

**BROKERS, AGENTS DIVIDED
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IN 'GREEN' COMMERCIAL
CONSTRUCTION / PAGE 4**

In Brief

Aon names chairman to succeed Ryan

Aon Corp. said that Lester B. Knight will become nonexecutive chairman Aug. 1, succeeding Aon founder Patrick G. Ryan, who will retire on that date. Mr. Knight, who has been an independent director at Aon since 1999, is a founding partner of private equity firm RoundTable Health Partners. He previously vice chairman of Cardinal Health Inc. and former chairman and chief executive officer of Allegiance Corp. Mr. Ryan announced his retirement in April, explaining that the transition under President and CEO Gregory Case begun in 2005 was "complete."

Panel OKs ill student cover extension bill

Legislation approved by the House Energy and Commerce Committee last week would allow

See **IN BRIEF** page 59

SPOTLIGHT

BROKER TRENDS AND PROFILES

Risk managers wary about switching brokers; new brokers try to grow business despite tough conditions; battle for talent sees more limits on broker moves;

banks become more leery of expanding in to insurance; plus *B/I*'s exclusive ranking of the world's largest brokers and more. **PAGE 11**

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Incentive payments remold health care

Quality-linked compensation starts to take hold

By **JOANNE WOJCIK**

The health care payment system in the United States is undergoing a gradual transformation fostered by the proliferation of physician and hospital pay-for-performance initiatives led and financed by payers nationwide.

Nationally, the number of active

pay-for-performance programs has grown from just 39 in 2003 to nearly 150 today, according to the Washington-based Leapfrog Group, which tracks the programs' progress.

Payers—including insurers, employers and even the federal government—see pay for performance as a potential solution to today's health care crisis, which many feel was created by an unfettered fee-for-service payment system that rewards quantity rather than quality.

And though pay for performance does require an initial investment by program sponsors, the programs so far are yielding both savings in health care costs and improvements in patient outcomes, the programs report (see story, page 58).

"Pay for performance compensates for deficiencies in the payment system," said Francois de Brantes, chief executive officer of Newtown, Conn.-based Bridges to Excellence, an employer-led pay-for-performance program

See **INCENTIVE** page 58



Kinloch settles HRH producer piracy suit

Founding Kinloch CEO Lockhart resigns

By **ROBERTO CENICEROS and SALLY ROBERTS**

BOSTON—Kinloch Holdings Inc. has agreed to pay nearly \$9.8 million to settle allegations that it violated restrictive covenants in employment contracts when it recruited several employees and clients from Hilb Rogal & Hobbs Co.

The former HRH brokers hired by New York-based Kinloch also must refrain from soliciting, contacting or communicating with HRH clients in Massachusetts for two years, though some clients are exempted from that restriction, according to a settlement agreement reached in a Massachusetts Superior Court.

Similar conditions apply in New York for 90 days, according to the agreement.

Glen Allen, Va.-based HRH alleged in a related lawsuit in New York in May 2007 that Kinloch and its chief executive officer, Robert Lockhart, aggressively pursued HRH employees to work for Kinloch and bring HRH clients with them. Mr. Lockhart, who founded Kinloch in 2006, served as HRH's president and chief



Mr. Lockhart

operating officer from 2003 to 2005.

The lawsuit also alleges that former HRH employees violated non-piracy and confidentiality agreements.

Meanwhile, Kinloch announced last week that Mr. Lockhart had "resigned to pursue other opportunities." The company did not elaborate, and Mr. Lockhart could not immediately be reached for comment.

Kinloch, a middle-market broker that had gross revenues of around \$42 million in 2007, said that Steve

See **KINLOCH** page 59

Massachusetts wants employers to pay more

Governor cites greater-than-expected costs; plan also would toughen fair-share testing

By **JERRY GEISEL**

BOSTON—The governor of Massachusetts says employers should pay more to help fund the burgeoning cost of moving the state closer to universal health insurance coverage.

Employer groups are troubled by the proposed change, which will impose a hefty financial assessment on employers, such as many retailers, that have long waiting periods before new employees are eligible for health coverage. Under current rules, many such companies are exempt from the penalty.

Gov. Deval Patrick last week proposed that state regulators tighten an existing rule that requires employers with at least 11 full-time



NY TIMES

Gov. Deval Patrick has proposed a series of changes to fund the rising costs of Massachusetts' landmark universal health care coverage effort.

employees in the state to pass one of two tests to prove they are making a "fair and reasonable" health insurance premium contribution to avoid an annual assessment of \$295 per employee.

Revenues from the assessments, which are running much lower than earlier projections, are used to subsidize premiums in a state program—one of the lynchpins of Massachusetts' 2006 landmark health care reform law—that provides coverage for eligible low-income uninsured residents.

Under the current rule adopted in 2007 by the Massachusetts Division of Health Care Finance and Policy, an employer is exempt from the annual assessment if at least 25% of full-time employees are enrolled in

its group health insurance plans.

If that primary test is not met, employers that pass a secondary test—by paying at least 33% of the premium for individual coverage for employees within 90 days of their beginning work—are exempt from the assessment.

Nearly all employers in the state offering coverage have been able to pass one test or the other.

Under Gov. Patrick's proposal, though, employers would have to pass both tests to be exempt from the \$295 assessment, a change that would result in many more employers being forced to pay, state business groups say.

The tightening of the so-called

See **MASSACHUSETTS** page 55



VICTORY

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See
September's
Leader's Edge
magazine for
full details.

On the Web

TOP 10
BROKERS
2008 RANKING

BROKER RESOURCES

Online extras profile largest brokers

Business Insurance's Spotlight section features the 37th annual Agent/Broker Profiles and Rankings, and has online extras that include profiles of the world's leading brokers, rankings of the Top 10 and Top 100 brokers and more. Read more online at www.BusinessInsurance.com/brokers2008.

QUESTIONS & ANSWERS

Boutique broker takes the road less traveled

Business Insurance adds to its series of in-depth interviews of industry leaders with a



discussion with Bob Dubraski, president and CEO of health care boutique brokerage Dubraski & Associates

Insurance Services L.L.C., which he formed in 2005. Go to www.BusinessInsurance.com/QandA for the full interview.

WOMEN TO WATCH

WOMEN TO WATCH

2008 nomination forms now available online

Business Insurance will publish its third annual Women to Watch report on Dec. 1, and invites readers to nominate outstanding women working in insurance, risk management and employee benefits worldwide. For a nomination form, visit www.BusinessInsurance.com/WomenToWatch.

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Business Insurance (ISSN 0007-6864) Vol. 42, No. 29, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$5 a copy and \$97 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2008 by Crain Communications Inc.

Standard Mail enclosed in Edition 5

Intermediaries deeply divided on contingents

New York begins hearings on whether incentive payments pose conflicts of interest

By SALLY ROBERTS

BUFFALO, N.Y.—Contingent commissions create conflicts of interest and should be phased out in a reasonable period of time, and full compensation transparency should be mandated for the entire insurance brokerage market, said Don Bailey, chief executive officer of Willis North America Inc.

But David M. Gelia, executive vp of United Insurance Agency Inc. in Amherst, N.Y., said contingent commissions do not create conflicts of interest and do not lead to steering business to certain underwriters. Furthermore, disclosure of producer compensation should be only at the request of clients and not mandatory, Mr. Gelia said.

Such were the divergent views of two of the four witnesses who testified last week in Buffalo, N.Y., at the first of three hearings on broker compensation held by New York



'Clients across the industry would benefit from phasing out contingent commissions.'

Don Bailey, Willis North America

'It is not logical to assume that incentive compensation leads to a conflict of interest.'

David M. Gelia, United Insurance Agency



state officials. Other hearings are scheduled for later this month in Albany and Manhattan.

New York Insurance Superintendent Eric Dinallo and New York Attorney General Andrew Cuomo called the hearings to gather infor-

mation and comments from interested parties before issuing regulations that address the compensation system established by their predecessors in 2005 and 2006 settlements with several brokers and insurers.

To settle charges and concerns leveled by New York authorities that they steered business to insurers that paid the highest contingent commissions, Marsh & McLennan Cos. Inc., Aon Corp. and Willis Group Holdings Ltd. agreed to give up millions of dollars a year in contingent commissions and fully disclose their compensation practices to clients.

The world's three largest brokers have since criticized the current system, saying they are at a competitive disadvantage because the vast majority of the industry continues to pay and collect contingents.

Mr. Bailey, who was the first to testify, told the panel of insurance department and attorney general representatives that former New York Attorney General Eliot Spitzer missed an opportunity when he not only stopped short of banning all

See **COMPENSATION** page 56

Funding cut dims appeal of Medicare Advantage

Managed care, fee-for-service plans may increase premiums, reduce benefits; some could fold

By KRISTIN GUNDERSON HUNT

WASHINGTON—Legislation that won final congressional approval last week could decrease the appeal of Medicare managed care and fee-for-service plans as a way for employers to reduce retiree health care expenses, experts say.

The law, which Congress approved after overriding a presidential veto, reduces federal payments to managed care plans that participate in the government's Medicare Advantage program and provide coverage to enrollees who opt out of the traditional Medicare indemnity program.

Additionally, the law, which President Bush opposed because of the cuts to the Medicare Advantage program, imposes new restrictions on so-called fee-for-service Medicare Advantage plans.

Employers have turned to Medicare Advantage plans as a way to

reduce retiree health care costs. Some employers, for example, have found it much less expensive to pay Medicare Advantage premiums for retirees than to provide plans that supplement Medicare.

Due to rich federal payment schedules, enrollment in Medicare Advantage plans climbed to 9.8 million in June from 5.5 million in December 2004.

Despite the plans' growth, 62% of employers that offered benefits to their retirees ages 65 and older in 2006 did not offer a Medicare Advantage option, according to a 2006 survey by the Kaiser Family Foundation and Hewitt Associates Inc.

With federal funding decreasing under the law approved last week, Medicare Advantage plans might have to increase premiums and cut benefits, further reducing their appeal to employers and retirees.

"Employers are wary," said



Senate Majority Leader Harry Reid and House Speaker Nancy Pelosi sign Medicare legislation, which President Bush vetoed but Congress overrode.

Jonathan Nemeth, a senior vp and actuary with Aon Consulting in Somerset, N.J. "This legislation will probably discourage employers from moving forward with offering the program."

Kirby Bosley, West division practice leader for Watson Wyatt Worldwide in Los Angeles, said employers might not have the

See **MEDICARE** page 56

ACE completes redomestication to Switzerland

Tax treaty advantages cited; offices remain in Bermuda, N.Y.

By COLLEEN MCCARTHY

HAMILTON, Bermuda—ACE Ltd.'s redomestication to Switzerland from the Cayman Islands was completed last week, and the insurer's holding company is now located in Zurich.

ACE shareholders approved the move at the company's annual general meeting in Bermuda on July 10.

As part of the redomestication, ACE last week announced the appointment of Olivier Steimer, chairman of Lausanne, Switzerland-based Banque Cantonale Vaudoise, to its board of directors. Swiss law requires companies incorporated in the country to have at least one director or executive officer living in Switzerland.

The company said it will maintain executive offices in



Evan Greenberg said moving its holding company to Switzerland may reduce ACE's risks.

Bermuda, and ACE Group Holdings executive offices will remain in New York.

Hamilton, Bermuda-based ACE is one of Bermuda's largest insurers and reinsurers, writing about \$12 billion in net premiums in 2007.

ACE Chairman and Chief Executive Officer Evan G. Greenberg said in a statement that the company is "grateful to our share-

holders who understand the strategic wisdom of this move and overwhelmingly adopted all of our redomestication proposals."

ACE announced its plan to relocate in March, saying, "Switzerland affords us the security of a network of tax treaties," and a change of jurisdiction may "help reduce reputational, political, regulatory and financial risks" to the company.

ACE was replaced on the S&P 500 Index by MasterCard Inc. after the close of trading last Thursday. The move to Switzerland made the company ineligible for the U.S. index.

Green insurance grows as environmental concerns rise

Efforts to reduce buildings' emissions improves risk profiles

By NICK WHITFIELD

As more U.S. businesses move to "green" their buildings, more insurers are offering tailored coverage to make the transition.

At least five insurers already offer products designed to fund rebuilding damaged properties to meet certain environmental and building standards. While the products are in their infancy, insurers and brokers say the huge interest in environmental issues will increase demand.

Green buildings that improve energy efficiency and air quality and reduce waste are designed to reduce

their effects on the environment and the health of building occupants. Buildings account for 39% of U.S. carbon dioxide emissions, according to the Department of Energy.

The U.S. Green Building Council's Leadership in Energy and Environmental Design certification is the most widely recognized environmental building standard. The non-profit group has certified more than 1,500 commercial buildings and says it expects 10% of U.S. commercial construction starts to be green by 2010.

A LEED certification requires a review of building systems to ensure

efficient operation, including plumbing, electrical, ventilation, and heating and cooling systems, which are among property underwriters' biggest concerns.

As a result of the extra checks, several insurers offer premium discounts for LEED-certified buildings. For example, Fireman's Fund Insurance Co. offers a discount up to 5%.

"We look at the commissioning process as a risk-reduction technique," said Steve Bushnell, Novato, Calif.-based product director for commercial business at Fireman's Fund.

"A third-party engineer will review and certify the systems, and primary among those are the electrical system and the heating system," Mr. Bushnell said. "We look

See **GREEN** page 54



REUTERS

John Volk of the Friends Committee on National Legislation atop what is billed as Capitol Hill's first "green" building that transformed two Civil War-era row houses and is the office of the Quaker Lobby.



BLOOMBERG/LANDOV

"The actions announced today are difficult decisions," General Motors Chairman and Chief Executive Officer Richard Wagoner said last week of a wide-ranging plan that includes ending health coverage for salaried retirees 65 and older while increasing their pensions by \$300 per month. GM also will defer paying \$1.7 billion to a union voluntary employees' beneficiary association.

Troubled GM cutting salaried retirees' cover

Approach differs from rival automaker Ford

By JERRY GEISEL

DETROIT—General Motors Corp. will eliminate health care coverage for salaried retirees age 65 and older and defer \$1.7 billion in contributions to a special trust to fund health coverage for retired United Auto Workers union members, the automaker announced last week.

While GM will eliminate older salaried retirees' health coverage effective Jan. 1, 2009, the company said it will boost their pensions by \$300 a month to partially offset the costs.

The \$1.7 billion in contributions to help fund a voluntary employees' beneficiary association, which were due this year and next, will be deferred until 2010, GM said.

That VEBA was a critical part of a contract agreement GM reached last year with the UAW. Detroit-based GM agreed to contribute about \$29 billion in cash and a stock-convertible note to the VEBA in exchange for no longer providing health care coverage for retired UAW members

effective Jan. 1, 2010.

GM's actions on health care are part of a broad plan to improve liquidity by \$15 billion as it struggles amid a sharp downturn for its products amid a slumping U.S. economy.

GM's move affecting its salaried Medicare-eligible retirees follows a nearly two-decade trend of major employers paring and in many cases eliminating health care coverage for retired workers. That drive began at the time the accounting industry started to develop rules to require companies to list retiree health care liabilities on corporate financial statements.

