturn and reductions in gross domestic product recorded in all the major economies in which we trade, any organic growth in that environment will be commendable," he said.

Revenue growth from JLT's employee benefits business also is likely to be held back by the economic slowdown, said Mr. Burke. "In the United Kingdom, there was a recorded first-quarter 2009 reduction in the single-premium spend in the pensions and investments market of (almost) 50%. It is clear there has been a contraction in spend by corporates, and that our business will not be immune to that."

JLT may face strong headwinds in growing revenues in 2009, but there are still mitigating factors, according to Mr. Burke.

JLT continues to grow its share of the reinsurance brokerage market and leverage its specialty business. For example, the group's construction brokerage arm has countered the downturn by winning major infrastructure projects in Asia, the United Kingdom and Australia.

The company also continues to grow Thistle Underwriters Ltd., its managing general agency business launched in December 2007. Thistle, which made its first acquisition in June 2009 when it bought underwriting agency Ingham & Co. (Liabilities) Ltd., is expected to become JLT's third business leg alongside risk and insurance, and employee benefits, Mr. Burke said.

In its first year of operation, ICAP-JLT, the joint venture formed in 2007 with ICAP P.L.C. to establish an insurance-based derivatives and securities broking platform, brokered some 60 transactions, representing some $300 million in risk transfer.

Strategic move

JLT's withdrawal from the U.S. retail market in 2006 was one of Mr. Burke's first big strategic moves as CEO. He does not anticipate a return to the U.S. retail market but said JLT has re-established its credentials in the region and remains an attractive partner for independent brokers in the United States.

JLT partners with other independent brokers in 80 countries through JLT Network. But JLT Network does not have an official network partner in the United States; instead, the brokerage deals with an undisclosed number of U.S. retail brokers. JLT has been making an effort to market itself to U.S. retail brokers in recent years, increasing the number of preferred producers. Wholesale business from the United States increased by 35% in 2008.

Lloyd & Partners, JLT's wholesale insurance business, reported a 13% increase in revenue to £47.1 million ($87.3 million) in 2008, or 11% when stripping out revenue growth from its acquisition of Park (Bermuda) Ltd. in 2007. The majority of Lloyd & Partners' business originates in the United States.

"The U.S. domestic market remains soft, so not as much risk is coming to London as we anticipated in a harder market. But we continue to win business in the United States and globally," Mr. Burke said.

On July 10, JLT's stock closed at £4.01 ($6.50) per share. Its 52-week low was £3.63 ($5.88) and its high was £5.28 ($8.56).

—By Stuart Collins

TOP BROKERS

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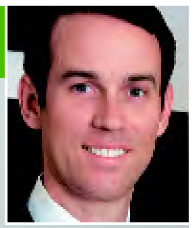

J. Powell Brown, president and CEO

BROWN & BROWN INC.

2008 GROSS REVENUES	$977,553,213	1.9%
2008 BROKERAGE REVENUES	$965,982,617	5.6%

The recent leadership change at Brown & Brown Inc. heralds continuity rather than change in the company's focus, Brown & Brown leaders say.

"Brown & Brown is going to continue to be a true middle-market agent, serving the middle market," said Brown & Brown President J. Powell Brown, who succeeded his father, J. Hyatt Brown, as chief executive officer of the Daytona Beach, Fla.-based agency on July 1 as part of a succession plan announced more than a year ago. "It's not different than what we do currently."

And that focus will help the company—which, like its peers, is coming off a challenging year—when the economy rebounds, Brown & Brown's leaders say.

Looking back over the past several months, the brokerage's biggest "disappointment was the economy," said the elder Mr. Brown, who remains nonexecutive chairman. But he said Brown & Brown's performance was "very good in the context of the fact that the economy is probably the worst shape that it's been since I started working in 1959."

"We faced lots of challenges, like a negative internal growth rate, which we never had before," he said. "The economy in Florida went south pretty rapidly, and that had an impact on our profits in Florida." The younger Mr. Brown said Florida generated about 35% of the company's revenue last year, a drop from the 38% generated in 2007. He said the drop was attributable to the fact that most of Brown & Brown's acquisitions were outside Florida.

The elder Mr. Brown said the brokerage had a 35% operating margin, compared with 38% in 2007.

Brown & Brown's total brokerage revenues grew 5.6% to just under $966 million in 2008. That included $553.1 million in commercial retail brokerage revenue—which includes retail niche programs—for an increase of 5%. Wholesale brokerage revenues fell 6.8% to $151.9 million. The younger Mr. Brown noted that the wholesale area experiences the most dramatic price swings in a softening rate environment as the admitted market's appetite expands.

Reinsurance brokerage revenue increased 35.3%, to $16.7 million, which the younger Mr. Brown said represented "internal growth in those areas where we were able to secure new business opportunities." Personal lines revenue increased 7.3%

And employee benefits business continued to grow, increasing 25.8% to $149.8 million. "We had about $150 million last year, and that's about 25% of the retail business and 15% of total revenues, and we'd like to grow that to about 25% of total," said the elder Mr. Brown.

Profits, however, slid 13% to $166.1 million for the year. Those results were affected in large part by an $18.7 million nonrecurring gain in 2007 from the sale of its shares in paperboard manufacturer Rock-Tenn Co.

Last year's performance allowed Brown & Brown to climb two spots to No. 7 on *Business Insurance*'s ranking of the world's largest brokerages. The rise reflected, among other things, the inclusion of revenues generated by managing general agent activities in brokerage revenues, which *Business Insurance* did not include when determining 2007 rankings.

Net income for the first quarter of 2009 was $48 million, down 7.3% from the prior-year period. Total revenues for the quarter, however, grew 2.7% to $263.6 million.

Last year "was obviously a much more difficult year," said Mark Dwelle, an insurance analyst with RBC Capital Markets in Richmond, Va. "The market environment was against them. I think they did fairly well with what they had to work with," he said.

"The first-quarter numbers were a little bit weaker than expected," said Mr. Dwelle. "The contingent income seemed to be the main driver of the earnings shortfall."

Brown & Brown's contingent commissions dropped 17.7% to $29.9 million during this year's first quarter compared with the same period a year earlier.

The elder Mr. Brown called contingent commissions "very important" to the brokerage. "Last year, we had $56 million in contingents. We make disclosures about all of the potential areas where we could glean income from," he said.

The elder Mr. Brown said the brokerage continues to aim at middle-market accounts that generate commissions from $5,000 to $300,000. Sixty percent of that market is retail; the rest is broken out into 18% wholesale, 18% programs and 4% services, he said.

"We're always looking for new little niches," said the elder Mr. Brown. He noted that the brokerage has a lot of government business. "They're shrinking some, but one of the nice things about governments is they don't get sold," he said.

The national programs division has a professional liability unit, which provides professional liability and related package products for professionals and a special programs unit, which markets targeted products and services for specific industries, trade groups, public entities and others. The services division provides third-party claims administration and other services to workers compensation programs.

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The elder Mr. Brown noted that Brown & Brown experienced "a very good year last year" in terms of acquisitions, with the brokerage closing on 45 acquisitions that generate about $120 million in annualized revenue. He said the largest generated about $18 million, with Brown & Brown's "sweet spot" generally in the $3 million to $10 million annual revenue range. "This year has been slower," he said, with six acquisitions generating about $18 million in collective revenues.

The younger Mr. Brown said his father will "continue to be involved in acquisitions. We do see acquisitions continuing to be a key part of our growth."

Another key strategy for Brown & Brown remains its emphasis on its staff.

"We believe our greatest assets are our people," said the younger Mr. Brown. "We continue to bring on a number of good new people." He said new employees are coming from inside and outside the brokerage industry and through acquisitions.

One key success has been the company's first international operation, Decus Insurance Brokers Ltd., said the elder Mr. Brown.

Decus, a London-based wholesaler, has been a "real growth story for us." He said he expects Decus to generate "between $5 million and $6 million in retained commissions, starting out from zero in March of last year," when the operation began.

He said the Decus wholesale business is property-driven; 85% of its business is Brown & Brown clients. "On accounts where we used another broker, we're using our own and focusing in on every nook and cranny to see if there's something else we can do to help the customer."

Generally, Brown & Brown's goal "is to bring options to our clients. Those options would include transferring risk to carriers or self-insuring risk," said the younger Mr. Brown.

"Whatever their selection, we want them to understand what the marketplace can provide for them."

Brown & Brown's stock closed at $18.54 on July 10, with at 52-week high of $23.96 and a 52-week low of $15.65.

—*By Mark A. Hofmann*

TOP BROKERS

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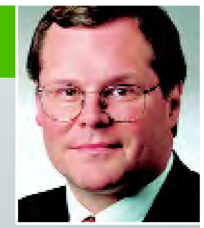

H. Wade Reece, chairman and CEO

BB&T INSURANCE SERVICES INC.

2008 GROSS REVENUES	$1,029,780,200	▲ 5.7%
2008 BROKERAGE REVENUES	$962,134,200	▲ 9.7%

BB&T Insurance Services Inc. relied on acquisitions to fuel revenue gains last year, but it also grew organically despite the declining economy, its top executive said.

The Raleigh, N.C.-based brokerage, a unit of banking parent BB&T Corp., grew brokerage revenues 9.7% to $962.1 million, in part due to large gains in its employee benefits line, following several strategic acquisitions.

BB&T's 2008 brokerage revenues make it the eighth-largest insurance brokerage worldwide and the seventh-largest broker of U.S. business in *Business Insurance*'s 2009 rankings.

"We view 2008 as a great performance in the face of a very tough environment," said H. Wade Reece, chairman and chief executive officer. "The biggest impact on us is the continued soft market, combined with the declining economy, which is having a profound effect on our clients."