That requirement increased employer awareness of the huge future cost of retiree programs and the need to reduce that liability. Additionally, employers moved to reduce or eliminate coverage as health costs galloped higher and cut into corporate profits, while employers also became concerned

See **RETIREES** page 56

Panel advances anti-arbitration bills

Some see current efforts as tune-up for the next Congress and president

By MARK A. HOFMANN

WASHINGTON—Action on anti-arbitration bills during the waning days of the current Congress could be setting the stage for major battles over binding arbitration agreements in the next Congress, arbitration proponents say.

Last week, the House Judiciary Committee's Subcommittee on Commercial and Administrative Law approved three bills that would restrict or void predispute arbitration agreements (see box). One would void required arbitration in any employment, consumer or franchise disputes; another would restrict using arbitration in disputes arising from the sale or lease of an auto; and the third would ban predispute arbitration agreements in disputes between nursing homes and their residents.

The nation's largest association of trial attorneys said the legislation is needed to protect consumers.

"Big business is using mandatory binding arbitration to circumvent the civil justice system and deny the

PENDING ARBITRATION BILLS

■ The Arbitration Fairness Act of 2007, H.R. 3010 and S. 1782, says no predispute arbitration agreement is valid if it requires arbitration of an employment, consumer or franchise dispute or that arising under a law protecting civil rights or regulating contracts or transactions between parties of unequal bargaining power. A court would determine validity under federal law. It would not apply to collective bargaining agreements.

■ The Fairness in Nursing Home Arbitration Act of 2008, H.R. 6126 and S. 2838, bans a predispute arbitration agreement between a long-term care facility and a resident.

■ The Automobile Arbitration Fairness Act of 2008, H.R. 5312, amends federal law to allow arbitration to settle vehicle sale or lease disputes only after the dispute arises and if all parties to it agree in writing to settle it by that method.

Source: Library of Congress Thomas.gov

rights of Americans to receive justice when they are injured through corporate misconduct," Linda Lipsen, senior vp at the Washington-based American Assn. for Justice, said in an e-mailed statement. "Consumer advocates along with over 100 members of Congress believe that we should not be forcing consumers into a slanted system where corporations make all the rules and pick all the players."

More than 100 House members are backing the broad bill that would ban arbitration in employment, consumer and franchise disputes.

Although Senate panels have held hearings on companion legislation, no votes have been taken.

Public Citizen, a Washington-based consumer group, hailed the House panel's action.

The bills "will level the playing field between consumers and big business by ensuring that all arbitrations are truly voluntary," David Arkush, director of Public Citizen's

See **ARBITRATION** page 56

Benefit award deadline extended

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• Established an effective system for communicating benefit programs to employees.

• Skillfully administers benefit programs through application of technology.

• Develops in his or her career and promotes advancement of the benefits profession.

For more information and to download a nomination form, visit www.BusinessInsurance.com/BMOY. The deadline is now July 28.

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[†] As reported July 16, 2007 by Business Insurance magazine.

[‡] As reported April 21, 2008 by Insurance Journal magazine.

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Commentary

Brokers must pick sides to show true loyalties

"Are you still beating your spouse?"

It's one of those trick yes-or-no questions that will damn you no matter how you reply. Kind of like the one the brokerage community is facing these days in response to the query: "Are you disclosing your contingent commissions to clients?"

If the answer is, "Yes," then the next question might be, "Why are you still accepting payment from insurers at all?" If the answer is, "No," the next question might be, "What are you hiding from your clients?"

Contingent commissions in the commercial insurance business remain a matter of dispute four years after the practice was cast into the spotlight and vilified by then-New York Attorney General Eliot Spitzer and several vocal risk managers.

In 2005, Mr. Spitzer negotiated agreements with the three largest insurance brokers—Aon Corp., Marsh & McLennan Cos. Inc. and Willis Group Holdings Ltd.—to eliminate contingents. A few more large brokers reached similar deals with other states.

Many other brokers, seeing which way the wind was blowing, voluntarily stopped accepting the commissions from insurers. But many others continued to accept this form of compensation, with varying levels of disclosure.

As a result, there's no consistency in how insurance brokers are compensated. Look at the chart on page 24 of this issue and you'll see continued wide disparity in how large commercial retail brokers treat this compensation.

This is the muddled situation that New York's current attorney general and its insurance commissioner seek to address. They are holding hearings on whether state regulations regarding contingent commissions are in need of revision to ensure a more level playing field for insurance agents and brokers, and full and fair disclosure to buyers. But regardless of what New York decides, the issue will remain unsettled as long as each state applies different rules and regulations to the brokers and insurers they regulate.

As a result, risk managers will continue to find the playing field for broker compensation is tilted, bumpy and pocked with holes—as well as obscured by fog.

It would be simplest if the field could be leveled and all brokers—not only those bound by the 2005 agreements—be subject to the same set of rules that require them to stop collecting contingents. But that uniformity of regulation is unlikely to



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happen, especially absent federal oversight of insurance. And freeing those few large brokers from their current restraints does not seem an attractive solution.

So the next logical step would be to clear away the fog, so that any services the broker provides insurers, and any compensation the insurer provides to the broker, is disclosed to the risk manager. It's in brokers' interests to embrace this transparency, I believe, because with full information the buyer assumes ulti-

It's like a soccer player standing in the middle of the pitch and playing defense for whoever has the ball.

mate responsibility to decide if such deals can be tolerated, and whether an insurer is recommended because it's best for the buyer or for the intermediary.

But even that won't erase the confusion now in the market. Because, if I may take the turf metaphor one step further, many brokers currently are playing for both teams on the field: They provide services not only to the insurance buyer but also to the insurance company. It's like a soccer player standing in the middle of the pitch and playing defense for whoever has the ball.

Even if the broker can prove services provided to insurers, whatever they may be, benefit the buyer, it is the buyer who ought to pay the broker for providing them, insist the insurer provide them or simply decline them. At the end of the day, the customer is still king.

Most buyers expect their broker, unlike an insurer's agent, to fully and solely represent their interests in an insurance transaction, and be directly compensated only by them. Until the broker picks a side, the buyer team naturally is going to wonder where the broker's loyalties lie.



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Business Insurance OPINIONS

More work needed on broker pay disclosure

NEW YORK'S hearings to determine the future of contingent commissions for agents and brokers in the state offer a historic opportunity to help insurance buyers.

As we report on page 3, four witnesses testifying last week at the first of three hearings offered differing positions on whether contingents should be allowed and whether disclosure should be mandatory. Here's our position: Agents are entitled to receive compensation from insurers, as agents represent insurers, not policyholders. But brokers represent buyer clients. Their compensation should come from clients, ideally as fees. The only thing a broker's pay should be contingent on is providing valuable service to a client.

The largest brokers have complained that "an unlevel playing field" exists in the brokerage industry, with a handful unable to take contingents while a majority of smaller firms can. The chart on page 24, showing data on supplemental pay for the 100 largest brokers of U.S. business, shows that such pay, including contingent commissions, is pervasive, while disclosure varies widely. To wit:

- Only four do not accept supplemental pay from underwriters.
- Twenty-nine automatically disclose such pay.
- Forty firms disclose it on request.
- Disturbingly, eight firms take such pay but do not disclose it.
- Nineteen firms did not report whether they accept pay from underwriters or how they disclose it, but the above statistics suggest that most of them probably do take the pay.

Let's be clear: Supplemental payments from underwriters are not illegal and never have been. We think that while contingents do not automatically create conflicts of interest for brokers, they certainly do present the possibility for conflicts. Transparency and disclosure can reduce but not eliminate this risk. At a minimum, insurance buyers in New York state and everywhere else deserve—and should demand—full disclosure from their brokers.

Congress should act to cover ill students

MICHELLE MORSE'S story is a tragic one.

As a college student, Ms. Morse was diagnosed with cancer. Rather than take a medical leave of absence, she continued with her studies while undergoing debilitating chemotherapy treatments.

She decided to continue with her studies because if she left school, she would have lost her eligibility for coverage as a dependent under her parents' health insurance plan.

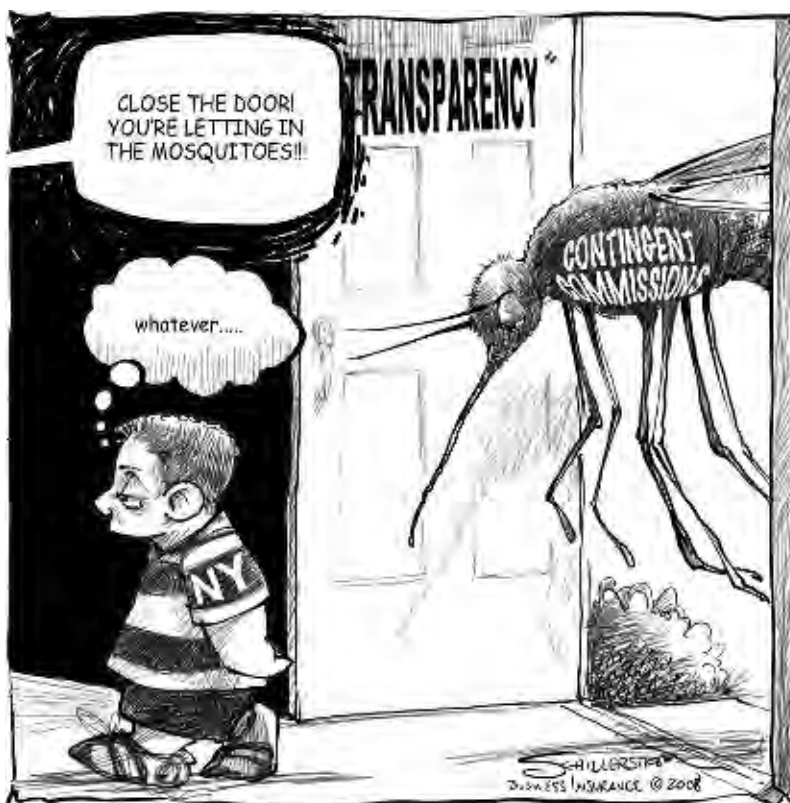
Tragically, Ms. Morse died and nothing can change that. But what can be changed is ending situations where seriously ill students have to take a full course load to keep health insurance cover.

Fortunately, legislation introduced by Rep. Paul Hodes, D-N.H., and now moving through Congress, will make such situations less likely if passed. Specifically, his measure would allow college students age 18 and older who become severely ill to retain coverage for up to 12 months if they take a medical leave of absence from school. Coverage would continue on the same basis as prior to the student taking the leave.

There is no question that the mandate would increase employers' costs. But we think that the increases would be minimal given the small number of individuals who would benefit. And in this case, the value of the benefits extension far exceeds, we believe, the cost of the requirement.

We hope Congress acts on this legislation promptly.

Broker compensation should come from clients, ideally as fees.



WRITE

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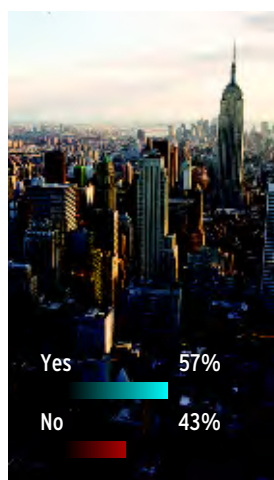
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THIS WEEK'S RESULTS

Should New York re-create an insurance exchange?



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Should the use of mandatory binding arbitration to settle employment or consumer disputes be prohibited?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

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Employers must engage workers on Rx benefits

More employers are finding that consumerism in health care goes beyond offering high-deductible health plans, writes Robert F. Nease, vp, marketing and chief scientist at Express Scripts Inc. in St. Louis. Engaging consumers on health care goes beyond a narrow economic-based view, specifically when it comes to managing the pharmacy benefit. Plan sponsors must work to better understand consumer behavior, he says.

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SUBSCRIPTIONS: Detroit: 888-446-1422

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Published weekly at 360 N. Michigan Ave., Chicago, Ill.

60601-3806, Fax: 312-280-3174, biweb@crain.com. Offices:

711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704;

Suite 814, National Press Building, Washington, D.C. 20045-

1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300,

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Olathe, Kan. 66062, Fax: 312-280-3174, 77 Franklin St., Suite

809, Boston, Mass. 02110-1510, Fax: 212-210-0704. \$5 a copy

and \$97 a year in the U.S., \$130 in Canada and Mexico

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change of address. Send subscription correspondence to

Circulation Department, Business Insurance, 711 Third

Avenue, New York, N.Y. 10017-5806. Microfilm copies

available: University Microfilms, 300 Zeeb Road, Ann

Arbor, Mich. 48103. Microfiche copies: Bell & Howell, Micro

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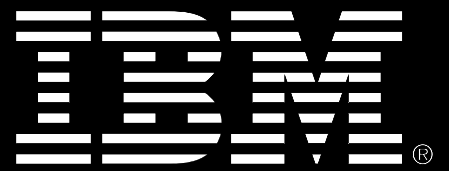
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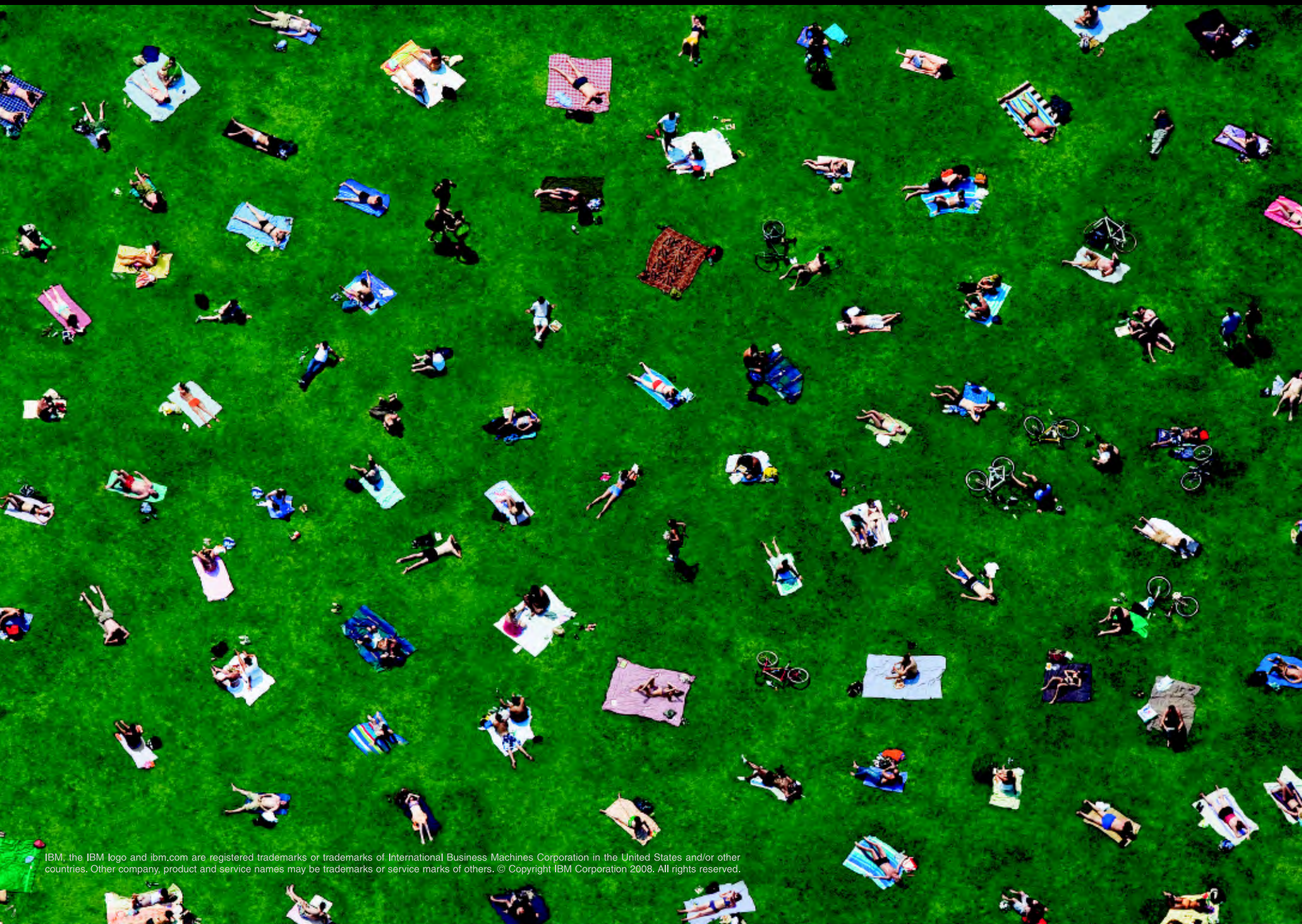
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Risk managers often wary about switching brokerages

Benefits of long-term relationships can outweigh performance issues

By **ROBERTO CENICEROS**

"Better the devil you know than the devil you don't" is an adage risk managers say they keep in mind when considering whether to change insurance brokers.

Yet brokers should be replaced when poor quality of service significantly impairs an insurance program, veteran risk managers agree.

The Risk & Insurance Management Society Inc. has developed tools to help risk managers set expectations and document when brokers and other vendors fall short. But risk managers say there are several reasons why they stay put even though a broker's service is less than satisfactory or the broker-

age is implicated in a scandal that could affect their account.

Some of the considerations that stop insurance purchasers from replacing their brokers include few alternatives for large accounts to turn to, upper management challenging their decisions and fear of change itself, among others.

"If change is engineered properly, change is good," said Michael Liebowitz, director of risk management and insurance for New York University. "(But) we are creatures of habit and we like our comfort zones."

There also is concern that—despite shortcomings of a current broker—another broker's service may not be any better.

"I myself have been in the position that maybe (my broker) hasn't met all my service requirements, said Ellen Vinck, vp of risk management, benefits and safety for BAE Systems Ship Repair Inc. in San Diego. "But maybe there is something they are really good at, and I am willing to take less than stellar performance in one area because there is something they do really well and that is what is important."

More than other considerations and despite service lapses, a long-standing relationship with a specific producer who has proven expertise and intimate familiarity with their insurance program keeps buy-

See **SWITCH** next page

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Switch: Risk managers often wary about benefits of changing brokers

CONTINUED FROM PREVIOUS PAGE

ers from moving their business, several risk managers agree.

"I have to have a comfort level with my brokerage team, and the only way I have a comfort level with my brokerage team is by the many years I have worked with them," said Mr. Liebowitz, who is a former RIMS president.

Relationships developed over the years with a specific producer usually will trump negative news about the brokerage house employing that person. That is why the bid-rigging and contingent commission scandal touched off by former New



RIMS

'Why didn't I change? Because I believe, at the end of the day, the other brokerages were no better.'

Michael Liebowitz,
New York University

York Gov. Eliot Spitzer's investigations didn't drive many risk managers to change brokers, observers say.

Risk managers also say that if one brokerage is involved in improper practices, their competitors are likely doing the same.

During the Spitzer era while at a former employer, Mr. Liebowitz's account was directly affected by the bid-rigging charges. Yet, he

stayed with the brokerage.

"Why didn't I change? Because I believe, at the end of the day, the other brokerage houses were no bet-



MICHAEL MARCOTTE

Many risk managers reacted to the Spitzer findings by saying, 'That's great, but who am I moving to?'

Ellen Vinck
BAE Systems Ship Repair

ter," Mr. Liebowitz said.

Other risk managers cited a lack of large brokerages to which they could turn to as a major reason why

they made no change.

Many risk managers reacted to Spitzer's findings by essentially saying, "That's great, but who am I moving to?" said Ms. Vinck, who also is a former RIMS president.

Regional or boutique brokerages may offer an alternative, risk managers say, as some of their individual producers can be more experienced or more motivated to service their clients than counterparts at one of the larger firms.

But a personal relationship developed over years with a specific account executive who understands her company's risks would prevent Mari-Jo Hill from moving to another large brokerage or boutique if the current brokerage were named in a scandal, said Ms. Hill, director of risk management for Cary, N.C.-based SAS Institute Inc.

"When you build that kind of rapport, it takes something more than the (brokerage) company going through ripples or the industry going through some sea change," Ms. Hill said. "You have to really feel uncomfortable that that person is not a good match."

Other risk managers agree. They are not wed to the company that places their insurance; it's the individual broker with whom they have forged a relationship and to whom they are loyal.

If that specific broker moves to a competitor, risk managers say that is when they are more likely to move their business.

Relationships aside, risk managers say brokers should not grow complacent. While news of an investigation or even failure to obtain the best coverage pricing may not drive them away, continually failing at day-to-day account maintenance practices will drive risk managers to seek improvements from a competitor, Ms. Vinck said.

One good rule of thumb calls for evaluating a broker's service every three years to confirm they are doing a good job or verify where their performance has failed, Ms. Vinck said.

To assist risk managers in making such decisions, RIMS' Quality Partnership Builder online helps establish and measure performance requirements for brokers and other service providers, said Karen Beier, RIMS' director-technology advisory council.

"It's much better to make a decision to change brokers on that basis than any other," Ms. Beier said, who is also vp-risk management for Shaklee Corp. in Pleasanton, Calif.

The tool can provide risk managers with documentation on their broker's performance, such as how well the broker follows through with an agreement to improve claims management.

This can help risk managers overcome potential objections from upper management to change brokers, said Ms. Beier.

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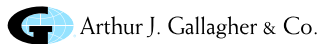





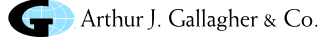




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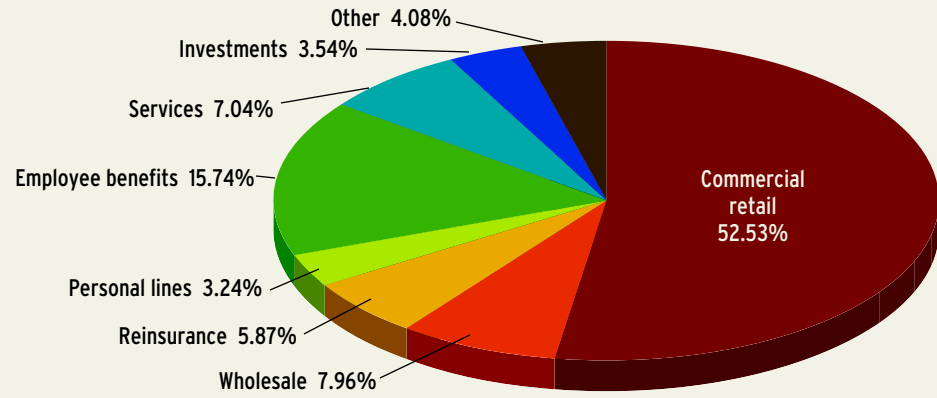
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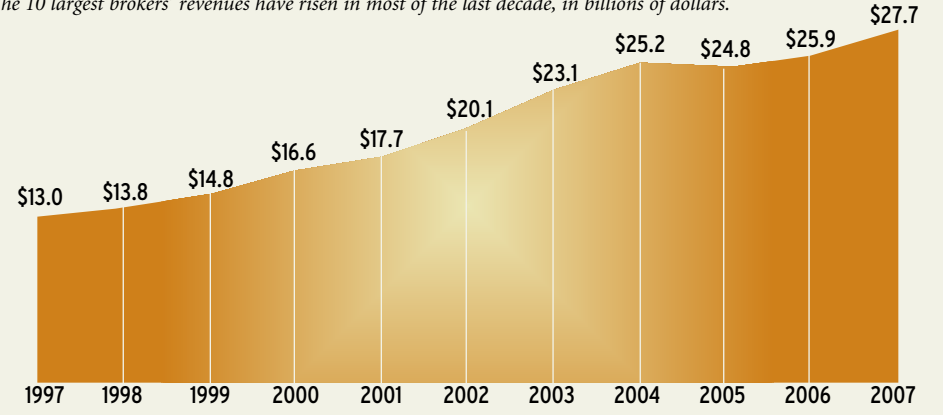
Areas contributing to the largest brokers' overall revenue



Source: BI survey

A DECADE OF GROWTH

The 10 largest brokers' revenues have risen in most of the last decade, in billions of dollars.



Source: BI survey

World's 10 largest insurance brokers

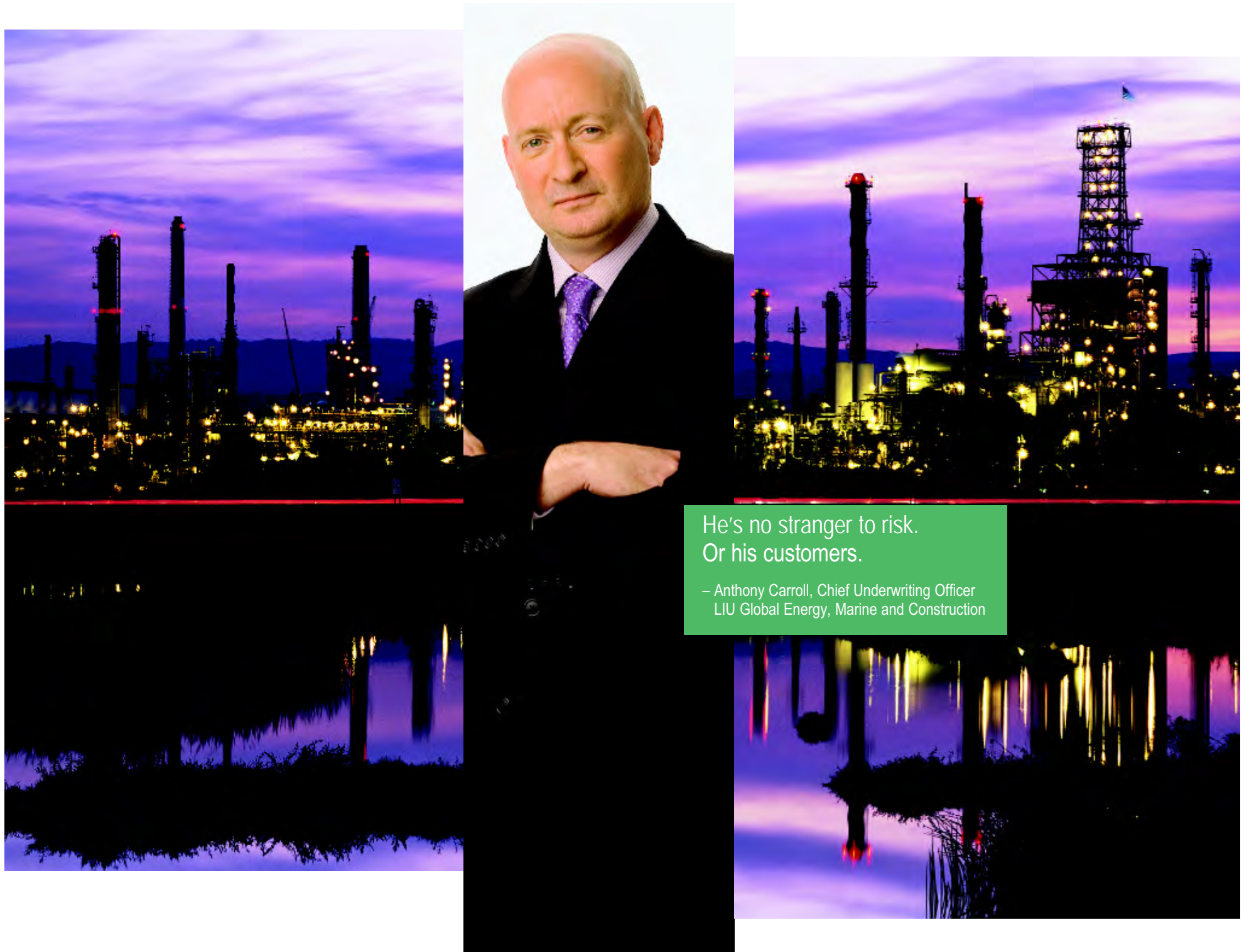
Ranked by 2007 brokerage revenues

Rank	Company/Address	Phone/Web site	Chief executive	2007 brokerage revenues	% change	2007 employees	2007 offices	Percentage of revenues*							
								Commercial retail	Wholesale ¹	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	\$11,281,000,000	7.70%	56,100	700	38.68	0	7.75	28.95	0	21.59	2.22	0.81
2	Aon Corp. 200 E. Randolph St., Chicago, Ill. 60601	312-381-1000 www.aon.com	Gregory Case, president/CEO	\$7,096,000,000	7.74%	35,900	500	64.93	0	12.07	15.67	0	2.30	4.03	0.99
3	Willis Group Holdings Ltd. ² 51 Lime St., London EC3M 7DQ England	44-203-124-6000 www.willis.com	Joe Plumeri, chairman/CEO	\$2,463,000,000	5.80%	13,100	321	56.17	3.96	22.42	10.43	1.32	1.24	3.72	0.74
4	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/president/CEO	\$1,457,241,000	10.78%	9,102	150	39.29	7.75	0	14.58	1.09	27.07	6.14	4.08
5	Wells Fargo Insurance Services Inc. 150 N. Michigan Ave., Suite 3900, Chicago, Ill. 60601	312-423-2500 wfis.wellsfargo.com	David J. Zuercher, chairman/president/CEO	\$1,282,130,000	27.10%	7,273	171	60.97	1.66	0.14	12.45	6.99	4.31	2.78	10.70
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	\$947,346,400 ³	11.84%	5,436	75	50.31	7.42	12.50	16.43	1.41	7.34	4.58	0
7	BB&T Insurance Services Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 www.bbt.com	H. Wade Reece, chairman/CEO	\$877,391,500	4.17%	3,947	102	48.93	25.24	0	6.97	8.91	0	5.08	4.88
8	Hilb Rogal & Hobbs Co. ² 4951 Lake Brook Drive, Glen Allen, Va. 23060	804-747-6500 www.hrh.com	Martin L. Vaughan, chairman/CEO	\$779,950,000	12.06%	4,200	140	58.07	9.07	0.78	20.37	6.36	2.89	1.78	0.69
9	Brown & Brown Inc. 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 www.bbinsurance.com	J. Hyatt Brown, chairman/CEO	\$757,642,624	7.06%	5,047	125	38.52	16.98	1.28	12.41	6.06	3.70	3.18	17.87
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	\$728,203,000 ⁴	10.81%	3,864	45	69.40	7.52%	1.72	19.18	0.30	0	1.89	0

* Percentage of revenue may not total 100% due to rounding. 1 Revenue from commissions and fees from wholesale brokerage only, excluding income from MGA or other underwriting activities. 2 Willis Group Holdings Ltd. has agreed to purchase Hilb Rogal & Hobbs Co. The deal is expected to be completed in the fourth quarter of 2008. 3 British pound=\$2.0020 (2007) fiscal year ending December 31. 4 Fiscal year ending April 30.