BB&T's appetite for new acquisitions continues to be strong, though current market conditions have brought acquisition activity to a halt so far for 2009, Mr. Reece said. "It's creating a wait-and-see attitude on both the buyers' and sellers' part," he said.

Organic growth remains a key focus for BB&T, which in 2008 posted a 3.6% organic growth rate, due in part to an emphasis on new business and client retention, he said. As part of this strategy, the broker revved up sales training for producers and managers last year and emphasized consulting capabilities "because our clients need that good risk management advice now more than ever," Mr. Reece said. These efforts helped BB&T maintain a 93% client retention rate in 2008.

'To realize organic growth in 2008 means that you were taking that business from someone else; 3.6% in this environment is impressive.'

John Wicher,
John Wicher & Associates Inc.

"To realize organic growth in 2008 means that you were taking that business from someone else; 3.6% in this environment is impressive," said John Wicher, a principal at San Francisco-based John Wicher & Associates Inc., which provides advisory and investment banking services.

An active acquisition year—including 11 deals—also helped BB&T grow in 2008. After quiet periods in 2006 and 2007 to focus on integration, BB&T purchased retail agencies and benefit operations primarily in North Carolina, South Carolina and Florida.

Mr. Reece cited San Diego-based UnionBanc Insurance Services Inc. as its "most significant" acquisition last year (*BI*, July 21, 2008). The purchase enabled BB&T Insurance Services to expand its retail operations in California—where wholesale unit CRC Insurance Services and

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large-account commercial broker McGriff, Seibels & Williams operate. Terms were not disclosed, but Mr. Reece said the UnionBanc operation will amount to roughly 5% of BB&T's 2009 revenue.

Apart from expanding its West Coast reach, BB&T continues to seek acquisitions where its parent has strong banking operations to "leverage cross-selling and drive organic growth," Mr. Reece said.

BB&T already has a large Southeastern footprint, but several 2008 deals either bolstered its presence in certain markets, such as Myrtle Beach, S.C., and Orlando, Fla., or added to BB&T's benefits business. Retail agency deals last year included Puckett, Scheetz & Hogan Insurance Agency Inc. in Myrtle Beach; J. Rolfe Davis Insurance and Burkey Risk Services near Orlando; and Alpharetta, Ga.-based employee benefits provider Ott & Co. Collectively, the 2008 acquisitions helped grow BB&T's benefits revenue by more than 50%, generating more than $104 million in revenue.

Strategic acquisitions also play an important role in BB&T's long-term growth plans, Mr. Reece said. For example, the December purchase of TAPCO Underwriters Inc.—a Burlington, N.C.-based managing general agency specializing in middle-market excess and surplus lines—is a "perfect marriage" that represents "tremendous potential for growth," he said.

'One of the hallmarks of BB&T is that they are remarkably consistent with their strategy...and do not let the current environment deter them.'

Jim Campbell, Reagan Consulting Inc.

BB&T maintains that its strong balance sheet puts the company in a position to pursue deals when it finds "the right combination." Mr. Reece estimates the pace of acquisitions will pick up the rest of this year, though overall acquisitions likely will be less than last year. High-quality agencies with a good sales culture continue to be attractive targets, he said.

"One of the hallmarks of BB&T is that they are remarkably consistent with their strategy and their philosophy and do not let the current environment deter them. They continue to execute year after year," said Jim Campbell, a principal with Reagan Consulting Inc. in Atlanta.

BB&T does face challenges, however, primarily due to market conditions.

For example, BB&T's wholesale line, which represents about one-third of its business, saw revenue drop 5.6% to $232 million in 2008. Mr. Reece said market forces last year created a "double-whammy" for wholesalers. In addition to soft pricing, "account migration from excess and surplus lines placements to standard markets was more pronounced," he said. BB&T does not plan to make any dramatic changes in its wholesale line and is "looking forward to the market correcting itself," he said.

The broker also is keeping an eye on regulatory developments and watching health care reform very closely, due to its substantial portion of benefit business. Currently, the line comprises roughly 20% of its commercial broker revenue. Mr. Reece said "uncertainty" surrounding the issue is giving the broker some pause in pursuing pure employee benefits providers "until we have some clarity."

BB&T's shares closed July 10 at $20.63 per share. The 52-week high was $40.45 and the 52-week low was $13.32.

—By Colleen McCarthy

TOP BROKERS

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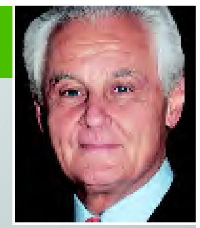

Patrick Lucas, Chairman and CEO

GRAS SAVOYE & CIE

2008 GROSS REVENUES	$797,560,160	▲ 15.2%
2008 BROKERAGE REVENUES	$786,368,400	▲ 15.6%

In a marketplace where insurance buyers are spending less and brokers are battling over new clients, Gras Savoye & Cie is looking to gain an edge by honing its expertise in several industry sectors.

The Neuilly-sur-Seine, France-based broker is working hard to provide the services that existing clients appreciate, and keeping those accounts is the company's top priority, said Patrick Lucas, Gras Savoye's chairman and chief executive officer.

But during the past year, the broker has begun to sharpen its focus on specific market segments to increase its profile as an expert in sectors that range from agriculture to information technology, Mr. Lucas said.

"We are being more aggressive in bringing in new business, and this sector approach is a way to increase revenue and better understand our clients' activities and needs," he said.

In its home currency, Gras Savoye's 2008 gross revenues rose 7.3% to €541.6 million ($797.6 million) from the previous year. Its 2008 brokerage revenues rose 7.6% to €534 million ($786.4 million), making Gras Savoye No. 9 in the 2009 *Business Insurance* ranking of the world's largest brokers. The last time Gras Savoye cracked the Top 10 brokers ranking was in 2000.

Under its target-sector strategy, the broker has assembled teams and provided team members with train-

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ing and education as a way to attract new clients while adding value to existing accounts, Mr. Lucas said.

"These are not necessarily new areas for us," he said of the sectors the broker is targeting. Some, such as the food and agriculture industry, are market segments that Gras Savoye felt it knew well before putting together a team that could focus specifically on the area, he said.

Among other sectors Gras Savoye has targeted are information technology, construction, pharmaceuticals, energy and aviation.

Mr. Lucas said Gras Savoye studied market sectors to pinpoint those with the most growth potential, then charged the teams to become experts about how businesses in those segments operate. The teams map risks, develop benchmarks on rates and provide other risk management services, he said.

The approach is wise in a market that requires brokers to stand out from competitors, said Meyer Shields, a principal with Stifel, Nicolaus & Co. Inc. in Baltimore.

"We're seeing a greater reluctance in insurance spending in general," Mr. Shields said. "To the extent that a broker can present a much more informed risk management package by understanding the risk," the more valuable they will be to clients. "Having that greater expertise is going to be critical."

Gras Savoye opted to train existing employees for the teams rather than hire experts. "That is an internal investment that we have made," Mr. Lucas said.

'When companies disclose figures in early 2010, the market can expect some premiums to be adjusted down and the insurance community will probably have to face a new situation.'

Patrick Lucas, Gras Savoye & Cie

By training existing employees, it is not necessary to hire new ones to attract and service new types of business, he said. "Employee cost is a major cost of a service company such as a broker," Mr. Lucas said. "We need to have control of that cost."

Gras Savoye's employee count rose slightly last year, increasing to 3,650.

During the past year, the broker opened offices in Ghana, Poland, Morocco and Turkey, bring its retail office total to 102.

While Willis Group Holdings Ltd. recently said it is considering selling a portion of its 48% stake in Gras Savoye (see story, page 23), Mr. Lucas said that would not affect the broker's operations.

"We have a strategic and operational alliance with Willis. We both want to pursue this partnership and will continue to work together whatever the reduction of their ownership may be," Mr. Lucas said.

There are a few reasons that Willis, which acquired an interest in Gras Savoye in 1997, may be interested in selling its stake, Mr. Shields said. "The obvious reason is to raise cash," he said. "Willis has a lot of debt."

Willis could be seeking to raise funds to purchase another company, said Mr. Shields, or there could be a third scenario under which Willis could be angling to buy a strengthened Gras Savoye later.

Under a put option arrangement, Willis could be required buy all of Gras Savoye by 2011 if all shareholders "put" their holdings to Willis.

While it is speculation, it also is possible that Willis could sell its stake to another company that might acquire a substantial portion of Gras Savoye, said Mr. Shields. If such a deal occurred, Willis could find itself in a position to buy Gras Savoye later under the put arrangement after another company has put resources into strengthening the brokerage, he said.

Its partnership with Willis, the world's third-largest brokerage, offers Gras Savoye some marketplace advantages, Mr. Lucas said.

"They have a network that is very complementary to ours. They have experience in certain areas where we are less experienced. The synergies have been working successfully for 12 years," Mr. Lucas said.

An increase in employee benefits business, with revenues from that sector rising 6.6% to €152.4 million ($224.4 million), helped Gras Savoye's overall revenues in 2008.

While the financial crisis has affected Gras Savoye's business, the true effects on all brokers may be yet to surface, Mr. Lucas said.

"I believe the crisis will hurt the brokerage community next year," after policyholders reveal their 2009 results, Mr. Lucas said. Premiums might decline after companies disclose their 2009 performance in early 2010 "and the insurance community will probably have to face a new situation."

Some coverages are indirectly tied to employers' revenue, he said. For example, companies may lay off workers in 2010, resulting in a reduced need for benefit packages. In addition, some policyholders may not be able to afford the same level of coverage in 2010, further reducing the insurance they buy.

Already, some of Gras Savoye's construction and vehicle leasing clients have suffered during the recession, affecting their insurance needs, he said.