Source: BI survey
Researched by Kevin Edison and Karen Tucker

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100 largest brokers of U.S. business (1-50)

Ranked by 2007 brokerage revenues generated by U.S.-based clients*

2007 rank	2006 rank	Company	Headquarters	2007 revenue	% change	Type of agency	% commercial retail brokerage	% employee benefits
1	1	Marsh & McLennan Cos. Inc.	New York, N.Y.	\$5,527,690,000	3.48%	Broker	38.68%	28.95%
2	2	Aon Corp.	Chicago, Ill.	\$2,696,480,000	-0.14%	Broker	64.93%	15.67%
3	3	Arthur J. Gallagher & Co.	Itasca, Ill.	\$1,282,372,080	9.54%	Both	39.29%	14.58%
4	5	Wells Fargo Insurance Services Inc.	Chicago, Ill.	\$1,282,130,000	27.10%	Both	60.97%	12.45%
5	4	Willis Group Holdings Ltd. ¹	London, England	\$1,059,090,000	-3.21%	Broker	56.17%	10.43%
6	7	BB&T Insurance Services Inc.	Raleigh, N.C.	\$877,391,500	4.17%	Both	48.93%	6.97%
7	6	Brown & Brown Inc.	Daytona Beach, Fla.	\$757,642,624	7.06%	Agent	38.52%	12.41%
8	8	Hilb Rogal & Hobbs Co. ¹	Glen Allen, Va.	\$725,353,500	6.23%	Both	58.07%	20.37%
9	9	USI Holdings Corp.	Briarcliff Manor, N.Y.	\$617,083,000	12.96%	Broker	35.45%	45.13%
10	10	Lockton Cos. L.L.C.	Kansas City, Mo.	\$502,460,070 ²	10.81%	Broker	69.40%	19.18%
11	12	Hub International Ltd.	Chicago, Ill.	\$484,675,580	23.70%	Broker	55.74%	12.80%
12	11	Wachovia Insurance Services Inc.	Charlotte, N.C.	\$422,453,748	-6.35%	Broker	39.48%	18.97%
13	13	Alliant Insurance Services Inc.	Newport Beach, Calif.	\$291,343,365	27.64%	Broker	66.79%	22.33%
14	15	Leavitt Group	Cedar City, Utah	\$174,750,450	19.54%	Agent	59.50%	11.01%
15	16	Jardine Lloyd Thompson Group P.L.C.	London, England	\$161,048,888 ³	11.84%	Broker	50.31%	16.43%
16	18	CBIZ Benefits & Insurance Services Inc.	Cleveland, Ohio	\$143,147,000	24.80%	Broker	12.90%	52.21%
17	17	Keenan & Associates	Torrance, Calif.	\$123,332,000	-6.73%	Both	18.95%	22.61%
18	19	Frank Crystal & Co. Inc.	New York, N.Y.	\$119,680,000	6.34%	Broker	78.58%	10.59%
19	20	Bollinger Inc.	Short Hills, N.J.	\$104,613,278	0.71%	Both	34.76%	33.96%
20	21	Meadowbrook Insurance Group Inc.	Southfield, Mich.	\$103,908,000	5.24%	Agent	52.63%	2.07%
21	26	Regions Insurance Group Inc.	Memphis, Tenn.	\$103,485,000	23.87%	Both	59.61%	15.80%
22	22	John L. Wortham & Son L.P.	Houston, Texas	\$99,864,000	5.53%	Agent	83.32%	11.69%
23	25	Hays Group Inc. dba Hays Cos.	Minneapolis, Minn.	\$97,400,000	14.59%	Both	53.83%	40.32%
24	27	J. Smith Lanier & Co.	West Point, Ga.	\$96,572,647	18.86%	Both	59.21%	22.05%
25	24	Hylant Group	Toledo, Ohio	\$90,240,264	0.25%	Both	70.21%	19.25%
26	32	Tanenbaum-Harber Co. Holdings Inc.	New York, N.Y.	\$90,031,489	15.83%	Broker	58.30%	17.26%
27	28	Mesirow Insurance Services Inc.	Chicago, Ill.	\$89,055,876 ⁴	10.74%	Broker	56.26%	36.47%
28	29	Holmes Murphy & Associates Inc.	West Des Moines, Iowa	\$87,959,385	11.18%	Both	49.03%	36.77%
29	33	Allied North America	Jericho, N.Y.	\$85,955,028	13.31%	Broker	90.07%	1.07%
30	39	Neace Lukens Holding Co.	Louisville, Ky.	\$77,541,413	18.77%	Agent	57.97%	19.82%
31	N/A	Conner Strong Cos. Inc. ⁵	Cherry Hill, N.J.	\$76,104,000	N/A	Both	52.60%	34.44%
32	40	Insurance Office of America Inc.	Longwood, Fla.	\$75,492,147	17.93%	Agent	74.14%	9.69%
33	30	NIA Group L.L.C.	Paramus, N.J.	\$74,800,000	-4.83%	Broker	51.87%	24.73%
34	38	BancorpSouth Insurance Services Inc.	Tupelo, Miss.	\$73,553,163	9.75%	Agent	66.94%	16.23%
35	35	IMA Financial Group Inc.	Wichita, Kan.	\$72,655,068	5.08%	Both	67.58%	10.75%
36	44	Beecher Carlson Holdings Inc.	Atlanta, Ga.	\$71,716,400	33.42%	Broker	74.64%	7.11%
37	41	Heffernan Group	Walnut Creek, Calif.	\$69,446,000	10.05%	Broker	64.76%	8.23%
38	42	Rutherford Cos.	Roanoke, Va.	\$69,039,440 ⁶	15.82%	Both	81.30%	6.27%
39	36	Guaranty Insurance Services Inc.	Austin, Texas	\$68,343,205	-0.58%	Agent	60.05%	5.89%
40	34	Huntington Insurance Inc. dba Sky Insurance Inc.	Bowling Green, Ohio	\$63,397,700	-8.94%	Both	37.33%	31.52%
41	51	Trion Group Inc. dba Trion	King of Prussia, Pa.	\$62,600,000	25.70%	Both	N/A	100%
42	45	James B. Oswald Co. dba Oswald Cos.	Cleveland, Ohio	\$61,225,560	13.98%	Both	65.83%	18.31%
43	37	Compass Insurance Agency Inc.	Houston, Texas	\$60,280,752	-10.21%	Agent	57.67%	25.63%
44	47	Woodruff-Sawyer & Co.	San Francisco, Calif.	\$57,000,000	11.84%	Broker	73.47%	22.86%
45	43	Associated Financial Group L.L.C.	Minnetonka, Minn.	\$54,279,428	-1.75%	Agent	12.62%	55%
46	46	InterWest Insurance Services Inc.	Sacramento, Calif.	\$52,166,273	2.25%	Broker	78.34%	15.88%
47	49	Frenkel & Co. Inc.	New York, N.Y.	\$51,434,900	1.56%	Broker	63.68%	25.52%
48	55	Barney & Barney L.L.C.	San Diego, Calif.	\$51,365,160	12.72%	Broker	49.30%	43.72%
49	56	Integro USA Inc.	New York, N.Y.	\$51,300,000	14%	Broker	98.28%	N/A
50	58	Western States Insurance	Missoula, Mont.	\$50,487,817	15.28%	Agent	54.94%	23.54%

Continued on page 18



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100 largest brokers of U.S. business continued (51-100)

Ranked by 2007 brokerage revenues generated by U.S.-based clients*

2007 rank	2006 rank	Company	Headquarters	2007 revenue	% change	Type of agency	% commercial retail brokerage	% employee benefits
51	54	Cottingham & Butler Inc.	Dubuque, Iowa	\$50,302,000	5.75%	Both	46.33%	11.94%
52	50	Wausau Signature Agency	Wausau, Wis.	\$50,193,570	0.39%	Agent	87.67%	9.84%
53	57	Marshall & Sterling Enterprises Inc.	Poughkeepsie, N.Y.	\$48,725,929	9.22%	Both	66.42%	2.64%
54	52	Mahoney Group	Casa Grande, Ariz.	\$48,312,114	-0.39%	Agent	77.72%	7.80%
55	48	TD Banknorth Insurance Agency Inc.	South Portland, Maine	\$48,291,934	-4.83%	Agent	30.95%	16.11%
56	60	Capacity Group of Cos.	Mahwah, N.J.	\$48,085,187	12.91%	Both	46.78%	4.45%
57	53	Van Gilder Insurance Corp.	Denver, Colo.	\$47,703,647	-0.85%	Both	76.82%	13.10%
58	59	First Niagara Risk Management Inc.	Buffalo, N.Y.	\$46,195,279	5.55%	Agent	58.45%	14%
59	63	William Gallagher Associates Insurance Brokers Inc.	Boston, Mass.	\$45,923,675	10.13%	Both	73.46%	26.54%
60	61	Horton Group Inc.	Orland Park, Ill.	\$43,380,227	2.92%	Broker	53.18%	28.85%
61	62	Graham Co.	Philadelphia, Pa.	\$42,707,169	2.10%	Both	95.42%	0.98%
62	66	DeWitt Stern Group Inc.	New York, N.Y.	\$42,593,760	12.81%	Both	55.30%	8.36%
63	71	Eastern Insurance Group L.L.C.	Natick, Mass.	\$40,808,285	15.12%	Agent	40.65%	13.05%
64	65	Riggs, Counselman, Michaels & Downes Inc.	Baltimore, Md.	\$40,777,241	7.72%	Both	70.48%	14.88%
65	91	Kinloch Holdings Inc.	New York, N.Y.	\$40,590,000	50.33%	Both	57.17%	27.63%
66	67	Jenkins Insurance Group	Concord, Calif.	\$39,109,000	3.67%	Broker	37.96%	29.91%
67	68	McQueary Henry Bowles Troy L.L.P.	Dallas, Texas	\$38,456,000	2.28%	Agent	68.34%	25.89%
68	74	Higginbotham & Associates Inc.	Fort Worth, Texas	\$38,453,627	15.59%	Agent	56.40%	35.82%
69	77	North American Insurance Agency Inc. dba North American Group	Oklahoma City, Okla.	\$38,041,717	17.19%	Both	68.25%	6.35%
70	70	Andreini & Co.	San Mateo, Calif.	\$37,500,000	4.17%	Both	74.13%	22.93%
71	76	Bowen, Miclette & Britt Inc.	Houston, Texas	\$36,299,006	9.54%	Agent	51.42%	13.13%
72	79	Lawley Service Inc	Buffalo, N.Y.	\$36,108,367	11.86%	Agent	56.95%	24.80%
73	69	ONB Insurance Group	Indianapolis, Ind.	\$35,374,867	-3.02%	N/A	40.32%	19.91%
74	82	Assurance Agency Ltd.	Schaumburg, Ill.	\$34,860,500	12.17%	Broker	79.50%	14.04%
75	75	Roger Bouchard Insurance Inc.	Clearwater, Fla.	\$34,404,220	3.64%	Agent	62.41%	21.31%
76	78	Propel Insurance ⁷	Tacoma, Wash.	\$33,875,000	4.84%	Broker	69.40%	15.16%
77	84	Scott Insurance	Lynchburg, Va.	\$33,434,000	10.67%	Agent	71.29%	18.16%
78	83	Fred A. Moreton & Co.	Salt Lake City, Utah	\$33,259,000	8.90%	Broker	66.40%	26.96%
79	73	Fringe Benefits Management Co.	Tallahassee, Fla.	\$32,941,652	-2.39%	Both	N/A	100%
80	80	Loomis Co.	Wyomissing, Pa.	\$32,805,400	2.10%	Both	40%	50.20%
81	89	Frost Insurance Agency Inc.	Fort Worth, Texas	\$31,209,555	9.21%	Agent	59.11%	20.92%
82	94	TrueNorth Cos.	Cedar Rapids, Iowa	\$31,149,295	21.03%	Agent	76.72%	18.09%
83	87	Payne Financial Group Inc.	Missoula, Mont.	\$30,912,608	6.02%	Agent	70.01%	11.20%
84	85	Seitlin	Miami, Fla.	\$30,834,157	4.42%	Agent	62.74%	23.27%
85	81	Dawson Cos.	Rocky River, Ohio	\$30,370,904	-5.15%	Agent	59.06%	8.32%
86	90	Parker, Smith & Feek Inc.	Bellevue, Wash.	\$30,216,200	7.85%	Broker	80.09%	11.06%
87	95	Cobbs, Allen & Hall Inc.	Birmingham, Ala.	\$30,065,723	18.47%	Both	44.86%	21.95%
88	88	Lovitt & Touche Inc.	Tempe, Ariz.	\$29,074,901	1.50%	Both	68.48%	22.89%
89	97	SilverStone Group Inc.	Omaha, Neb.	\$29,024,000	16.80%	Both	29.71%	60.97%
90	86	Starkweather & Shepley Insurance Brokerage Inc.	East Providence, R.I.	\$28,675,000	-2.34%	Both	58%	6.06%
91	93	Haylor, Freyer & Coon Inc.	Syracuse, N.Y.	\$25,700,400 ⁸	-2.24%	Both	55.59%	9.02%
92	92	R.C. Knox & Co. Inc.	Hartford, Conn.	\$25,379,000	-4.64%	Agent	70.80%	11.13%
93	98	Robertson Ryan & Associates Inc.	Milwaukee, Wis.	\$24,907,096	4.14%	Agent	76.15%	9.49%
94	N/A	Risk Strategies Co.	Boston, Mass.	\$24,624,500	39.28%	Broker	78.21%	11.23%
95	99	Daniel & Henry Co.	St. Louis, Mo.	\$23,425,000	0.08%	Broker	63.18%	24.36%
96	N/A	J. Rolfe Davis Insurance	Maitland, Fla.	\$22,851,000	-1.24%	Broker	49.92%	39.22%
97	100	RJF Agencies Inc.	Minneapolis, Minn.	\$22,746,000	-1.87%	Agent	66.83%	23.77%
98	N/A	Schiff, Kreidler-Shell Inc.	Cincinnati, Ohio	\$22,198,000	0.68%	Agent	64.64%	17.24%
99	N/A	PSA Financial Center & Affiliates	Lutherville, Md.	\$22,139,404 ²	61.60%	Both	43.36%	27.20%
100	N/A	Bolton & Co. Insurance Brokers	Pasadena, Calif.	\$21,289,941	2.17%	Both	66.98%	23.35%

*Companies that derive less than 20% of revenues from commercial retail brokerage or employee benefits are not ranked. 1 Willis Group Holdings Ltd. has entered an agreement to purchase Hilb Rogal & Hobbs Co., which is expected to be completed in the fourth quarter of 2008. 2 Fiscal year ending April 30. 3 British pound=\$2.0020 (2007) fiscal year ending Dec. 31. 4 Fiscal year ending March 31. 5 Formerly Commerce Banc Insurance Services Inc. 6 Fiscal year ending June 30. 7 Formerly Bratrud Middleton Insurance Brokers Inc. 8 Fiscal year ending Aug. 31. N/A=Not applicable.

Source: B/I survey

Researched by Kevin Edison and Karen Tucker

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Startup brokers fill an ongoing need

Willis' purchase of HRH may ease competition for buyout prospects

By MARK A. HOFMANN

Launching a new venture can be a daunting task even in the best of times, and these are not the best of times for insurance brokerages.

The multiyear soft property/casualty market plagues brokers, both new and established, by holding down organic growth as customers expect ever-lower prices. At the same time, the number of attractive acquisitions has not grown significantly, thus presenting challenges to brokerages that would grow through acquisitions.