"The insurance market is going through tough times," Mr. Lucas said. "In some areas, it would not be surprising if we see some increase in rates. It depends on how loss ratios develop in the months to come. It's hard to ask for an increase when your clients are in such difficulty. I don't think any broker can expect help from increasing rates. So we will have to find that help internally in how we are operating and delivering quality" to reduce costs.

—By Michael Bradford

TOP BROKERS

RANK

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David M. Lockton, Chairman

LOCKTON COS. L.L.C.

2008 GROSS REVENUES $786,845,000	6.0%
2008 BROKERAGE REVENUES $778,345,000	6.9%

Lockton Cos. L.L.C., which is confronting the broad economic head wind affecting the brokerage sector generally, sees opportunity in helping clients overcome their own economic challenges, Lockton leaders say.

Last year was a tough one for many brokerages, and Lockton in 2008 saw the end of its 42-year record of uninterrupted double-digit growth. Lockton's executives say they are nevertheless pleased with the company's performance, given overall economic conditions.

John L. Lumelleau, president and chief executive officer of the Kansas City, Mo.-based broker, said: "I think, clearly, the high point for Lockton last year was our overall performance. In a most difficult economic climate, we continued to grow our business and our company across the board."

In addition to increasing brokerage revenues by nearly 7%, "we maintain an industry-leading retention level in excess of 95%, so the combination of retention and a significant amount of new business produced more than $50 million in the U.S. of new business alone," he said.

In addition, "we have remained relatively stable in terms of our associate count," said Chairman David M. Lockton. "We've avoided any kind of hiring freezes or curtailment of retirement benefits or layoffs of any significant nature."

Overall, Lockton reported $778.3 million in brokerage revenues for 2008—up 6.9% over the previous year—making No. 10 spot on *Business Insurance*'s ranking of the world's largest brokers.

John Wicher, of John Wicher & Associates in San Francisco, said Lockton "has distinguished itself by having excellent brokers supporting the very successful producers."

For fiscal 2008, 47% of Lockton's business was U.S. property/casualty, with the rest broken out into 30% international, 20% U.S. employee benefits, and 3% U.S. affinity business or program business.

Lockton's clients range from small businesses to some Fortune 50 companies, said Mr. Lumelleau.

"We have a much larger penetration in the large, complex risk arena" than the next four or five brokers larger than Lockton in size, "who tend to concentrate more on the middle-market arena," added Mr. Lockton. Lockton has around 140 such large clients, a spokesman said.

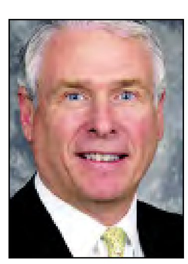
Helping those clients confront economic challenges is a key strategy for Lockton.

"Our clients are experiencing a lot of pain inflicted on them by this economy, and we're responding to that by being more proactive in finding solutions for them," Mr. Lockton said.

Lockton's Financial Solutions Advisory team, for example, helps its clients in risk financing and collateral management. In one case, Lockton helped a leading consumer goods manufacturer release $12 million of trapped collateral, including $1.2 million in cash. It did so by using loss estimates reflecting the client's own experience and getting a credit for future paid losses.

And in its health risk management unit, which is part of its benefits operation, "We've recruited several doctors as medical directors, and are working very successfully to reduce the cost of claims on employee health and welfare programs," Mr. Lockton said.

Lockton's employee benefits revenue increased 14.9% to $163.5 million in 2008. "The Lockton Benefit Group has been a very significant part of our success over the last five, seven years, and we have every expectation that the broad spectrum of services that Lockton delivers to our clients in that business segment will continue," said Mr. Lumelleau.



'The high point for Lockton last year was our overall performance. In a most difficult economic climate, we continued to grow our business and our company across the board.'

John L. Lumelleau, Lockton Cos. L.L.C.

Another big growth area for Lockton has been its executive risks unit, which focuses on directors and officers liability and related risks. That unit has grown from a one-person unit 10 years ago to more than 100 people and now generates around $1 billion in premium volume globally, including more than $500 million in the U.S. alone.

Lockton also reported a 9% increase in its wholesale revenues, which rose to $60.9 million.

"Our wholesale business is very healthy. We've invested a great deal of new talent in our London wholesale operation, and we have been able to team up with our U.S. retail operations to the benefit of many of our clients," Mr. Lockton said.

Reinsurance revenues, however, fell 30.3% to $8.9 million, though Mr. Lumelleau said the drop is an anomaly that "is directly related to the market last year.

"When the reinsurance markets tightened in certain lines of coverage, the markets went to a quota-share basis, which changes the way policies are billed. So it's really an accounting aberration that is self-correcting," he said.

In addition, the brokerage continues to accept contingent commissions and has no plans to change. "We fully discuss all compensation arrangements with every Lockton client," said Mr. Lumelleau. Lockton declined to reveal how much it collects in such commissions.

On the international front, Lockton saw its number of employees in Europe drop to 750 in 2008 from 850 in 2007 as it integrated Alexander Forbes International Risk Services, which Lockton bought in 2006.

After that deal, Lockton found itself with "more management and administration than we needed. We made decisions about people and positions on a one-by-one basis, and at the end of the day we ended up with fewer administrative people," Mr. Lockton said. He added, though, that "while the numbers went down, we've recruited over 200 new people in London alone."

Lockton also expanded into offices in Dubai, United Arab Emirates, and Shanghai, China, last year. There are no specific plans to open others as of now, said Mr. Lockton.

Lockton's international business grew about 6% in 2008, said Mr. Lumelleau.

Earlier this year, the brokerage launched a risk management services unit to help companies address outsourcing risk and corporate response plans for data breaches. Mr. Lumelleau said cyber risk expertise is one of the specialty areas Lockton acquired with the $170 million Forbes acquisition.

"That group is largely based in London, but it works in lockstep with Lockton's U.S. retail brokers, and we have been successful in meeting the needs of Fortune 1000 and smaller clients in the cyber tech area," Mr. Lumelleau said.

In addition, Lockton last year announced a partnership with Montreal-based brokerage BFL Canada, with the brokerages agreeing to help one another's customers.

Lockton does not plan to make any more acquisitions and will focus on organic growth, said Mr. Lumelleau. Nor does it plan to go public.

"The reason we remain a private company is, we believe that when you're a publicly held company, your first loyalty shifts away from the customer and to the shareholders. And since we're in the professional services business, we think our customers are best served by our private ownership," Mr. Lockton said.

—By Judy Greenwald

Market Moves

Ironshore, Rockwood to acquire Wright & Co.

ARLINGTON, Va.—Ironshore Holdings (U.S.) Inc. and Rockwood Programs Holdings Inc. have entered into an agreement to acquire Wright & Co., a program administrator that handles professional liability and benefits for employees of the U.S. government.

Wilmington, Del.-based Rockwood and the U.S. subsidiary of Hamilton, Bermuda-based Ironshore Inc. plan to buy all issued and outstanding capital shares of Arlington, Va.-based Wright & Co., according to an Ironshore statement.

Wright & Co. administers professional liability coverage and employee benefits for federal government workers, particularly the FBI and other law enforcement personnel, the statement said.

Ironshore will be the majority shareholder of Wright & Co. and will appoint a majority of the administrator's board of directors. Ironshore's insurance company subsidiaries will underwrite professional liability coverage, while third-party insurers will continue providing personal umbrella lines, life, health, dental and disability cover, according to the statement.

Meanwhile, Rockwood will manage the daily operations of Wright & Co. and provide other services, the statement said.

Rockwood President Glenn W. Clark will become president of Wright & Co.

Ironshore and Rockwood reached the acquisition agreement with the Special Agents Mutual Benefit Assn., a nonprofit federal employee benefit association.

Mercer to provide servicing on Putnam's union plans

BOSTON—Mercer Human Resource Consulting will administer the plans of Taft-Hartley Act clients previously serviced jointly by Mercer and onetime sibling Putnam Investments, according to an agreement between the firms.

Under the agreement on which terms were not disclosed, Boston-based Putnam will focus entirely on the investment management component of plans, while Mercer will assume responsibility for relationship management, sales support and communication and education with members, Mercer said in a statement.

Mercer, a unit of New York-based Marsh & McLennan Cos. Inc., previously provided only record-keeping and administrative services for Taft-Hartley Act clients. MMC sold Putnam to Winnipeg, Canada-based Great-West Lifeco Inc. in 2007.

Four Putnam employees will join Mercer's relationship management team as part of the deal, the firm said in a statement.

Putnam had $3.5 billion of Taft-Hartley Act retirement assets under management at the end of May. Mercer provides services for defined contribution pension plans, which had more than $7.8 billion in assets for 61 union groups.

Bostonian Group sets up risk management practice

BOSTON—Bostonian Group has set up a new risk management practice to help protect clients against a variety of risks.

The Boston-based firm's risk management practice is called Bostonian Solutions Property & Casualty L.L.C. and will offer employment practices, errors and omissions, directors and officers, fiduciary and fidelity coverage.

Bostonian Group, which offers solutions in employee benefits, human resource services, executive compensation and retirement and financial planning, said in a statement that its employee benefits clients wanted the firm to extend its service to business insurance.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send news of Market Moves to Zack Phillips, 711 Third Ave., New York, N.Y. 10017 or e-mail *zphillips@businessinsurance.com.*

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Issue of July 20

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PUBLIC NOTICE

IN THE MATTER OF

Capitol Insurance Limited (in compulsory liquidation) (formerly Providence Capitol Insurance (Channel Islands) Limited) (the "Company")

And

The Companies (Guernsey) Law 2008 Notice of intention to appoint a Commissioner of the Royal Court and declare a first and final dividend

Notice is hereby given that:

(i) Robert Hutchinson, the Liquidator of the Company intends to make an application to the Royal Court of Guernsey for the appointment of a Commissioner of the Court to examine the accounts for the liquidation of the Company and to distribute the funds derived from the Company's assets to the creditors of the Company, such application to be made no sooner than four weeks after the last date for the submission of proofs of debt; and

(ii) any creditors of the Company desiring to participate in such a dividend must on or before 15 October 2009 send in their full name and address and full particulars of their debt or claim to the undersigned Robert Hutchinson of KPMG Channel Islands Limited at PO Box 20, St Peter Port, Guernsey GY1 4AN.

Dated 1 July 2009

Robert Hutchinson, Liquidator

REQUEST FOR PROPOSALS

Request for Proposals
for
Mountaineer Flexible Benefits Plan and Administration Services

The West Virginia Public Employees Insurance Agency (PEIA) is seeking proposals to provide administrative services for its IRS Section 125-qualified cafeteria plan known as Mountaineer Flexible Benefits (MFB).

The optional benefits include three dental plans; two vision plans; long-term and short-term disability insurance; a legal services plan; and medical and dependent day care flexible spending accounts. Contracts for these products are competitively bid and are between PEIA and the individual product vendors.

The full range of services required under this contract is detailed in the RFP.

Vendors must attend a mandatory pre-bid conference on July 31, 2009, 1 p.m., at PEIA's office, 601 57th St., SE, Charleston, WV 25304. Contract will be awarded in October 2009 and be effective July 1, 2010.

Direct any questions about the RFP in writing to :

J. Michael Adkins, Deputy Director
of Operations
WVPEIA
601 – 57th Street, SE, Suite 2
Charleston, WV 25304
Fax: (866) 792-3574
Phone: (304) 957-2630
Email: michael.adkins@wv.gov

Questions about proposal submission may be oral. The RFP is available on PEIA's Web site: www.wvpeia.com. The deadline for written inquiries is Aug. 7, 2009.

www.BusinessInsurance.com

LEGAL NOTICE

IN THE MATTER OF
THE BERMUDA COMPANIES ACT 1981
AND
IN THE MATTER OF NW RE LIMITED

NOTICE IS HEREBY GIVEN that it is proposed that the above named company intends to discontinue in Bermuda pursuant to Section 132(G) of the Bermuda Companies Act 1981 and to continue in the state of Arizona of the United States of America as if the Company had been incorporated under the laws of the state of Arizona of the United States of America.

Dated this 15th day of July, 2009
By Order of the Board
John Matthews
President

REQUEST FOR PROPOSALS

"The New York State Housing Finance Agency is soliciting proposals for insurance consulting services. To receive a copy of the Request for Proposals, visit the Agency's website at **www.nyhomes.org** and click "Forms, Applications and Resources" and then "RFPs/RFQs". Proposals are due July 27, 2009 at 12 p.m."

New York State Housing Finance Agency
641 Lexington Avenue
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REQUEST FOR PROPOSALS

NEW YORK CITY HOUSING AUTHORITY
INVITATION FOR BIDS
PROPERTY INSURANCE

The New York City Housing Authority ("NYCHA") requests quotations from qualified **INSURANCE CARRIERS** for Primary/Excess Property Insurance coverage. **Coverage is to become effective October 30, 2009.**

Proposals must be made in the format and within the timeline(s) included in the Invitation for Bids package containing instructions, specifications and detailed submission requirements. Packets may be obtained by calling NYCHA's Property Insurance Broker: **Towers Perrin, One Stamford Plaza, 263 Tresser Boulevard, Stamford, CT 06901 at (203) 363-1974.** In order to be eligible, completed bids **must be received by 4:00 P.M. EST on September 04, 2009.**

All inquiries for additional information regarding the Invitation for Bids are to be directed, in writing, to **Todd Hohlweck, Towers Perrin, at the aforementioned address, telephone or e-mail to: Todd.Hohlweck@towersperrin.com.**

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UP CLOSE Comings & Goings

JIM PARSONS

NEW JOB TITLE: San Francisco-based senior vp and underwriting division manager for Jansen & Hastings Intermediaries Ltd.

PREVIOUS POSITION: San Francisco-based senior vp at AmWINS Insurance Brokerage of California L.L.C.

GOALS FOR NEW POSITION: The goal is to provide a technology-based underwriting facility on a national basis. Our overall intent is to provide a broad range of underwriting programs to retailers countrywide and utilize technology to do that.

INDUSTRY CHALLENGES: Given the market conditions, I think the biggest challenge is staying on the forefront technologically. I think in our industry we have the tendency to play catch-up sometimes, or not respond very quickly to changes in technology.

FIRST EXPERIENCE IN THE JOB MARKET: Like so many people in the industry, I got here accidentally. I helped a friend of mine open a branch office for a life insurance company (Metropolitan Life Insurance Co. in San Juan Capistrano, Calif.) I don't even remember my title. All I remember is spending a lot of hours cold-calling.

ADVICE: Focus on the service. If you provide service to your clients, they'll keep coming back for the product. They can get the product from a number of different places, but they can't get the same service. Service is a big driving factor in whom they go back to.

MOST PASSIONATE ABOUT: My family. Family has to come first for me. I don't see that ever changing.

Comings & Goings ONLINE

VISIT *www.businessinsurance.com/ComingsandGoings* for a full list of this week's personnel moves and promotions. Check our Web site daily for additional postings and sign up for the weekly e-mail.

Germany: Legislation could spur new D&O coverage

CONTINUED FROM PAGE 4

the deductible does not minimize that exposure for insurers, "so we will not be giving discounts," he said.

Mr. Mitterlechner said "directors and officers will seek to insure the deductible and that will probably create a lot of small products or enhancements around D&O for those deductibles."

Hartmut Mai, global head of financial lines at Allianz Global Corporate & Specialty A.G. in Munich, said in an e-mail that the deductible requirement likely will lead to a "personal indemnity-type line of insurance for this niche."

> **The deductible requirement likely will lead to a 'personal indemnity-type line of insurance for this niche.'**
>
> Hartmut Mai,
> Allianz Global Corporate & Specialty A.G.

Zurich plans to offer insurance to cover the deductible, Ms. Weyerstall said, and the insurer will launch a product as soon as it is finalized.

ACE has yet to decide whether to write separate coverage for the deductible, Mr. English said, saying doing so could significantly increase an insurer's exposure on large accounts for many individuals.

Ms. Weyerstall said funding the deductible in a captive insurer is not an option.

"There have been discussions about using captives, but we agree that this would not be possible under the new law," she said, because companies are not allowed to provide any insurance to cover deductibles for directors and officers.

"It would be a circumvention of the law," Mr. Mai agreed.

Germany's D&O market for nonfinancial institutions has been in a trough for several years and the new law is unlikely to do anything to change market conditions, sources agreed.

"It's still an interesting market," Mr. English said. "There are lots of losses on the one hand. On the other hand, a lot of claims have been settled for reasonable amounts."

D&O rates have risen slightly at recent renewals, up by 5% to 10% for some nonfinancial accounts, Mr. English said.

But financial institutions have seen their D&O liability policy rates rise 50% to 500%, Mr. English said.

SICO: AIG says battle far from completed

CONTINUED FROM PAGE 3

tive compensation plan. The panel also rejected AIG's claim that SICO illegally converted $4.3 billion of the shares after Mr. Greenberg's ouster from AIG in 2005. The ruling means that, for now, SICO does not have to return the shares to AIG or pay the $4.3 billion in damages the New York-based insurer had sought.

But the jury's verdict on the breach-of-trust claim is advisory only and can be overturned by Judge Jed Rakoff, who is expected to make a final decision by August. And, although Judge Rakoff said he would take the jury's determination "very seriously" in coming to his own decision, legal experts say he is not bound by what the jury found.

"He can come to his own factual conclusion and make a completely separate ruling," said George J. Vogrin, partner with Nelson Levine de Luca & Horst L.L.C. in New York, who was not involved with the case.

Judge Rakoff told jurors that because the case centered on an oral trust, AIG had to prove its breach-of-trust claim by "unequivocal evidence," a higher legal standard than the usual "preponderance of evidence."

Legal experts say the claims of the case are very closely related, but also complicated, given that jurors had to first make a determination about the breach-of-trust claim before the panel could rule on the conversion claim.

However, "it's unclear whether the jury decided there was no conversion because they found that a trust did not exist, or if they found there was no conversion because the trust was not breached," Mr. Vogrin said.

In addition, if the judge finds SICO liable for breach of trust, the court would determine damages, experts say.

During the three-week trial, AIG argued that SICO, which had funded its long-term compensation program since 1975, had an "oral trust" with AIG and had pledged to use the shares solely to benefit AIG executives.

> **'It's unclear whether the jury decided there was no conversion because they found that a trust did not exist, or if they found there was no conversion because the trust was not breached.'**
>
> George J. Vogrin,
> Nelson Levine de Luca & Horst L.L.C.

The stock was transferred to SICO as part of a 1970 reorganization of AIG and its affiliates.

The trial featured strong personal attacks against Mr. Greenberg, who testified for seven days and later called the experience "grueling." Mr. Wells argued Mr. Greenberg canceled the compensation program and diverted the stock to "retaliate" against AIG after his termination in 2005. In closing arguments, Mr. Wells said Mr. Greenberg gave "false testimony" and "lied under oath" about how the stock was supposed to be used.

In its defense, SICO argued there was never a legal agreement to use the shares solely for AIG, and that the shares were set aside for several reasons, including protecting AIG from a takeover bid. In addition, SICO said—and produced documents showing—that the only legal trust that existed in connection with the shares was the Starr Charitable Trust with the Bank of Bermuda in 1970.