Nevertheless, several brokerages have entered or re-entered the market in the past several years. Being new provides both advantages and disadvantages when competing with their more established counterparts.

For example, the pending acquisition of Glen Allen, Va.-based Hilb Rogal & Hobbs Co. by Willis Group Holdings Ltd. may present newer entrants with some acquisition opportunities that might have been lacking, say analysts.

"With HRH acquired by Willis, and given that HRH was a very active acquirer and given that Willis will be focusing significantly on integrating the HRH acquisition, it

may take a major buyer out of the mix for a while. Consequently, there's one less major buyer vying for quality acquisitions," said Timothy J. Cunningham, principal at OPTIS Partners L.L.C. in Chicago.

Nevertheless, "given the number

'When the big trees get taller, more room is available for the smaller trees to grow underneath.'

David Paddison, Seacrest Partners Inc.

of acquisitions by the public brokers, consolidators and others, the inventory is relatively thin and, consequently, if those emerging firms' strategy is growth by acquisition, it may be difficult in execution given the short inventory," Mr. Cunningham said.

The nature of the current marketplace is probably "pretty tough" for new entrants to find attractive acquisition opportunities, said Bobby Reagan, president of Reagan Consulting Inc. in Atlanta.

But "as far as they're positioned in the marketplace and competing against the other acquirers, they have one advantage," said Mr. Reagan. "They're starting with a clean sheet of paper and that can present a unique opportunity (for the company being acquired) to be on the ground floor. That could be appealing to some folks."

Market conditions may also give newer brokerages a slight edge in attracting talent.

"Given the state of the market—the prolonged soft market—and the pressure on the public brokers to improve their margins, there will likely be unhappy producers who will be receptive to a move to these emerging firms," Mr. Cunningham said.

But not all recent entrants want to grow via acquisitions.

"We started with a fairly solid group of senior industry leaders," said David Paddison, president of Savannah, Ga.-based Seacrest Partners Inc. The brokerage was founded in 2006 by seven former Palmer & Cay executives who left Wachovia Insurance Services less than a year after it acquired Palmer & Cay.

See **STARTUPS** page 22

LARGEST PRIVATELY OWNED BROKERS

Brokerage firms that are neither bank-owned nor publicly traded, ranked by brokerage revenues

Company	2007 brokerage revenues
Lockton Cos. L.L.C.	\$728,203,000
Hub International Ltd.	\$654,967,000
USI Holdings Corp.	\$617,083,000
Alliant Insurance Services Inc.	\$291,635,000
Leavitt Group	\$174,750,450
Keenan & Associates	\$123,332,000
Frank Crystal & Co. Inc.	\$119,680,000
Bollinger Inc.	\$104,613,278
John L. Wortham & Son L.P.	\$99,864,000
Hays Group Inc. dba Hays Cos.	\$97,400,000
J. Smith Lanier & Co.	\$96,572,647
Tanenbaum-Harber Co. Holdings Inc.	\$90,940,898
Hylant Group	\$90,240,264
Mesirow Insurance Services Inc.	\$89,055,876
Holmes Murphy & Associates Inc.	\$87,959,385
Allied North America	\$85,955,028
Neace Lukens Holding Co.	\$77,541,413
Conner Strong Cos. Inc. ¹	\$76,104,000
Insurance Office of America Inc.	\$75,492,147
NIA Group L.L.C.	\$74,800,000

¹ Formerly Commerce Banc Insurance Services Inc. Source: BI survey

A chart of the largest bank-owned brokerages appears on page 38.

ADVERTISEMENT

Rank Company

1	Marsh & McLennan Cos. Inc.	38	BancorpSouth Insurance Services Inc.	75	Roger Bouchard Insurance Inc.
2	Aon Corp.	39	Neace Lukens Holding Co.	76	Bowen, Milette & Britt Inc.
3	Arthur J. Gallagher & Co.	40	Insurance Office of America Inc.	77	North American Insurance Agency Inc.
4	Willis Group Holdings Ltd.	41	Heffernan Group	78	Bratrud Middleton Insurance Brokers Inc.
5	Wells Fargo & Co.	42	Rutherford Cos.	79	Lawley Service Inc.
6	Brown & Brown Inc.	43	Associated		
7	BB&T Insurance Services Inc.	44	Beecher		
8	Hilb Rogal & Hobbs Co.	45	James B. C		
9	USI Holdings Corp.	46	InterWest		
10	Lockton Cos. L.L.C.	47	Woodruff		
11	Wachovia Insurance Services Inc.	48	TD Bank		
12	Hub International Ltd.	49	Frenkel &		
13	Alliant Insurance Services Inc.	50	Wausau S		
14	ABD Insurance & Financial Services I	51	Trion Gro		
15	Leavitt Group	52	Mahoney		
16	Jardine Lloyd Thompson Group P.L.C.	53	Van Gilde		
17	Keenan & Associates	54	Cottingha		
18	CBIZ Benefits & Insurance Services Inc.	55	Barney &		
19	Frank Crystal & Co. Inc.	56	Integro U		
20	Bollinger Inc.	57	Marshall &		
21	Meadowbrook Insurance Group Inc.	58	Western S		
22	John L. Wortham & Son L.P.	59	First Niag		
23	Commerce Banc Insurance Service Inc.	60	Capacity		
24	Hylant Group	61	Horton G		
25	Hays Group Inc. dba Hays Cos.	62	Graham C		
26	Regions Insurance Group Inc.	63	William G		
27	J. Smith Lanier & Co.	64	Webster I		
28	Mesirow Insurance Services Inc.	65	Riggs, Co		
29	Holmes Murphy & Associates Inc.	66	DeWitt St		
30	NIA Group L.L.C.	67	Jenkins A		
31	UnionBanc Insurance Services Inc.	68	McQuear		
32	Tanenbaum-Harber Co. Inc.	69	ONB Insu		
33	Allied North America	70	Andreini		
34	Sky Insurance Inc.	71	Eastern Ins		
35	IMA Financial Group Inc.	72	Treiber Group L.L.C.		
36	Guaranty Insurance Services Inc.	73	Fringe Benefits Management Co.		
37	Compass Insurance Agency Inc.	74	Higginbotham & Associates Inc.		

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EXCELLENCE IN EVERYTHING WE TOUCHSM

Startups: Consolidation of larger brokers may help newer entrants

CONTINUED FROM PAGE 20

"We're focusing on our current strength before we start moving into new areas," Mr. Paddison said. "We really want to make sure we take care of getting our operations running smoothly and effectively with the folks we have. When you add the complications of mergers and acquisitions, you really take your eye off the business of running your own agency. We want to be hitting on all cylinders before we start throwing new projects in the mix."

Of course, finding suitable acquisitions is far from the only challenge facing the newer brokers.

Given the continuing soft market conditions, providing pain relief is a way to find new business, said Thomas Sharkey Jr., president of Cranford, N.J.-based Meeker Sharkey Associates.

Meeker Sharkey relaunched last year as an independent brokerage after Thomas Sharkey Sr. became dissatisfied with the direction Bank of America was taking its insurance subsidiary seven years after Summit Bancorp acquired Meeker Sharkey Financial Group. Bank of America later acquired Summit Bancorp.

"In a soft-pricing environment, brokers are staying very close to their current clients," said the younger

'Relationships don't move unless the client is feeling some sort of pain and the new broker can make that pain go away.'

Thomas Sharkey Jr.,
Meeker Sharkey Associates

Mr. Sharkey. "Clients that are informed tend to expect pricing decreases in this environment. I think their current brokers as well as

competing brokers are telling them that. Relationships don't move unless the client is feeling some sort of pain and the new broker can make that pain go away. The biggest challenge is finding clients who are experiencing pain that you can do something about."

Mr. Sharkey said Meeker Sharkey wrote an account "where we could save a client north of \$1 million by completely restructuring their program" by taking larger retentions and buying less insurance. "The client responded well to that and left a long-term relationship to join us," he said.

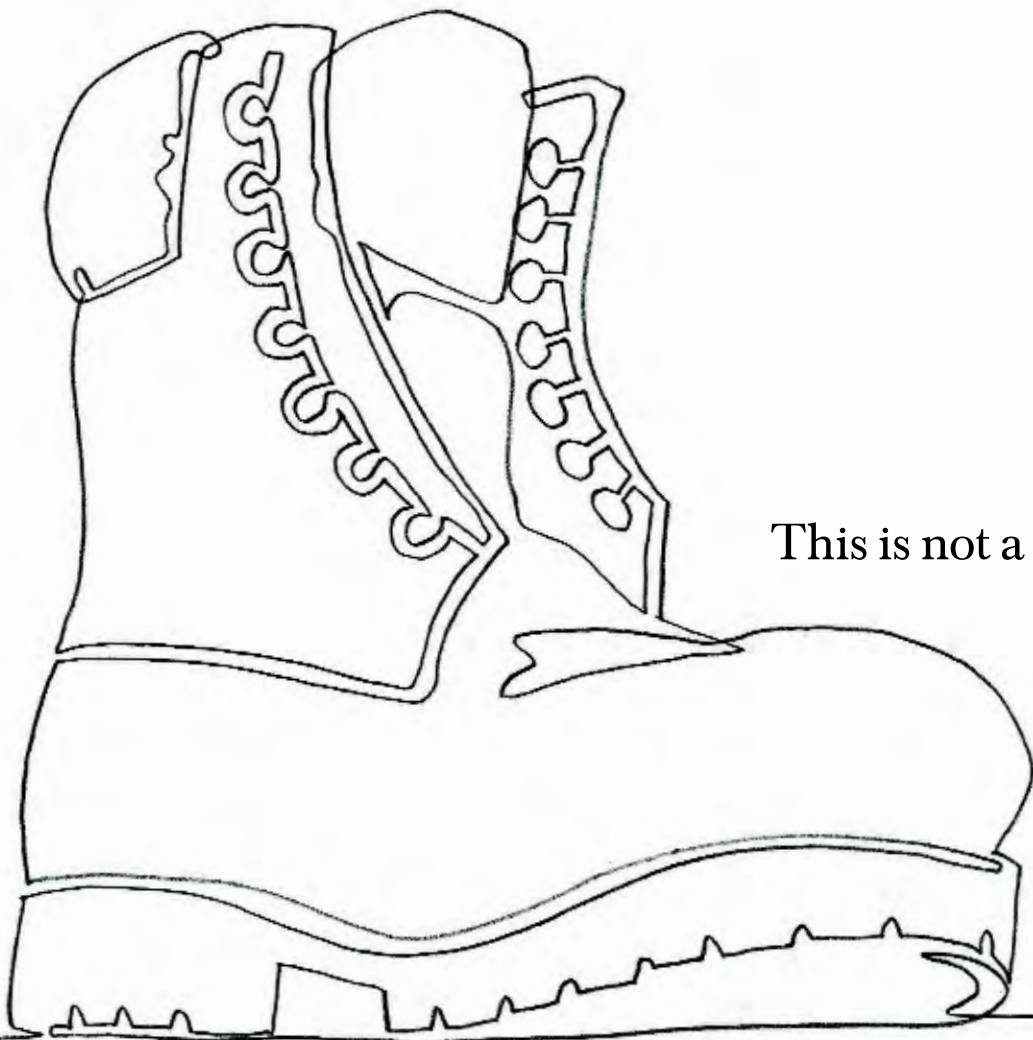
Newer brokerages have filled—

and will continue to fill—customer demands, one analyst pointed out.

"One of the aspects of the brokerage business is it's an industry which tends to consolidate," thus providing opportunities for new entrants, said John Wicher of John Wicher & Associates in San Francisco. "They're there because the insureds want them there. There's demand for their services and they usually bring something new to the table in terms of approach or mix of people. If there's one thing that's constant about the brokerage business, it is that there's always competition and there are few impediments" to entering the market other than talent.

One newer entrant said consolidation provides growth opportunities for new firms.

"When the big trees get taller, more room is available for the smaller trees to grow underneath," said Seacrest's Mr. Paddison.



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U.S. brokerages eye U.K.-style 'garden leave' for defectors

Employment pacts attempt to stem flow of talent and clients

By SALLY ROBERTS

As the talent wars within the brokerage industry go on, brokers are looking at a variety of techniques to restrict defecting producers' ability to leave and take clients and colleagues with them to competitors.

In one of the latest methods, brokers are looking at extending the notice period required of key employees before leaving the firm from the standard two weeks to 30, 60 or even 90 days of paid leave, some observers say.

In theory, such "garden leave" gives the incumbent firm time to solidify relationships with clients and get new account teams in place, in most cases without the interference of the departing producer, who is paid a full salary to sit on the sidelines and "tend to the garden" before joining a competitor.

The extended notice provisions

are being discussed as an additional protection in conjunction with standard nonsolicitation clauses, which restrict a defecting producer's ability to solicit clients and employees for a specific period of time, attorneys say.

Risk managers, who can get caught in the middle of defection disputes, take issue with such restrictive covenants, saying they should be the ones to decide with whom they want to do business. Others note, however, that the issue comes down to whether their relationship lies with the producer or the brokerage firm itself (see story, page 26).

While garden-leave provisions are widespread in the insurance industry in Europe, they have not gained

PARTING WAYS: 90-day garden leave unenforceable for at-will employee, a judge rules. **Page 25**
Breakups put risk managers in the middle. **Page 26**

as much popularity in the U.S. market, in part because garden leaves cost money and U.S.-based brokerages have been able to add restrictive covenants to various employment agreements at no cost and have had good success in getting courts to enforce the

agreements, observers say.

But garden-leave provisions are showing up in the U.S. financial services industry and insurance brokerage firms are beginning to inquire about them, attorneys say.

Not only are brokerages looking to gain additional protection against defecting producers, but enforcement of traditional restrictive covenants no longer is a sure thing, they note.

"Years ago, if you had a noncompete agreement and under normal circumstances if an employee left, you could go to court with a fair degree of certainty that (the) court

was going to enforce it," said David A. Bakst, chairman of the agency and brokerage division of Morrison Mahoney L.L.P. in Boston. "Today, you don't know if you have that at all. It is a real crapshoot as to whether a judge is going to enforce it."

"I'm finding, particularly here in Massachusetts, judges are bending over backwards to avoid enforcing these agreement at every turn," Mr. Bakst said. "But where you have a case where someone is getting full compensation for sitting at home

See **GARDEN LEAVE** page 25

A boot without laces. A policy without claims service. One without the other isn't much good. Which is why our claims teams are every bit as knowledgeable and resourceful as our underwriters. One example: following catastrophic floods that closed numerous sporting events, we were contacted by a racecourse client who feared having to pull the plug on a key two-day meet. We quickly hired a specialist loss adjuster to work with the racecourse in a bid to keep the racecourse open for business. Within days, the adjuster had found a solution, sourcing and shipping newly developed impermeable sheeting to save the turf from the forecast deluge. When the rains came, they collected on the sheeting with the excess blotted up, and the race meet went ahead.

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EMPLOYMENT PROVISIONS

Types of restrictive employment covenants within the insurance industry:

NONCOMPETE AGREEMENTS: An agreement prohibiting a departing producer from working for another firm in the insurance brokerage industry for a specified period of time, typically one to three years. Not prevalent due to enforceability issues in most jurisdictions.

NONSOLICITATION AGREEMENTS: An agreement restricting a departing producer's ability to solicit clients and employees for a specified period of time, typically one to three years. Nonsolicitation agreements, also known as nonpiracy agreements, are the most common form of restrictive covenant.

CLAWBACK AGREEMENT: An agreement whereby an employer gives a bonus or other financial benefit to a producer, typically in recognition of performance, but requires the producer to agree to return the bonus if he or she engages in certain conduct—similar to that described in noncompete or nonsolicitation agreements—after his or her employment terminates. Clawback agreements are being used but are not prevalent in the industry.

GARDEN-LEAVE PROVISION: An English legal doctrine in which an employer pays a departing producer to stay at home without performing any duties for a specified notice period, typically two to 12 months. During this time, the producer remains an employee and cannot work for a competitor. Garden-leave agreements are widespread in the U.K. insurance market.

EXTENDED NOTICE PROVISION: A garden leave-type provision requiring a departing producer to give a certain number of days' notice during which time the producer is paid his or her full salary and cannot join a new firm. Insurance brokers are beginning to examine extended-notice provisions.

beazley
Straight Answers

Supplemental pay from underwriters

Income percentage of compensation arrangements with insurers for the 100 largest brokers of U.S. business

Rank	Company	Supplemental compensation	Reporting method	Business type
1	Marsh & McLennan Cos. Inc.	0.0%	Does not accept	Broker
2	Aon Corp.	0.0%	Does not accept	Broker
3	Arthur J. Gallagher & Co.	1.0%	Automatically	Agent/Broker
4	Wells Fargo Insurance Services Inc.	4.8%	Automatically	Agent/Broker
5	Willis Group Holdings Ltd.	0.0%	Does not accept	Broker
6	BB&T Insurance Services Inc.	N/A	On request of client	Agent/Broker
7	Brown & Brown Inc.	6.0%	On request of client	Agent
8	Hilb Rogal & Hobbs Co.	1.2%	Automatically	Agent/Broker
9	USI Holdings Corp.	5.9%	Automatically	Broker
10	Lockton Cos. L.L.C.	2.5%	Automatically	Broker
11	Hub International Ltd.	10.0%	N/A	Broker
12	Wachovia Insurance Services Inc.	3.0%	Automatically	Broker
13	Alliant Insurance Services Inc.	N/A	On request of client	Broker
14	Leavitt Group	8.0%	On request of client	Agent
15	Jardine Lloyd Thompson Group P.L.C.	2.0%	N/A	Broker
16	CBIZ Benefits & Insurance Services Inc.	N/A	On request of client	Broker
17	Keenan & Associates	N/A	N/A	Agent/Broker
18	Frank Crystal & Co. Inc.	1.0%	On request of client	Broker
19	Bollinger Inc.	N/A	On request of client	Agent/Broker
20	Meadowbrook Insurance Group Inc.	1.5%	Does not disclose	Agent
21	Regions Insurance Group Inc.	4.0%	On request of client	Agent/Broker
22	John L. Wortham & Son L.P.	N/A	N/A	Agent
23	Hays Group Inc. dba Hays Cos.	4.0%	Automatically	Agent/Broker
24	J. Smith Lanier & Co.	N/A	N/A	Agent/Broker
25	Hylant Group	N/A	N/A	Agent/Broker
26	Tanenbaum-Harber Co. Holdings Inc.	5.3%	On request of client	Broker
27	Mesirow Insurance Services Inc.	N/A	N/A	Broker
28	Holmes Murphy & Associates Inc.	N/A	Automatically	Agent/Broker
29	Allied North America	2.0%	On request of client	Broker
30	Neace Lukens Holding Co.	8.4%	On request of client	Agent
31	Conner Strong Cos. Inc.	N/A	N/A	Agent/Broker
32	Insurance Office of America Inc.	N/A	On request of client	Agent
33	NIA Group L.L.C.	N/A	N/A	Broker
34	BancorpSouth Insurance Services Inc.	6.2%	On request of client	Agent
35	IMA Financial Group Inc.	9.0%	Automatically	Agent/Broker
36	Beecher Carlson Holdings Inc.	3.0%	Automatically	Broker
37	Heffernan Group	N/A	Does not disclose	Broker
38	Rutherford Cos.	8.9%	Automatically	Agent/Broker
39	Guaranty Insurance Services Inc.	6.0%	Automatically	Agent
40	Huntington Insurance Inc. dba Sky Insurance Inc.	5.0%	Automatically	Agent/Broker
41	Trion Group Inc. dba Trion	N/A	N/A	Agent/Broker
42	James B. Oswald Co. dba Oswald Cos.	9.0%	On request of client	Agent/Broker
43	Compass Insurance Agency Inc.	7.5%	Does not disclose	Agent
44	Woodruff-Sawyer & Co.	2.0%	On request of client	Broker
45	Associated Financial Group L.L.C.	8.3%	On request of client	Agent
46	InterWest Insurance Services Inc.	10.0%	Automatically	Broker
47	Frenkel & Co. Inc.	5.5%	Automatically	Broker
48	Barney & Barney L.L.C.	N/A	N/A	Broker
49	Integro USA Inc.	0.0%	Does not accept	Broker
50	Western States Insurance	13.0%	On request of client	Agent

Rank	Company	Supplemental compensation	Reporting method	Business type
51	Cottingham & Butler Inc.	5.0%	Automatically	Agent/Broker
52	Wausau Signature Agency	4.5%	On request of client	Agent
53	Marshall & Sterling Enterprises Inc.	11.2%	On request of client	Agent/Broker
54	Mahoney Group	14.5%	On request of client	Agent
55	TD Banknorth Insurance Agency Inc.	N/A	On request of client	Agent
56	Capacity Group of Cos.	4.0%	On request of client	Agent/Broker
57	Van Gilder Insurance Corp.	9.5%	N/A	Agent/Broker
58	First Niagara Risk Management Inc.	11.0%	On request of client	Agent
59	William Gallagher Associates Insurance Brokers Inc.	N/A	N/A	Agent/Broker
60	Horton Group Inc.	6.0%	On request of client	Broker
61	Graham Co.	4.8%	Automatically	Agent/Broker
62	DeWitt Stern Group Inc.	N/A	Automatically	Agent/Broker
63	Eastern Insurance Group L.L.C.	18.0%	Automatically	Agent
64	Riggs, Counselman, Michaels & Downes Inc.	N/A	On request of client	Agent/Broker
65	Kinloch Holdings Inc.	2.0%	On request of client	Agent/Broker
66	Jenkins Insurance Group	2.5%	Automatically	Broker
67	McQueary Henry Bowles Troy L.L.P.	8.6%	On request of client	Agent
68	Higginbotham & Associates Inc.	N/A	Automatically	Agent
69	North American Insurance Agency Inc. dba North American Group	4.0%	Automatically	Agent/Broker
70	Andreini & Co.	N/A	N/A	Agent/Broker
71	Bowen, Miclette & Britt Inc.	N/A	Does not disclose	Agent
72	Lawley Service Inc	12.3%	On request of client	Agent
73	ONB Insurance Group	4.0%	Automatically	N/A
74	Assurance Agency Ltd.	N/A	Automatically	Broker
75	Roger Bouchard Insurance Inc.	8.3%	On request of client	Agent
76	Propel Insurance	N/A	Does not disclose	Broker
77	Scott Insurance	7.1%	Automatically	Agent
78	Fred A. Moreton & Co.	N/A	On request of client	Broker
79	Fringe Benefits Management Co.	N/A	N/A	Agent/Broker
80	Loomis Co.	N/A	N/A	Agent/Broker
81	Frost Insurance Agency Inc.	12.0%	On request of client	Agent
82	TrueNorth Cos.	N/A	N/A	Agent
83	Payne Financial Group Inc.	N/A	N/A	Agent
84	Seitlin	6.2%	Does not disclose	Agent
85	Dawson Cos.	8.5%	On request of client	Agent
86	Parker, Smith & Feek Inc.	11.0%	Does not disclose	Broker
87	Cobbs, Allen & Hall Inc.	3.7%	On request of client	Agent/Broker
88	Lovitt & Touche Inc.	N/A	On request of client	Agent/Broker
89	SilverStone Group Inc.	N/A	On request of client	Agent/Broker
90	Starkweather & Shepley Insurance Brokerage Inc.	14.0%	On request of client	Agent/Broker
91	Haylor, Freyer & Coon Inc.	N/A	N/A	Agent/Broker
92	R.C. Knox & Co. Inc.	N/A	Automatically	Agent
93	Robertson Ryan & Associates Inc.	N/A	On request of client	Agent
94	Risk Strategies Co.	N/A	On request of client	Broker
95	Daniel & Henry Co.	10.1%	Automatically	Broker
96	J. Rolfe Davis Insurance	8.0%	Does not disclose	Broker
97	RJF Agencies Inc.	N/A	Automatically	Agent
98	Schiff, Kreidler-Shell Inc.	15.0%	On request of client	Agent
99	PSA Financial Center & Affiliates	9.8%	On request of client	Agent/Broker
100	Bolton & Co. Insurance Brokers	N/A	Automatically	Agent/Broker

Source: BI survey Supplemental compensation includes contingent and other forms of incentive income paid by underwriters. N/A = Not reported to *Business Insurance*.

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Garden leave: U.K.-style pact gains favor

CONTINUED FROM PAGE 23

doing nothing, it's a whole different story. It's a different type of contract; you're getting paid."

Indeed, legal experts say garden-leave clauses are more apt to be enforced than other restrictive covenants, such as noncompetes, because the undue harm often alleged by the producer defendant in an ensuing lawsuit is eliminated.

"Courts generally disfavor noncompetes and one of the ways (to make them more enforceable) if you are an employer seeking to stop someone from working for a competitor for some period of time is to show that the employee would not be unreasonably harmed," said Debra S. Friedman, a labor attorney with Cozen O'Connor P.C. in Philadelphia. "If you can say, 'Look, he's not suffering a loss in pay—he's essentially on an extended vacation—it can look more reasonable and make it harder for the employee to show harm,'" Ms. Friedman said.

Enforcement is not a sure thing, though, Ms. Friedman said. "There are other grounds that a court could use to refuse enforcement."

In one of the more recent rulings involving an alleged breach of a 90-day notice period by a former Bear Stearns & Co. employee, a Massachusetts federal court judge said such a notice period was not enforceable because the former employee was an at-will employee being forced to work against his will (see related story).

Despite the ruling, attorneys still say garden-leave clauses hold a better chance of enforceability than other restrictive covenants.

"Even with garden-leave clauses, a company will lose some cases, but I continue to believe that their odds of winning will be higher if they can say they'll be paying the employee while he's on the sideline than they will if they want to put him on the sideline without pay," said Christopher P. Stief, managing partner of Fisher & Phillips L.L.P.'s employee defection and trade secrets practice group in Radnor, Pa.

"I think they're going to be enforceable because it's a matter of

contract. It's as clear as day: 'You need to give me this notice and during this notice period I'm going to pay you,'" said Gary B. Eidelman, a labor attorney with Saul Ewing L.L.P. in Baltimore.

While the court in Massachusetts was unwilling to say "for that notice period you have to sit on the sidelines, I think there are other courts around the nation that will say: 'You have a contractual obligation and monetary damages are not sufficient because this was a bargained-for exchange,'" Mr. Eidelman said.

Monica Latin, a partner with Carlington, Coleman, Sloman & Blumenthal L.L.P. in Dallas, said there is a rational basis for insurance brokers to require extended notice, which may be more persuasive to

'It is a real crapshoot as to whether a judge is going to enforce' a noncompete agreement.

David A. Bakst,
Morrison Mahoney L.L.P.

judges than arguments for enforcing traditional noncompete agreements.

"With an ordinary noncompete that might last for a year or more, you're saying, 'Please don't hurt me for a period of time.' Here, you can make the argument that 'I need you to give me 60 to 90 days' lead time so that I can work with you to transition your relationships and projects to a new person or team to make sure we have stability before you walk out the door,'" she said.

"That's a different argument than you make in the noncompete context, one that applies whether the employee is joining a competitor or not, and it may have independent persuasion with a judge as to why a short fuse garden-leave provision is a good idea," Ms. Latin said.

While such notice provisions may increase a brokerage's odds of enforcement and give the company time to solidify client relationships,

there is a cost involved with such provisions that needs to be considered, attorneys say.

One of the reasons why garden-leave clauses may not be used frequently in the United States is that "there is absolutely a hard cost involved because you're agreeing to pay someone who is no longer providing you any services in exchange for them staying out of the marketplace," Ms. Friedman said.

Brokerages have to weigh whether "buying 90 days of protection" is worth it, Mr. Eidelman said. If a particular producer earns \$400,000 to \$500,000 a year, "that's an expensive proposition," he said. But if that same producer controls a book of business worth \$10 million, it might be worth it.

Chicago-based Aon Corp., for one, has not considered extended notice provisions for its producers, said Ted Devine, president of Aon Risk Services in Chicago. "Individual producers are going to leave different firms," he said. Aon has different provisions in producers' contracts depending on regulations in different states, but "if somebody wants to leave, they're going to leave."

Neil C. Krauter, chairman and chief executive officer of New York-based broker the Krauter Group, for one, would like to see all restrictive covenants abolished.

"So many brokerage firms profess to care about their clients and how they strive to put the client's interest first, and yet when a client wants to follow someone to another firm, they take legal action to prevent the client from doing what they have every right to do," Mr. Krauter said. "I have never understood the wisdom of keeping an employee who is unhappy by trying to intimidate them."

"If brokerage firms spend the same money, energy and management focus on making employees want to work for them as they do trying to keep them legally tied, the entire industry would be better off," Mr. Krauter said.

Other brokers contacted by *Business Insurance* declined to comment.

Rodd Zolkos also contributed to this story.

Court: Garden-leave contract unenforceable

Although case law is still developing in the United States, a federal judge in Massachusetts ruled recently that a 90-day garden-leave provision was not enforceable.

The case involved Douglas A. Sharon, a former managing director and broker of Bear Stearns & Co. Inc. in Boston, who in December 2005 agreed to a 90-day notice requirement as part of the terms of his employment in exchange for a \$50,000 increase in his annual base salary.

In March, Mr. Sharon resigned from Bear Stearns and began working for competitor Morgan

Stanley & Co. Inc. the next day.

Bear Stearns immediately filed a motion for a temporary restraining order alleging that Mr. Sharon breached his employment agreement, misappropriated Bear Stearns' confidential information, and solicited his colleagues and clients to follow him to Morgan Stanley. Most, if not all, of Mr. Sharon's clients transferred their accounts to Morgan Stanley, court papers say.

Judge Nathaniel M. Gorton, of the U.S. District Court in Massachusetts, granted Bear Stearns the temporary restraining order initially, but the judge in April

denied the company's motion to convert the order into a preliminary injunction. The judge ruled that any harm caused by Mr. Sharon's departure could be adequately compensated by monetary damages rather than injunctive relief.

In regards to the 90-day notice period specifically, while Judge Gorton ruled that the contract was valid, he also said it was unenforceable "because the effect of specific performance in this case would be to require the defendant to continue an at-will employment relationship against his will."

—By Sally Roberts

Questions Answers

As M&As have resulted in larger insurance brokerages with wide-ranging capabilities, Bob Dubraski went the opposite direction three years ago in forming a small boutique focused solely on health care. Mr. Dubraski, president and CEO, formed New York- and Rancho Santa Fe, Calif.-based Dubraski & Associates Insurance Services L.L.C. after leaving Aon Corp., which acquired his previous firm. In an interview, he discussed the advantages to buyers of working with a boutique.