SICO's lawyer, David Boies of Boies, Schiller & Flexner L.L.P., said he was "pleased" with the jury's ruling and "hopeful the judge will see it the same way the jury did." He said Mr. Greenberg views the ruling as a "complete vindication of the quite personal attacks" leveled by AIG.

AIG said it will continue with its suit in New York State court in Manhattan against Mr. Greenberg and six other former AIG executives, alleging the defendants breached their fiduciary duty as AIG's former directors when they converted SICO into a private investment vehicle, according to a March 2008 complaint. AIG is seeking $4.3 billion in damages, which SICO earned after selling the block of shares. The state suit is still in the "discovery phase," a spokesman for AIG said.

SEC: Rule targets boards' role in managing risk

CONTINUED FROM PAGE 1

nance and risk management practices in hopes of preventing recurrence of the credit problems and other issues that led to the financial crisis, several observers agree.

"I'm concerned there is going to be a lot of that, not just from the SEC," said Mat Allen, senior vp and practice leader for enterprise risk services and solutions at Marsh Inc. in New York.

Other agencies, such as the Federal Trade Commission, also are likely to push for "some central government body mandate on boards interacting with risk management departments in a different way than they have in the past," Mr. Allen said.

The SEC proposal, however, calls only for disclosing information about a board's role in managing risks, said Laura Taylor, managing director and national practice leader for enterprise risk management at Aon Global Risk Consulting in New York. It does not mandate specific actions, unlike the Shareholder Bill of Rights Act of 2009 that Sen. Charles Schumer, D-N.Y., introduced last spring. That legislation, now in a Senate committee, would require establishing a risk management committee comprised of independent directors, Ms. Taylor said.

The SEC will accept public comments until Sept. 15 on the proposal, which would be published in the Federal Register with projected implementation sometime in 2010.

The SEC and other regulatory bodies that are examining the board's role, such as the U.S. Treasury Department, will push companies that have not already done so to determine who will have responsibility for informing upper management and board members about their company's exposures, said Prakash Shimpi, a managing principal and leader of the enterprise risk management practice at Towers Perrin in New York.

Companies also will be pushed to determine how to convey that information.

"It's a move from (an existing) philosophical discussion on, 'Should the board be involved in risk issues?' to a tangible, down-to-earth (discussion) about, 'How do we actually ensure these issues are being viewed and addressed by the board?'" Mr. Prakash said.

Continental Airlines' Mr. Fahrenthold agreed.

He said he expects companies will set up new mechanisms to centralize and report data so board members and senior management receive consistent information about a corporation's entire array of risks.

"It's an important step forward that will change the way risk management is handled," Mr. Fahrenthold said.

READ documents from this case and other cases online at www.BusinessInsurance.com

Boards will have to learn about addressing risk while risk managers will need to learn to convey information to directors more accustomed to "accounting-based" data than risk probability calculations, Mr. Fahrenthold said.

The SEC proposal also would require companies to "discuss and analyze" whether their compensation policies encourage employee risk-taking that could affect the entire company.

While compensation has traditionally fallen under human resource departments, the SEC's proposed rule could lead to greater risk manager engagement in that area, said Frank Strenk, a senior vp and enterprise risk management practice leader at Lockton Cos. L.L.C. in Chicago.

"I would suggest that if a risk manager is leading more of an enterprise risk approach, they certainly will be more involved, there is no question," Mr. Strenk said.

Five accused of cashing in on insurers' merger

By JEFF CASALE

SEATTLE—The U.S. Securities and Exchange Commission last week accused five individuals in separate insider trading schemes regarding last year's Liberty Mutual Insurance Co. merger with SAFECO Corp.

According to documents filed in federal court in Seattle, Math J. Hipp Jr. used information gained from his wife, who was executive assistant to SAFECO's executive vp of insurance operations, to buy SAFECO call options six days before the insurance companies announced their merger on April 23, 2008.

Though Mr. Hipp's wife signed a confidentiality agreement with SAFECO not to discuss the potential deal, Mr. Hipp gained enough information through her work habits and conversations to realize "something big" was about to happen with SAFECO, according to the SEC complaint.

According to court files, Mr. Hipp concluded SAFECO "was poised to make a big announcement that would drive up the stock price at least 10%."

Mr. Hipp has already agreed to pay $239,770 to settle the SEC charges against him without admitting or denying the allegations. His wife was not charged.

Four others also were charged in other schemes.

Reform: Hurdles mounting in efforts to pass health care legislation

CONTINUED FROM PAGE 1

Council in Washington.

Another warning came from the nonpartisan Congressional Budget Office, whose director said the Senate bill would not slow the growth in federal health care spending.

"In the legislation that has been reported, we do not see the sort of fundamental changes that would be necessary to reduce the trajectory of federal health spending by a significant amount," CBO Director Douglas Elmerdorf said at a Senate Budget Committee hearing last week.

That assessment flies in the face of the president's goal of reform legislation slowing the increase in health care costs.

Lack of support?

Yet another ominous sign, benefit observers said, was that the House Energy and Commerce Committee might lack enough support from Democrats to pass a bill, on which a vote is expected this week.

In addition, numerous provisions not directly related to the core of the legislation—like bringing the nation close to universal health care coverage by as providing federal premium subsidies to the low-income uninsured and mandating that employers offer coverage or pay a penalty—also could hurt chances of passage.

For example, additions to the House bill include curbing the ability of employers with retiree health care plans from cutting benefits to current retirees; ending the ability of flexible spending accounts, health reimbursement arrangements and health savings accounts to reimburse participants for over-the-counter drugs; and allowing employers to extend coverage to employees' same-sex or opposite-sex partners without adding that cost to employees' taxable income.

"The more that is added on, the more likely the legislation will crash," said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

"We are a long way from a bill-signing ceremony at the White House," Mr. Dennett said.

Still, enactment of a reform bill this year remains possible given several factors.

"The odds favor a major bill being passed. It is a top presidential priority. Congress is very focused on the issue and there is a public thirst, with the number of uninsured rising, for health care reform," said Frank McArdle, a consultant with Hewitt Associates Inc. in Washington.

Several factors—including development of a bipartisan bill by the Senate Finance Committee or eliminating or paring down a provision in both bills to create a public plan option—could defuse opposition from Republicans and conservative Democrats. A combination of changes, Mr. McArdle said, could result in enough Republican support to prevent a filibuster in the Senate, which would require 60 votes to override.

SENATE VS. HOUSE

Legislation passed by the Senate Health, Education, Labor and Pensions Committee and introduced in the House would require employers to offer health care coverage to employees. Here is how the "play-or-pay" provisions compare:

SENATE BILL	HOUSE BILL
Penalty of $750 for each full-time employee not covered, $375 for each part-time employee without coverage.	Penalty would gradually escalate, topping out at 8% of pay for each employee not covered.
Employers with fewer than 26 employees exempted from play-or-pay.	Employers with annual payroll up to $250,000 exempted.
Employers must pay 60% of premium for individual coverage and family coverage.	Employers must pay 72.5% of premium for individual coverage, 65% for family coverage.
Annual out-of-pocket limit linked to annual out-of-pocket limit for high-deductible plans linked to HSAs.	Out-of-pocket limit initially $5,000 for individual coverage, $10,000 for family coverage.

Basic features of the measures winning congressional committee approval so far include a so-called employer play-or-pay mandate. Under the Ways and Means Committee-approved bill, employers would have to pay 72.5% of the premium for individual coverage and 65% for family coverage (see chart).

Employers that did not meet these requirements would be assessed a penalty of 8% of salary for each employee not covered. The penalty would not apply to employers with annual payrolls up to $250,000, while the payroll tax would gradually increase for employers with payrolls between $250,000 and $400,000.

Under the Senate bill, the mandate would apply to employers with more than 25 employees. Those that didn't meet certain standards laid out in the bill—including paying 60% of the premium for individual and family coverage—would have an annual assessment of $750 for each full-time employee and $375 for each part-time employee not covered.

The House measure also includes an escalating surcharge, which starts at 1% and tops out at 5.4%—on taxpayers' adjusted gross income exceeding $350,000 to help fund the expansion of coverage.

Compensation: Broker disclosure plan disappoints risk managers

CONTINUED FROM PAGE 3

"nature and amount" of any compensation they received prior to the issuance or renewal of an insurance contract (*BI*, Feb. 9).

Under the revised regulation, insurance consumers would have to request such information from their producers, although all agents and brokers would have to disclose to clients who they represent in the transaction (see box).

Matthew J. Gaul, special counsel with the NYSID, said that in revising the rule the department was "looking at the market holistically and trying to come up with a workable regulation that applies across the board…and that can give consumers the information they need to make informed decisions."

He noted that while a two-tiered market still exists, the new rule "brings the rest of the producer market to a higher level."

RIMS, however, said it has "serious concerns" about the burden that would be placed on consumers in having to request compensation information from their producers and that renewals would be exempt from all of the disclosure requirements.

"While the regulatory process is advancing, RIMS is disappointed that the new document does not contain consumer protections that were part of the original proposal," RIMS board member Deborah M. Luthi, who also is director of enterprise risk management services at Matheson Inc. in Sacramento, Calif., said in a statement.

Other risk managers had varying opinions on the new draft.

Bill Chapin, director of risk management at (Catholic) Diocese of Rockville Center in Rockville, N.Y., said the difference between mandatory and requested disclosure is just "semantics."

"Why not have a discussion every year, disclose everything, and be done with it? It's that simple in my mind," he said.

Raymond J. Alletto, vp-risk management for United Rentals Inc. in Irving, Texas, however, said any mandate should require full transparency.

"I think more transparency will lead to more accountability," he said. "We're taking half a step. I don't understand why we can't take the whole step" and mandate transparency.