Big plans for small firm

Q: What distinguishes Dubraski & Associates from other brokers?

There are three distinct features that make us unique. We are a firm that specializes in the health care industry on a national basis, across all lines, and we make no distinction between property/casualty and benefits. It seems to have gotten the attention of our clients that we don't have any conflicts of interest or anything that would prevent us from making an unbiased recommendation. By that I mean we don't have ownership or financial ties to captive managers, managing general agents, etc. It puts us in a position to do our best for our clients without any roadblocks getting in the way. And the fact that we're independent, privately held, with no debt gives us an advantage.

Q: What led Dubraski & Associates to become a national boutique?

We came to the conclusion that a boutique might be a better solution and that we could really create a boutique brokerage and consulting company that would deliver real value and be a true alternative to the traditional broker and consultant. We could build something that would be the best, not the biggest, that we could build a firm that would really and truly create a working partnership between the underwriting community and the clients. We could actually have a platform that would attract the best and brightest brokers and consultants in the business. At the end of the day, that sounded like a company that would be a lot of fun to build, something we could be proud of, something that would deliver real value and perhaps fill the gap in the industry that a health care client didn't have a choice to go to.

Q: What are the advantages of a boutique for risk managers?

It's important to note that we've done this by design. By design, we have not tried to be all things to all people. We allow our clients to pick and choose the best resources available, regardless of where they come from, and then collaborate with that team and all third par-

ties for the benefit of the client. We thought that was a different, unique approach. Something that clients would really appreciate, that they could pick and choose the best experts for every aspect of their business. If we believe in specialization, I just felt there were areas we shouldn't be involved with so the client could assemble the best experts in all areas of their business and not have anything that would prevent the client from making whatever choices they want to make. Some people would say that's a weakness, but I would say it's actually a distinct benefit. I don't think any one firm out there has the best resources in each and every area of the business.

Q: How does the culture at Dubraski & Associates differ from other brokers?

We're a real team, and we're very much a family. Everybody works hard, but everybody plays hard. The firm has done a great job of encouraging people to have a real balance between their professional

life and their personal life. We mandate that people take their vacations. There are no egos in this company. We don't have a lot of titles. We don't have a lot of hierarchy. It's created an environment where everybody is equally important, and everybody has a defined career path. We don't value salespeople any more than we value service people or internal operations people. None of those folks can do their job without the other, so they're equally important.

Our people really care about their clients and our company. They consistently give their best and always do whatever's required without having to be asked. It's wonderful to see the team environment and people help each other, and at the same time people take vacations and spend time with their families and not have this consume their lives, as it does with some jobs. Probably the most important thing is, we really want this to be their last job. We hope that people join here and never go to work somewhere else. That's the sort of commitment that we're trying to make to each other.

THE FULL TEXT of this abridged BI interview is at www.BusinessInsurance.com/QandA.

LARGEST U.S. BENEFIT SPECIALISTS

Brokers deriving more than 50% of 2007 gross revenues from benefit business*

Company	Revenues from benefits	% of gross revenues
CBIZ Benefits & Insurance Services Inc.	\$89,847,000	52.2%
Trion Group Inc. dba Trion	62,600,000	100.0%
Fringe Benefits Management Co.	32,941,652	100.0%
Associated Financial Group L.L.C.	29,869,745	55.0%
SilverStone Group Inc.	18,389,000	60.1%
Loomis Co.	17,320,000	50.2%
Thesco Benefits L.L.C.	15,398,103	97.2%
Stanton Group L.L.C.	13,081,000	60.0%
McGraw Wentworth	10,806,000	99.4%
Crawford Advisors L.L.C.	9,400,000	100.0%

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

Risk managers caught in the middle when producer, brokerage part ways

Personal relationships often trump the company placing the coverage

By SALLY ROBERTS

Although risk managers are not party to the employment contract between a producer and an insurance brokerage, if that contract contains a restrictive covenant and it is breached by a defecting producer, it is the risk manager who often gets caught in the middle.

While risk managers say they understand the reasons why broker-

ages require restrictive covenants—be it noncompete agreements, non-solicitation agreements or extended notice provisions—they want to be the ones to make the decision with whom they conduct business and not be restricted from communicating with their producers.

Other risk managers say disruption due to a defecting producer is alleviated to a large extent if the relationship between the risk man-

ager and broker is viewed as one with the brokerage firm itself and not the individual producer.

Wayne L. Salen, director of risk management at Labor Finders International Inc. in Palm Beach Gardens, Fla., for one, says he doesn't get disrupted when a producer on his account leaves.

"I've made it a point over the last 10 to 15 years anyway to isolate my allegiance...and focus of service specifications and guidelines onto the actual entity as opposed to the individual," he said.

"While I certainly appreciate people who've done good work for me, they always know and recognize that if they decide to leave because they got a better opportunity elsewhere...I would not move with them. I never have," Mr. Salen said, noting that there are some producers he's gone back to later.

When it comes to restrictive covenants, "I think risk managers have to be very careful to separate their business relationships with their brokerages from their broker," said Scott B. Clark, risk and benefits officer of Miami Dade County Public Schools.

While an individual broker's technical acumen is "obviously something we as risk managers rely upon...I think the real contract...and the money that gets paid to the brokerage is based upon the deliverables and the resources that the brokerage firm in and of itself provides," Mr. Clark said.

Not every risk manager feels the same way, however.

"I understand the intent of non-compete agreements and think it is fair that the departing broker should be required to give the firm an opportunity to maintain the business, but ultimately I believe it should be the risk manager's role to decide with whom he or she wants to work," said Jennifer L. Santiago, risk manager of Ingersoll-Rand Co. Ltd. in Piscataway, N.J.

"I believe the connection is often with your account team and not, per se, the firm, and when you have spent time cultivating a relationship and reaping the benefits, it is so difficult to be forced to change teams," Ms. Santiago said.

"As a risk manager, one of the most important parts of my job is to put together the best brokerage team that I can," said P. Jeffrey Hoke, global risk manager for Teradata Corp., a Miamisburg, Ohio-based enterprise data warehousing company. "I do favor a free market environment—free from restrictions of whom I can do business with, and that's basically what these things do, put restrictions around that."

Mr. Hoke said that whom he chooses to be part of his brokerage team is based on the individual's technical experience, responsiveness to his company's service needs, market leverage and trust.

"Those factors are more important to me than...the firm that they represent," Mr. Hoke said.

Awesome!

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Chilly economy cools some banks' interest in intermediaries

Some financial institutions hit integration, cross-selling roadblocks; others tap clear internal message to smooth the ride

By KRISTIN GUNDERSON HUNT

When Congress passed legislation in 1999 lowering the barriers that kept the banking, insurance and securities industries separate, banks seized the opportunity to diversify their operations by acquiring insurance agencies at a feverish pace.

But today, rather than acquiring insurance intermediaries, banks are more apt to look the other way or divest their insurance operations.

Experts say that as a result of the soft insurance market and overall

tight economy, banks are re-evaluating their core products and services and reconsidering where they should be investing their capital.

Not only are they finding their insurance operations to be noncore assets, they also are finding many cultural issues that have made cross-selling and integration difficult, experts say.

But not all banks are looking to jettison their existing insurance operations. Some co-exist successfully.

Because so many deals go unan-

nounced, it's hard to quantify the actual number of bank/agency deals taking place today, experts say.

According to an analysis by Marsh, Berry & Co. Inc. and SNL Financial, the percentage of all publicly announced insurance agency deals where a bank was the acquirer dropped from 39.4% in 2000 to 22.4% in 2007.

Banks aren't just passing up acquisitions, though. Many have begun divesting their insurance services.

Most recently, Glen Allen, Va.-

based Hilb Rogal & Hobbs Co. acquired Banc of America Corporate Insurance Agency L.L.C. in 2007 from Bank of America Corp. and Raleigh, N.C.-based BB&T Insurance Services Inc. acquired the insurance operations of Union Bank of California earlier this year.

And in one of the larger deals to take place recently, Redwood, Calif.-based broker ABD Insurance & Financial Services Inc. became part of Chicago-based Wells Fargo Insurance Services Inc. through the \$1.5 billion merger of parent banks

Wells Fargo and Greater Bay Bancorp.

Prior to that October 2007 acquisition, however, it was widely speculated that Greater Bay was seeking to divest ABD, which it acquired in 2002 for \$200 million.

Experts say in some cases, market forces are causing banks to invest in their core business rather than chance putting money toward insurance services considering the difficult rate of return.

"Insurance was never treated as a core product or service anyway, so they're getting rid of it," said Patrick Linnert, executive vp of Marsh, Berry in Willoughby, Ohio.

H. Wade Reece, chairman and president of BB&T Insurance Services, said it's important for brokers to continually have scale and to be able to spread fixed costs so they can raise their productivity and increase their profit margin. That takes capital to invest and a commitment by the bank or parent company to want to grow that line of business out.

'Should we be in this line of business? For a lot of banks, the answer has been coming back "No."

H. Wade Reece,
BB&T Insurance Services

"But in today's environment," Mr. Reece said, "where capital is so precious, it forces the questions (on banks): Should we be in this line of business? Can I invest in this business and do all the things we need to do to grow this business out and be successful? For a lot of banks, the answer has been coming back 'No.'"

In addition to market forces, cultural differences between the two operations have also thwarted some banks from succeeding in the insurance market, Mr. Linnert said.

Whereas banks excel at mass marketing, controlling expenses and business planning, insurance firms take a more personalized, custom approach to service because they are in a relationship-based business, he said. Their structures are not as formal or rigid, and they don't have the same controls a bank would.

While those banks that were committed to cross-selling and integrating insurance products and services into their cultures—and really believed those products and services were at the core of their business—have forged ahead in the market, though all have not succeeded, said Rob Lieblein, managing partner of Hales & Co. in Harrisburg, Pa.

"For some, it didn't mix well," he said. "They were unable to cross-sell and integrate."

One insurance brokerage with a bank parent that appears to have made it work is Wells Fargo Insur-

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Continued on next page

Soft prices, tough economy and privatization slow acquisitions

Ruling on contingents seen having marginal overall market effect

By KRISTIN GUNDERSON HUNT

Just as banks are less interested in buying insurance brokers, mergers and acquisitions between brokerages have become less frequent, experts said.

And, with some notable exceptions, that's not likely to change in the near future, they say.

With several public brokers going private over the past few years, there is less pressure on those firms to grow their books through acquisitions, said John Wicher, principal at John Wicher & Associates Inc. in San Francisco.

"In a flat market, some of the buyers are not going to be as active," Mr. Wicher said.

Patrick Linnert, executive vp at Marsh, Berry & Co. Inc. in Willoughby, Ohio, said for the near future there will be fewer acquisitions. He said the current market appears to have fewer buyers, more sellers, and agencies that are not performing as well or are not as profitable. He also said the wide gap in pricing expectations between buyers and sellers is keeping acquisitions from going through.

While mergers and acquisitions among smaller and midsize brokers might be flat or rising slightly, circumstances are different for the

world's three largest brokers, said David Bakst, a partner at the Boston law firm Morrison Mahoney L.L.P.

"Mergers and acquisitions may pick up for these companies, but not the industry," Mr. Bakst said.

In June, New York officials allowed Aon Corp., Willis Group Holdings Ltd. and Marsh Inc. to col-

lect contingent commissions from insurers for up to three years via businesses that the brokerages acquire. The brokerages had been prohibited from taking insurer-paid incentives since 2005.

Mr. Wicher said the ruling was not "earthshaking" and likely will make the market only marginally more competitive. Still, the ruling

had an immediate impact: Shortly after the change, Willis said it had reached an agreement to purchase Hilb Rogal & Hobbs Co. for \$2.1 billion. At the time, Willis said the deal would not have gone through without the concession on contingents.

"It's a specific benefit to those who were otherwise disadvan-

taged," Mr. Wicher said.

Broker-to-broker activity will pick up eventually because it is difficult for insurance agencies to grow organically, Mr. Bakst said.

"Insurance companies for some time have been unhappy with agencies not increasing their volume," and increased size often results in increased profits, Mr. Bakst said.

CONTINUED FROM PREVIOUS PAGE

ance Services, the world's fifth largest broker in *Business Insurance's* 2008 ranking.

San Francisco-based banking giant Wells Fargo acquired Acordia Inc. in 2001 in the largest bank/agency transaction to date.

Executives say cross-selling is critical to its success.

In order for cross-selling to be effective, insurance brokers have to sell bankers on the products first, who in turn direct their customers who might be interested in insurance back to the brokers, explained Scott Isaacson, executive vp of WFIS in Chicago. Both the bankers and the brokers must have a fundamental understanding of one another's functions and products in order to recognize how the needs of their clients might be further met and then sell them on those offerings, he said.

At the same time, they also have to trust one another to overcome any fears that their clients will be run off by shoddy products or unprofessional colleagues, Mr. Isaacson said. "No one wants to ruin that (client) relationship."

Successful integration between a bank and an insurance agency takes effort, which might be why some banks are getting out of the business, he said.

"It is hard work and I think people maybe get frustrated with the process," Mr. Isaacson said.



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SNL Financial M&A Adviser Rankings *Insurance Merger & Acquisition Deals 1999-2007*

Rank	Firm	# of Deals
1	Marsh, Berry & Company, Inc.	217
2	Reagan Consulting Inc.	96
3	Hales & Co. Inc.	87
4	Goldman Sachs & Co.	78
5	Fox-Pitt Kelton Cochran Caronia Waller	77
6	Mystic Capital Advisors Group LLC	70
7	Credit Suisse (USA) Inc.	53
8	Merrill Lynch & Co. Inc.	51
9	Philo Smith & Co.	40
10	Morgan Stanley	37
11	Keefe Bruyette & Woods Inc.	36
12	Citigroup Global Markets Inc.	33
13	Banc of America Securities LLC	32
13	J.P. Morgan Securities Inc.	32
15	Merger & Acquisition Services Inc.	30
16	Lazard Freres & Co. LLC	23
17	UBS Investment Bank	20
18	Bear Stearns & Co. Inc.	18
18	Lehman Brothers Inc.	18
20	Harbor Capital Advisors Inc.	14
20	Sandler O'Neill & Partners L.P.	14
22	Sica Consultants Inc.	13
23	North Bridge Advisors Inc.	12
23	Prisco Consulting Inc.	12
25	Wachovia Securities LLC	11
26	Curtis Financial Group LLC	9
26	Houlihan Lokey Howard & Zukin Inc.	9
28	Gill and Roeser Holdings Inc.	8
28	Raymond James & Associates Inc.	8
30	Nexus Group Inc.	7

*All States - Completed/Pending/Term Transactions
Whole and Asset deals as reported by SNL Financial, April 2008*

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- 537 total transactions closed
- Ranked #1 by SNL for the past 9 years




TOP BROKERS 2008


RANK
1



Brian Duperreault,
president/CEO

MARSH & McLENNAN COS. INC.

2007 GROSS REVENUES  7.3%
\$11,633,000,000

2007 BROKERAGE REVENUES  7.7%
\$11,281,000,000

prompted the board to make key leadership changes.