John Phelps, director of business risk solutions for Blue Cross and Blue Shield of Florida Inc. in Jacksonville, also disagrees with the NYSID's new position.

"If they are so committed to transparency, why does the buyer have to make a specific request? That should be coming automatically and well in advance of when the coverage is bound," he said. "Otherwise you hinder the insurance buyer's ability to make a choice, in part, based upon other revenue streams the broker may be receiving."

While a spokesman for Willis was unavailable to comment, Willis Chairman and Chief Executive Officer Joe Plumeri was quoted in a recent article about the revised rule saying he doesn't think it goes far enough in protecting clients. "They didn't call for transparency and they didn't call for the abolishment of contingents, and I'm saddened by that. With all the reform and all the hearings that were done in New York, what basically happened was nothing."

Marsh Chairman and CEO Dan Glaser, on the other hand, called the revised draft "practical, balanced and good for consumers" and "an important step toward establishing a level playing field."

"If the regulation is adopted, consumers in New York will, for the first time, receive consistent, mandatory disclosures that will enable them to understand how producers are paid and that their compensation may vary from insurer to insurer," Mr. Glaser said.

A spokesman for Chicago-based Aon said the broker is reviewing the new rule and will provide comment to the NYSID.

The Independent Insurance Agents and Brokers of New York, which voiced its concerns over mandatory disclosure rules, favors the revisions.

However, "we still have some concerns about the scope of it and some of the details that would have to be provided in a disclosure that the insured requested," an IIABANY spokesman said.

A TALE OF TWO DISCLOSURE RULES

Under the original proposed rule in New York state:

- Agents and brokers would have to provide written disclosure before issuing or renewing insurance contracts of all compensation received, description of any material ownership interest between the insurer and producer, and notice that insurers often pay producers and that the compensation varies.
- Upon purchaser request, a producer must provide comprehensive information about alternative quotes and insurance contracts considered.
- Rules would not apply to reinsurance, captive and wholesale transactions.

Under the revised proposed rule in New York state:

- Before binding coverage, agents and brokers would have to disclose in writing or orally whether they represent the purchaser or the insurer; compensation they will receive from the selling insurer, if applicable; that compensation from insurers varies; and that the customer may obtain detailed information about producer compensation or alternative quotes at any time.
- Upon request, the producer must disclose in writing a detailed description of the nature, amount and source of compensation to be received by the producer or affiliates from the sale; a detailed description of alternative quotes obtained or considered by the producer, including coverage, premium and producer compensation from alternative quotes; a description of any material ownership interest an insurance producer or affiliates has in the insurer or affiliates issuing the contract, and vice versa.
- Rules would not apply to renewals and reinsurance, captive and wholesale transactions.

Source: New York State Insurance Department

REUTERS

Validus was a startup in 2005, formed after Hurricane Katrina, which devastated Mississippi's Gulf Coast.

Validus: Combined entity has cons, analysts say

CONTINUED FROM PAGE 3

additional security, but "it's extremely risky for Validus because they could be exposed if a loss occurs," Mr. Evans said.

Rating agencies A.M. Best Co. Inc. and Standard & Poor's Corp. also expressed concern over the timing of the deal in the middle of the hurricane season. A.M. Best cut IPC's financial strength rating to A-, from A; and put Validus' A- rating under review with negative implications. Meanwhile, S&P affirmed Validus' BBB- counterparty credit rating on the holding company, but revised its outlook to positive from stable. S&P put IPC's A- financial strength rating on watch for a downgrade.

IPC, which was formed in 1993 in the wake of Hurricane Andrew, specializes in short-tail property catastrophe reinsurance.

Validus is 2005 startup formed after Hurricane Katrina. The firm specializes in short-tail lines of reinsurance including property catastrophe, property pro rata, marine, energy and other specialty lines. In 2007, Validus acquired Talbot Holdings Ltd., which operates syndicate 1183 at Lloyd's of London.

"In the end, this offer gives the most amount of cash back to IPC shareholders," and IPC's management believes this is the deal that will get shareholder approval," said Joshua Shanker, an analyst with Citigroup Global Markets in New York.

The deal has approval from both boards, and is expected to close in September pending shareholder approval.

Louisville: Employers stand against costs

CONTINUED FROM PAGE 4

members that would provide lower-cost, high-quality care without the use of high-priced Norton Healthcare.

"The genie's been let out of the bottle," said Paul Shaughnessy, president and executive director of the Louisville coalition. "Anthem has brought awareness of how the cost of health care differs by facility. Because of this, more employers are coming to the table and asking how they can change things."

Mr. Shaughnessy said the coalition-sponsored program would be structured similar to one in place since 2006 in southeastern Wisconsin and has asked the Wisconsin coalition's director to address his Louisville group at a special meeting July 30.

Under that program, sponsored by the Milwaukee-based Business Healthcare Group and administered by Humana Inc., area hospital systems must bid to provide care to plan members. If their bids come in too high, they are excluded from the network, said Dianne Kiehl, executive director.

When the Wisconsin program launched, employer health care costs in the region were 31% higher than the Midwest average, she said. Today, costs for most participating employers are 0.5% lower than what they were in 2005.

The coalition also is working to improve the quality of care being delivered by the hospitals participating in its insurance program by requiring them to establish action plans to improve efficiency and reduce medical errors, Ms. Kiehl said.

"It all has to do with the business community positioning themselves, walking in unison and becoming actively engaged," said Ms. Kiehl. "In the past, employers were extremely passive when it came to health care. If the vendors know you're passive, you'll get what they want to give you, not what you need. Don't be afraid to say, 'No.' If you don't stand up to them, they will control you."

> **'In the past, employers were extremely passive when it came to health care. If the vendors know you're passive, you'll get what they want to give you, not what you need. Don't be afraid to say, "No." If you don't stand up to them, they will control you.'**
>
> Dianne Kiehl,
> Business Healthcare Group

Laurel Pickering, executive director of the New York Business Group on Health, agreed. "More and more employers need to be aware of what happens in those negotiations. Employers have to be able to say, 'Fine, don't put them in the network,'" she said.

"Here in New York, we're doing something to unveil the contracting process to some extent. Here it is coming to a head in Kentucky. In other markets, it's going to come to a head at some point, too," Ms. Pickering said.

"When employers' backs are against the wall in this kind of a down economy, any leverage that they can get to continue to offer good, rich benefits to their employees and to keep their employees healthy, they're going to use," said Marianne Fazen, executive director of the Dallas-Fort Worth Business Group on Health.

"(Employers have) been pretty passive in the past, using health plans as their agents to negotiate on their behalf. But now they're becoming much more proactive," Ms. Fazen said.

Health benefit cost containment expert Alexander Domaszewicz, a principal and senior consultant with Mercer L.L.C. in Newport Beach, Calif., said the groundswell of employer opposition to unrestrained hospital cost increases in places such as Louisville and southeastern Wisconsin indicates a much larger trend in which employers are pushing back.

"They're largely frustrated with the status quo," Mr. Domaszewicz said.

News In Brief

CONTINUED FROM PAGE 1

merger to affect the overall reinsurance market.

Washington Metro crash may hit several insurers

American International Underwriters Inc., XL Capital Ltd. and underwriters at Lloyd's of London have confirmed they are among liability insurers participating in the program covering Washington's Metro system, which suffered its worst accident ever when two trains crashed in June, killing nine people and injuring 70. Representatives of the companies declined to comment further.

Risk managers seek to boost efficiency

The recession is leading risk managers to seek ways to use their budgets more efficiently, according to a survey released last week. "Excellence in Risk Management VI," co-sponsored by New York-based Marsh Inc. and the Risk & Insurance Management Society Inc., also concludes that adoption of enterprise risk management appears likely to plateau at about 65% of firms, as senior executives press risk managers about ERM's value. Loss control was the most commonly cited area firms looked at in their efforts to increase the efficiency of their risk management spending, cited by 39%. In addition, 37% said they were marketing parts of their insurance program, including parts that normally are not marketed.

Lloyd's taps Deloitte for strategic review

Lloyd's of London has hired consultant Deloitte Consulting L.L.P. to review the insurance market's strategy to exploit opportunities that have appeared in the wake of the financial crisis. The review is to go beyond London-based Lloyd's three-year plan, which was introduced in 2005. The objective of the review by Deloitte, which is scheduled to be released in January 2010, is to ensure that Lloyd's is achieving its objectives in the insurance market in the aftermath of the financial crisis. The review will examine Lloyd's product mix, distribution and geographic balance, a spokeswoman said.

Calif. regulator won't urge comp rate hike

California Insurance Commissioner Steve Poizner said he will recommend holding workers compensation rates steady despite a request to raise them 23.7%. After holding hearings on an April request by the California Workers' Compensation Insurance Rating Bureau to increase rates 23.7%, Mr. Poizner cited the example set by self-insured employers, who have been able to reduce costs, for his decision against recommending any increase. California's insurance commissioner cannot force insurers to set certain rates; he can only recommend they do so.

AIG planning ALICO spinoff

American International Group Inc. says it will accelerate steps to position American Life Insurance Co. as an independent entity and seek an initial public offering for the unit, depending on market conditions and regulatory approval. The planned stock offering for ALICO would result in a board of directors and management team separate from AIG, the New York-based insurer said.

Comp claims frequency falls

NCCI Holdings Inc. said it expects the frequency of workers compensation claims to continue declining this year while preliminary results show frequency falling 4% last year. "While the overall decline is widespread and good news for workers, employers and their insurers, high-cost permanent total (disability) claims have emerged recently as a noticeable exception to this decline," NCCI said in a research brief.

Noted

Risk retention groups wrote about $2.57 billion in premiums in 2008, up slightly from $2.56 billion in 2007, according to an analysis by the Risk Retention Reporter. That slight increase compares with a 3% premium volume decline in 2007 and a 7.7% increase in 2006....**Commercial property/casualty insurance rates** declined an average of 6% in June compared with those of a year earlier, MarketScout said....Longtime former congressional pension and health care staff member Phyllis C. Borzi has been confirmed as the Labor Department's **top benefits regulator**. The U.S. Senate confirmed Ms. Borzi as assistant secretary of labor of the Employee Benefits Security Administration without objection.

Twitter: Social sites increase liability risk

CONTINUED FROM PAGE 1

L.L.P. in Orlando, Fla., said potential liability issues include sexual harassment, bullying and threats of violence. Employee comments about other companies or their products also could raise liability issues for employers; there also is concern about disclosure of confidential and proprietary information from company-endorsed or nonendorsed social networking applications, Mr. Stevens said.

"Employers may not find out what is being said about the company or its employees until a problem arises, which presents a real problem," said Jonathan T. Hyman, a partner with Kohrman Jackson & Krantz P.L.L. in Cleveland.

Meanwhile, social networking site usage continues to grow. The recent "Deloitte L.L.P. 2009 Ethics & Workplace Survey" found that about 55% of employees visit a social networking site at least once a week, but only 22% of firms have formal policies that dictate how employees can use social networking tools.

"There is a learning curve," said Eric B. Meyer, an associate with law firm Dilworth Paxson L.L.P. in Philadelphia. "Some employers may not even know what Twitter is, let alone other social networking sites and tools."

San Francisco-based Twitter Inc., just more than two years old, limits messages to 140 characters but also accommodates images.

"Most employers have not been as thoughtful about social networking sites as one would hope" because the technology has developed so quickly, said William C. Martucci, a partner with Shook, Hardy & Bacon L.L.P. in Kansas City, Mo.

"The more people that use it, the more risk there is," said Margaret M. DiBianca, an associate with Young, Conaway Stargatt & Taylor L.L.P. in Wilmington, Del. "I just can't encourage employers enough to get out there and get in the forefront" of this issue.

While it's not realistic to forbid employees from using any social networking sites or tools, "It's impossible to get a handle on what employees do on their private time, let alone what they're doing in their work time," Mr. Hyman said. "The answer is, you have to have a policy that sets reasonable expectations for employees as to what is appropriate, and what isn't appropriate, on the social network."

As a first step, "assess the company's culture, because the company has to decide what its core values are," and whether it wants to encourage employees' use of social networking sites, Mr. Stevens said.

Next, "Understand that there is only a certain amount of control that a company has over its own endorsed social media applications, and especially away from the workplace," he said.

Then, assuming the company has one, "convert your existing policy to cover these social networking applications," Mr. Stevens suggested. "Many companies have already addressed electronic communications, specifically e-mails, and likely have already addressed Internet use at work."

"You don't need to reinvent the wheel," agreed Jerry Stevenson, director, global HR technology practice, at Buck Consultants L.L.C. in Dallas.

"Develop some clear expectations

> **'Most employers have not been as thoughtful about social networking sites... because the technology has developed so quickly.'**
>
> William C. Martucci,
> Shook, Hardy & Bacon L.L.P.

that are communicated to employees about the proper use of social networking sites and what may be considered proper and what may be considered inappropriate," Mr. Martucci said.

Employees need to understand they are expected to act in a "businesslike, professional manner," said Mr. Hyman. "It's fair to expect an employee not to post pictures of their drunken weekend party that could negatively reflect on that company, because it will."

It is also "really important" that employees "identify who they are and what their role is in the company," Mr. Stevenson said.

The policy also should warn employees against discussing trade secrets or other confidential information, said Marc S. Reisler, a partner with Holland & Knight L.L.P. in New York.

Observers praise Armonk, N.Y.-based IBM Corp.'s Internet policy. A company spokesman said the 2005 policy was updated last year to cover new social media and there have been few, if any, problems.

"We've done a fairly good job of mitigating risk," the spokesman said, noting the policy was developed by IBM's social networking employees, about 60,000 of whom participate in the online networking site operated by Palo Alto, Calif.-based Facebook Inc. The policy, at *www.ibm.com/blogs/zz/en/guidelines.html*, warns employees to clearly state that opinions they express relating to IBM are their own; not to reveal information that's proprietary to IBM; and not use words or engage in conduct that would not be acceptable in the workplace, among other things.

While observers stress that employees should be told clearly that they should not expect privacy, companies still must grapple with whether, and to what extent, they should monitor employees' use of social networking sites on the job and on their own time.

It is "absolutely vital" that employers monitor what is said about their firm on social networking sites so they can react quickly, Mr. Stevenson said.

But Mr. Meyer said monitoring has a down side. "Sometimes what you don't know can't hurt you under the law, and once you find out that an employee, for instance, is making racial epithets toward another employee on Facebook, the employer would have an obligation to investigate and do something about it."

On balance, though, Mr. Meyer said he likes the idea of monitoring because "an employer has a finger on the pulse of its business and how the employees feel about the business."

At IBM, however, "We don't actively police employees' behavior." It has "largely been a self-moderating community. If something crosses the line, (employees) take care of it themselves," the spokesman said.

Employers also must avoid becoming liable by acting inappropriately on information they learn about employees from social networking sites, say observers. Thirty-three states have laws that prohibit employers from taking action against workers based on lawful activity they may have learned about from these sites, said Frederick J. Barrow, an associate with Littler Mendelson P.C. in Dallas.

Union activity also is protected, observers say.

Case law in this area lags. "The law definitely has some catching up to do," because social networking sites are relatively new, which means "cases really just haven't been presented yet in great numbers," said Mr. Meyer. Courts, though, have experience dealing with other non-face-to-face communications issues.

Business Insurance
END PAGE

Contributing: Jeff Casale, Judy Greenwald, Mark A. Hofmann

One small step for man, one giant leap for lessons in self-insurance

Forty years ago this month, three U.S. astronauts prepared to journey from the earth to the moon. There's a report that they also prepared financially for their families if they never returned from that journey.

According to the London Telegraph, among items offered last week at a space memorabilia auction at New York's Bonhams Auction House was a first-day cover—a specially canceled stamp on its first day of issue—with the Apollo 11 mission's emblem and postmarked by the Kennedy Space Center on July 16, 1969, the day the mission launched and resulted in the first man walking on the moon.

The Apollo 11 astronauts—Neil Armstrong, Buzz Aldrin and Michael Collins—came up with idea of signing first-day covers on envelopes to assure their families would not be left in financial straits if the mission the failed.

Mr. Aldrin said insufficient insurance spurred their action.

"Since we were unable to obtain adequate life insurance due to the high-risk nature of being an astronaut, we signed this group of covers and evenly distributed them to our families for safekeeping while we performed our mission," Mr. Aldrin, 79, said in an accompanying letter certifying authenticity of the auction item, according to the Telegraph. "If an unfortunate event prevented our safe return, the covers would have provided a limited financial means of support to our families."

The backstop wasn't necessary. Uttering the famous words, "One small step for man; one giant leap for mankind," Mr. Armstrong stepped on the lunar surface on July 20, 1969.

The Apollo 11 crew returned safely as heroes. But had something gone horribly awry, their signed first-day envelopes may have proved to be a prudent exercise in self-insurance.

AP PHOTO

AP PHOTO

A person is silhouetted against the flames of the Temple of Light at the Burning Man festival in 2006.

Man burned again after Burning Man

He who gets too near fire should not be surprised if he gets burned, a California appellate court has ruled in a case brought against organizers of the Burning Man festival.

Burning Man is an "annual experiment in temporary community dedicated to radical self-expression and radical self-reliance," according to the event's Web site, which says more than 48,000 participate in the weeklong event in Black Rock City, Nev.

The highlight is burning a 60-foot-tall wood sculpture of a man.

Anthony Beninati had planned to attend the 2005 festival, his third, with a friend, but the friend died in a motorcycle accident six weeks prior to the event, according to the San Francisco-based court's decision.

Because attendees were encouraged to deposit items into the fire, Mr. Beninati said he brought a picture of his friend with him, threw it into the fire and watched it burn.

Already having fire on both sides of him, Mr. Beninati then took a few more steps forward. However, he tripped and twice fell into the fire, badly burning both hands.

The man, who said he was sober at the time, sued Burning Man promoter Black Rock City L.L.C., charging that it was negligent for not providing safe entries and exits for burning ritual participants.

The appellate court said, however, that under the "primary assumption of risk" doctrine, the promoter had no legal duty to protect Mr. Beninati.

The "risk of falling and being burned by the flames or hot ash was inherent, obvious and necessary to the event, and Beninati assumed such a risk," said the unanimous three-judge panel that upheld a lower court's summary judgment dismissing the case.

Rain, rain go away, or insurance will have to pay

For those irritated, distraught and downright angry that rain has dampened their vacation, there is insurance available for the interruption of sunshine.

Aon France has partnered with French-based travel-planning groups Pierre et Vacances and FranceLoc to offer coverage that allows vacationers to purchase travel insurance to compensate those whose vacations are rained out.

Before leaving for vacation, travelers can say how many days of sun they expect, and a policy based on the predictions of weather experts will be calculated, according to news reports. Tourists can file claims if they suffer at least four days of rain during any one week, according to Aon France.

However, tourists planning trips to rain-prone areas won't get the joy of cashing in on the policy. According to Aon France, they will use expert local weather information to define the level of sunshine that can be expected at various destinations.

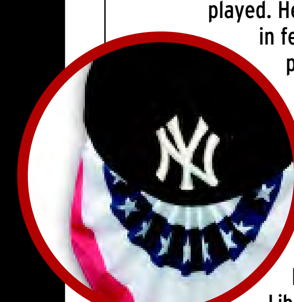
Vacations ruined by rain are eligible for up to €400 ($557.96) in reimbursement. According to reports, the settlement is made automatically when the traveler returns from vacation, being advised via text message that payment on the trip will be made.

A pilot study during the past year indicated 10% of those interested in buying the coverage experienced more than three days of rain on vacation.

God bless America, civil liberties, restroom breaks

A Boston Red Sox fan has received $10,001 from New York after alleging he was ejected from the old Yankee Stadium because he tried to go to the restroom as "God Bless America" played last August.

Bradford Campeau-Laurion said he was removed from the stadium by police because he left his seat as the song played. He sued the Yankees and New York, arguing in federal court that he was the victim of political and religious discrimination.



A police spokesman said Mr. Campeau-Laurion got the boot because he was drunk and disorderly, which Mr. Campeau-Laurion denied.

In a settlement announced earlier this month, the city admitted no liability, but New York agreed to pay Mr. Campeau-Laurion $10,001 and pay the New York Civil Liberties Union $12,000 in legal fees incurred in its representation of Mr. Campeau-Laurion.

The Yankees did not have to pay anything.

"The Yankees stipulated that the team has no policy restricting spectators' movement during the patriotic song and has no intention of implementing such a policy at the new Yankee Stadium," according to a statement on the NYCLU's Web site.

"This settlement ensures that the new Yankee Stadium will be a place for baseball, not compelled patriotism," NYCLU Executive Director Donna Lieberman said in the statement. "It is a victory for the freedom of expression—a core constitutional principle."

$100

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July 20, 2009

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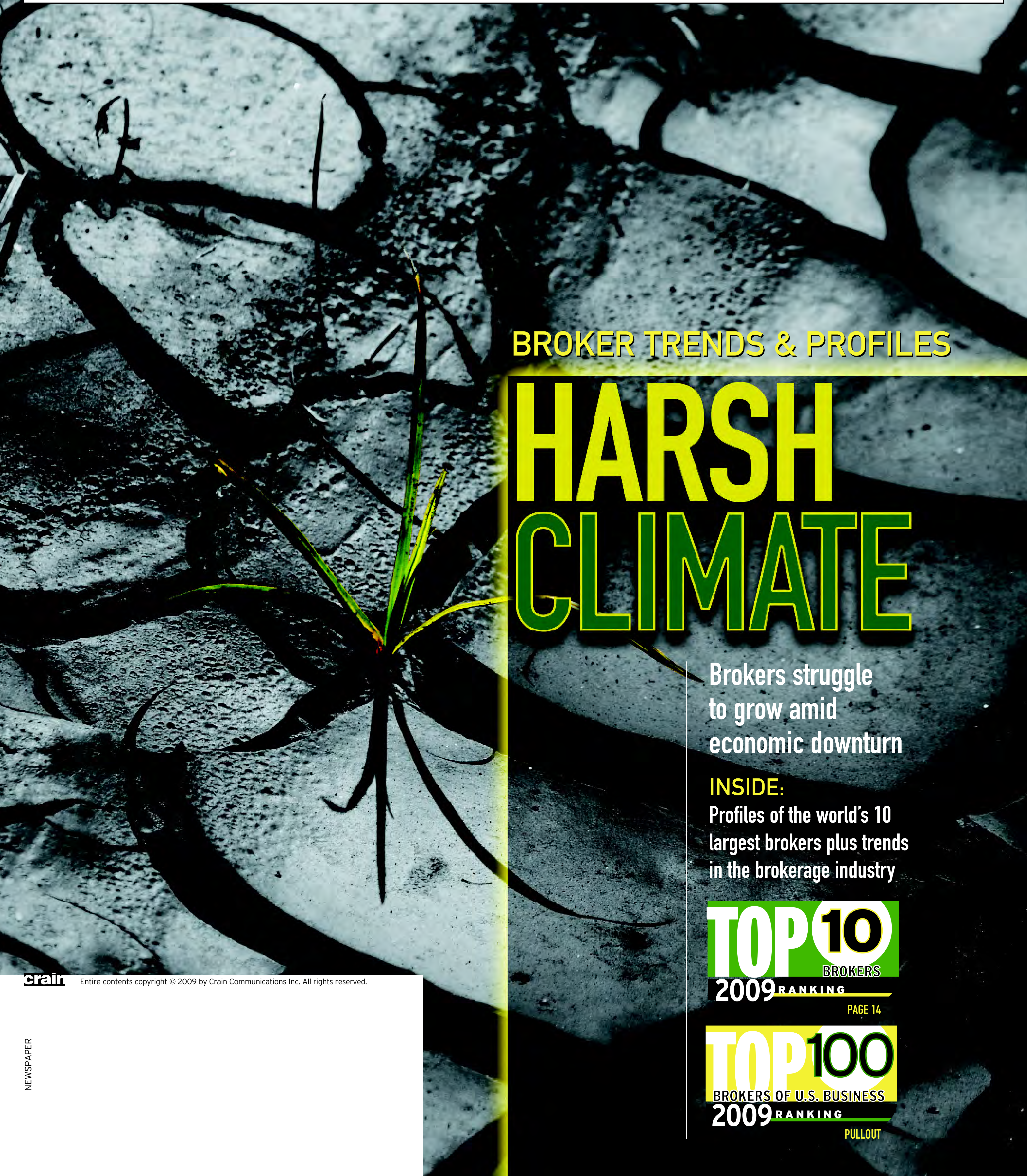

BROKER TRENDS & PROFILES

HARSH CLIMATE

Brokers struggle to grow amid economic downturn

INSIDE:

Profiles of the world's 10 largest brokers plus trends in the brokerage industry

TOP 10 BROKERS 2009 RANKING

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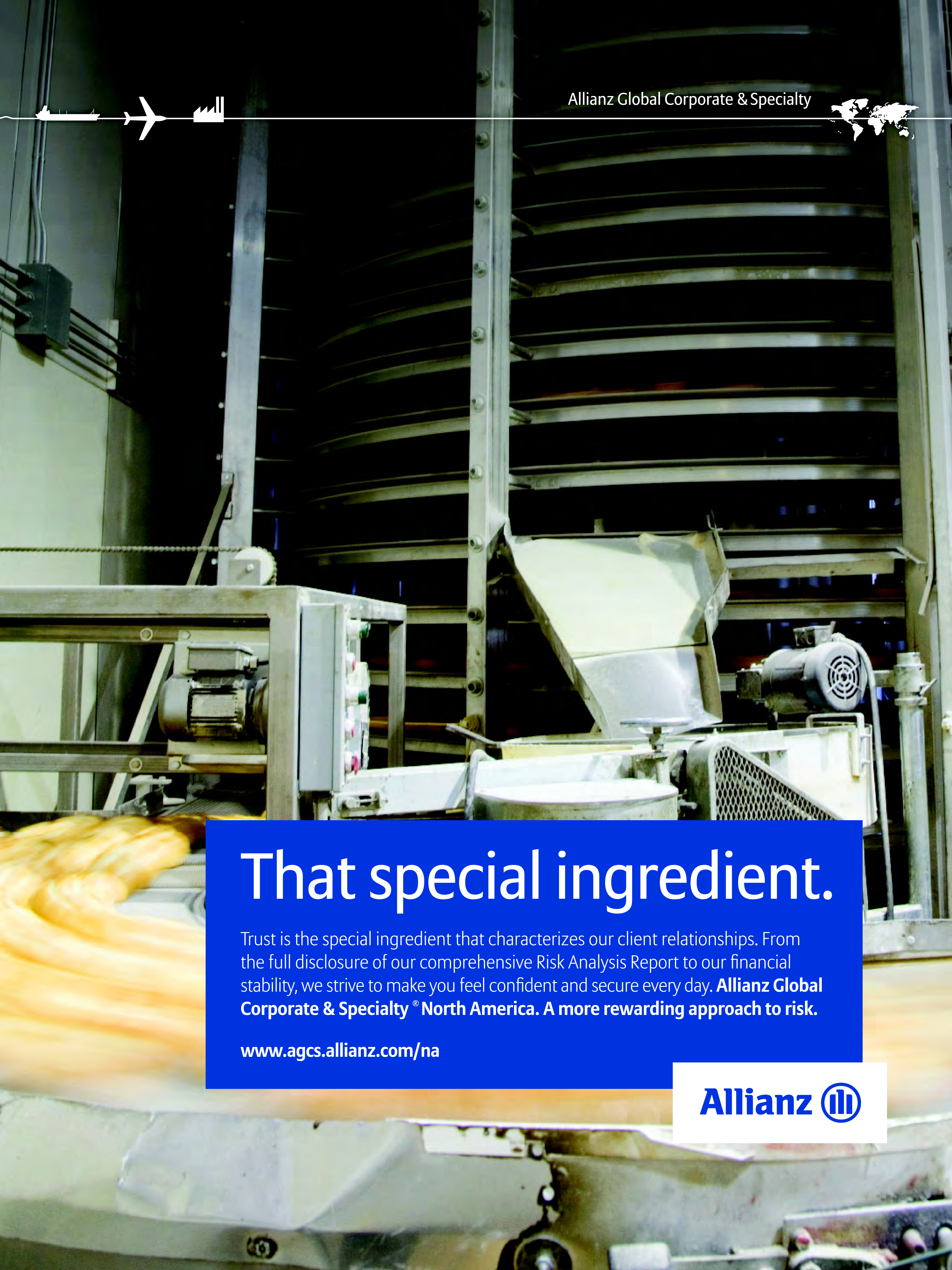
TOP 100 BROKERS OF U.S. BUSINESS 2009 RANKING

PULLOUT



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