In December, MMC named Daniel S. Glaser as Marsh's new chairman and chief executive officer. Mr. Glaser, a former London-based American International Group Inc. executive who previously held posts at Marsh Inc. and Willis Group Holdings Ltd., succeeded Brian Storms, who was fired in September after his initiatives to revive the brokerage failed.

In January, former ACE Ltd. Chairman and CEO Brian Duperreault was named president and CEO of parent MMC. He replaced Michael G. Cherkasky, who successfully brokered MMC's \$850 million bid-rigging settlement with New York authorities in early 2005 but was unable subsequently to return the firm to prosperity.

MMC has yet to fully recover from that settlement in which it agreed to cease collecting hundreds of millions of dollars a year in contingent commissions. In addition to lackluster results and a stock price about half of that before the 2004 charges, MMC also has dealt with morale issues, numerous management changes, employee defections and client losses.

Mr. Duperreault said he believes he has "calmed the waters" and gotten people to feel positive about the organization again.

"I do think there's a different mood here today," he said.

At the same time, he also has tak-

en steps to fix some of the underperforming parts of MMC—namely reinsurance brokerage unit Guy Carpenter & Co. L.L.C. and risk consulting and technology unit Kroll Inc.

In May, he announced MMC would lay off more than 300 Guy Carpenter employees—more than 10% of the unit's workforce—after a 6.5% drop in first-quarter revenues to \$273.0 million, which executives blamed on the soft market, higher



'There are a lot of strengths' at Marsh.

Daniel S. Glaser,
Marsh Inc.

retentions and a decline in new business. That move followed the February announcement that Peter Zaffino would succeed David Spiller as CEO of the reinsurance unit.

The following month, Mr. Duperreault named Ben Allen president and CEO of Kroll to replace Simon V. Freakley, who became CEO of the newly formed MMC corporate advisory and restructuring unit that was separated from Kroll. Mr. Duperreault also said he is seeking to divest Kroll's mortgage lending

and government services businesses.

Whether MMC divests the rest of Kroll—which shareholders have clamored for in the past—or is able to integrate the business with other MMC operating units remains to be seen. Mr. Duperreault said Kroll needs to be better run and operated before he can determine any synergies.

In terms of MMC's largest operating unit and the most heavily damaged by the bid-rigging scandal, Marsh's turnaround is all about increasing revenue and reducing expenses, executives say.

"When I look at Marsh as an organization, I do not find it to be a broken organization at all," said Mr. Glaser, who most recently was managing director of AIG Europe (U.K.) Ltd. and regional president of American International Underwriters' U.K./Ireland division. "There are a lot of strengths. The issue is margins were not good enough and we did not make enough money. If you don't make enough money, you have to grow revenues and reduce expenses."

Although Mr. Glaser declined to give any timetable for a turnaround, he said plans are being implemented. In what he called "the first wave," Mr. Glaser estab-

lished his own management team and reorganized the brokerage's global structure to include a new international division. He streamlined reporting structures and established better profit-and-loss accountability with managers. He's also made clear Marsh's vision of being the best broker and said everything Marsh does during the next few years will focus on clients, colleagues and improving Marsh's financial performance.

Mr. Glaser said he's now in the early stages of the "second wave," dealing with organizational realignment, placement hubs and expense reductions.

Last month, Marsh announced the formation of Bowring Marsh as its new specialty international placement broker for property/casualty risks. The division, with teams in Bermuda; Dublin, Ireland; London; Miami; Singapore; and Zurich, Switzerland, will better enable Marsh to access capacity and negotiate face-to-face with underwriters to get the best terms and conditions for clients, Marsh said. The name comes from Marsh's 1980 acquisition of international broker C.T. Bowring & Co., giving it access to Lloyd's and a platform for its subsequent global expansion.

In the United States, Mr. Glaser said he is in the process of establishing hubs to centralize the placement process for clients by line of

Continued on next page

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business. In addition to better segmenting its accounts, Mr. Glaser said he will continue to focus on reducing expenses, including general corporate expense management; looking for ways to better use technology; spending less on advertising; and making smart decisions on real estate as leases come up.

While new-business development at Marsh "is very strong," the "real issue" is the soft pricing environment, which continues to put pressure on revenue growth, Mr. Glaser said. In response, Marsh has started an account-by-account review of its large-account business to make sure the firm is adequately paid.

Marsh also is looking to "enhanced commissions" paid by insurers to add "slight to moderate revenue growth," Mr. Glaser said. The initiative announced late last year will likely be folded into its placement hub strategy and middle-market business, he said.

But given the continued soft P/C pricing environment, the only way MMC is going to make a real impact on reducing expenses and expanding margins is through a major restructuring that includes large layoffs, said Mark Lane, a research analyst with William Blair & Co. in Chicago.

"I can't see them getting close to Aon's margins within the next 12 months without a major restructuring," Mr. Lane said, referring to

Marsh's main competitor, Chicago-based Aon Corp. MMC's first-quarter adjusted operating margin was 17.9% in its risk and insurance brokerage segment vs. 19.5% for Aon's comparable segment, Mr. Lane said. The first quarter historically is MMC's strongest, while Aon's is the fourth quarter, he said.

Mr. Glaser would not comment on any specifics of a major restructuring effort at Marsh, but noted some "mild rifts" with colleagues in the first half of this year.

Executives said 150 positions within Marsh were eliminated in the first quarter and that further reductions are likely.

Margin improvement, "particularly in a market environment of only modest revenue growth, has to

come from the expenses," Mr. Glaser said. "Over the course of

'I do think there is a different mood here today.'

Brian Duperreault,
Marsh & McLennan Cos. Inc.

2008, our run-rate expenses will reduce."

Reacting to the moves, Meyer Shields, an analyst with Stifel, Nicolaus & Co. Inc. in Baltimore, said he's optimistic about Marsh's future. "As difficult as this business

is in generating revenue growth and expanding margins to normalized levels, there's no reason in the world why a unit like Marsh U.S. should be losing money," Mr. Shields said.

"Now that we've got a competent and trustworthy management team in place...I don't see that as an insurmountable challenge" to fix. "There are plenty of reasons to be optimistic that they will get it done," Mr. Shields said.

Executives said Marsh is indeed showing signs of recovery.

This year's first quarter "was the best quarter we've had from an earnings standpoint since the third quarter of 2004," Mr. Glaser said. Although MMC does not break out earnings or margins for Marsh

specifically, executives said Marsh's margins improved 350 basis points in the quarter from the same period last year.

At the same time, Marsh cut \$125 million in expenses and increased revenues by 7% in the quarter to \$1.2 billion, buoyed in large part by its international operations.

Marsh generated \$228 million in new business in the quarter, on top of the \$900 million of new business won in 2007. "We're winning in the marketplace, which says something about the firm," Mr. Glaser said.

"Marsh is coming back," he said. At the close July 11, MMC stock was \$28.49 per share, closer to its 52-week high of \$31.46 than its 52-week low of \$23.13.

—By Sally Roberts

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TOP BROKERS 2008

RANK
2



Gregory Case,
president/CEO

AON CORP.

2007 GROSS REVENUES \$7,471,000,000 **↑ 8.6%**

2007 BROKERAGE REVENUES \$7,096,000,000 **↑ 7.7%**

Aon Corp.'s recent consistent performance is helping it attract top talent and meet the brokerage's goal of better serving its customers, a top executive says.

Over the past year, the Chicago-based brokerage has made several key appointments and is still targeting talent while the industry continues to adjust to the post-Spitzer environment and the soft property/casualty market.

Aon itself, though, will be losing a key executive next month when its founder, Patrick G. Ryan, retires.

Aon has outperformed many other publicly held brokerages over the past year in terms of its financial results, and that has helped the brokerage attract new employees, according to Aon executives and observers.

"Consistent performance is very important to us and in the last 11 quarters we've been able to post consistent organic growth, despite the soft market," said Ted T. Devine, president of Aon Risk Services and executive vp of Aon Corp.

"We continue to be in growth mode," Mr. Devine said. "This, for us, is about building what we hope is the best professional services firm."

As part of that effort, Aon earlier this year consolidated its worldwide retail brokerage operations into the single Aon Risk Services unit that Mr. Devine leads with Steve McGill, CEO of the unit. The move, bringing approximately 26,000 Aon employees together in a coordinat-



Aside from economics, 'the cultural fit issue is the second and often the knockout blow in making an acquisition.'

Ted Devine,
Aon Risk Services

Aon's underwriting operations, Combined Insurance Cos. of America, to ACE Ltd. as well as Sterling Life Insurance Cos. to Munich Reinsurance Co. Aon first announced plans to spin off its underwriting operations in 2001, but tabled those efforts in 2002 due to unfavorable market conditions and has been selling its underwriting operations in piecemeal fashion since.

After-tax proceeds from the transactions were approximately \$2.7 billion, according to Aon. While the sales proceeds are significant, like the Aon Risk Services move, divesting the underwriting units was part of a strategic effort to focus Aon on risk and human capital, which includes benefits and human resources consulting, Mr. Devine said.

"We think we've gotten a lot more operationally disciplined," Mr. Devine said.

Attracting top talent is an essential element of the company's strategy going forward.

Mr. Devine cited the company's

success at attracting individuals such as Christa Davies, a former Microsoft Corp. executive who joined Aon as executive vp and chief financial officer in 2007, and Geoffrey Bromley, who joined Aon earlier this year from Guy Carpenter & Co. L.L.C., as vice chairman of Aon Re Global to head Aon Re's U.K., European, Middle Eastern, African and Asia-Pacific operations.

In attracting and developing top talent, Mr. Devine said the most important step has been implementing the Aon Leadership Model, under which most Aon employees anywhere in the world are evaluated on five common criteria: client value, teamwork, innovation, business results and living the firm's values.

"They're attracting talent," Mark Lane, principal and equity research analyst at William Blair & Co. in Chicago, said of Aon. "Because they've been hitting their financial targets and the expectation is for that (to continue), perhaps they can be a little more aggressive in hiring than they were two or three years ago."

Going forward, Mr. Devine said he expects Aon to continue recruiting brokerage staff and investing in the company's ability to help clients reduce their cost or risk, such as information technology to enhance identifying and delivering information that can help clients make better capital allocation decisions.

He also expects Aon to "make several more strategic niche investments."

In approaching acquisitions, cultural fit is a key consideration, Mr. Devine said. "Besides the economics, which are always the most important issue, the cultural fit issue is the second and often the knockout blow in making an acquisition."

Mr. Devine said Aon still sees tremendous opportunities in both the large and middle markets. Regionally, the company is making significant investments in Asia, the Middle East and Latin America by opening and expanding offices, Mr. Devine said.

Continued on next page



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CONTINUED FROM PREVIOUS PAGE

Two recent restructuring programs also have reshaped Aon and cut staff numbers significantly.

The company said its 2005 restructuring, in which 3,600 people were laid off, produced \$225 million in cumulative savings in 2007 and is expected to generate \$270 million in savings this year. Meanwhile, a restructuring announced last fall that eliminated 2,700 primarily non-client facing employees is expected to produce an additional \$240 million of cumulative savings in 2010, Aon said.

Aon's worldwide employee count declined to 35,900 in 2007 from 36,400 in 2006.

Since agreeing with various state attorneys general to cease taking contingent commissions in 2005 (an amended agreement in 2006 allows the company to accept contingents when serving as a managing general agent or managing general underwriter for an insurance company), Aon has come out against contingent commissions.

"On remuneration, we have come out publicly as against contingents and we continue to maintain that stance because we believe they are misaligned with delivering value," Mr. Devine said.

Transparency is the most important issue, Mr. Devine said. "As long as the client knows, then the client can make the right trade-off."

At the same time, he said he opposes the existing system. "The thing that I think is very destructive, frankly, to the industry and I think to the client, is the two-tier regulatory environment we operate in today," Mr. Devine said. "I don't know of any regulatory system anywhere on the globe where that's good for the consumer."

"The most important element to us—and we think a fundamental change to the good over the past several years—has been transparency. The push for transparency is something we think benefits clients tremendously," he said.

Even so, Aon has still been resolving the compensation scandal that engulfed major brokerages in 2004. In May, Aon Corp. reached a \$4 million settlement with Florida officials over undisclosed compensation the insurance broker allegedly received for placing coverage on behalf of Florida policyholders, including several public entities.

William Blair's Mr. Lane said Aon's recent performance under challenging conditions—both in terms of the market cycle and the economy—has been impressive.

"I think their execution the last 12 months has been excellent. They're showing a little bit of pick-up, and certainly competitive organic growth figures, relative to their competition," Mr. Lane said.

"Their insurance brokerage margins in the first quarter were 19.5% on an adjusted basis," Mr. Lane said. "It would seem that they are well on their way to achieving their goal of a 20% operating margin next year."

A major personnel move looming in Aon's future is the retirement this August of Mr. Ryan, who is leaving the company he built after 41 years as chief executive officer and three years as executive chairman.

"Pat Ryan is truly an industry icon," Mr. Devine said. "He is one of few people in American business history who have built a firm basically from scratch to be a global Fortune 300 successful operation."

Mr. Devine said Mr. Ryan's leadership has been invaluable to Gregory C. Case, Aon Corp.'s current president and CEO, and to the company's entire management team. "Pat retiring will clearly be a loss to the firm, but he has done a tremendous job in mentoring Greg and preparing Greg to lead us into the next chapter in Aon's history."

Aon's stock closed at \$45.80 on July 11, with a 52-week high of \$51.32 and a 52-week low of \$38.35.

—By Rodd Zolkos

LEADING U.S. RETAIL BROKERS

Ranked by 2007 retail brokerage revenues from U.S. offices*

Company	2007 revenues	% change	Company	2007 revenues	% change
Marsh & McLennan Cos. Inc.	\$2,185,000,000	-10.3%	USI Holdings Corp.	\$220,763,000	6.9%
Aon Corp.	\$1,722,000,000	5.6%	Alliant Insurance Services Inc.	\$197,747,194	16.3%
Wells Fargo Insurance	\$903,547,000	27.8%	Wachovia Insurance Services Inc.	\$166,765,442	-11.5%
Willis Group Holdings Ltd.	\$675,000,000 ¹	3.5%	Leavitt Group	\$109,600,450	21.1%
Arthur J. Gallagher & Co.	\$593,589,000	5.5%	Frank Crystal & Co. Inc.	\$94,050,000	4.6%
BB&T Insurance Services Inc.	\$476,772,200	7.1%	John L. Wortham & Son L.P.	\$83,205,000	8.7%
Hilb Rogal & Hobbs Co.	\$451,771,000 ¹	4.5%	Allied North America	\$78,530,286	15.4%
Lockton Cos. L.L.C.	\$373,292,000 ²	9.9%	Regions Insurance Group Inc.	\$66,521,000	27.8%
Brown & Brown Inc.	\$369,650,439	0.8%	Hylant Group	\$65,641,097	-0.1%
Hub International Ltd.	\$289,266,000	27.7%	Rutherford Cos.	\$63,327,675	17.9%

*Excludes revenue from the placement of employee benefits. 1 Willis Group Holdings Ltd. has entered an agreement to purchase Hilb Rogal & Hobbs Co. The deal is expected to be completed in the fourth quarter of 2008. 2 Fiscal year ending April 30.
Source: BI survey



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Retail
Technology
Wholesale Distribution

TOP BROKERS 2008

RANK 3



Joe Plumeri, chairman/CEO

WILLIS GROUP HOLDINGS LTD.

2007 GROSS REVENUES	\$2,578,000,000	↑ 6.2%
2007 BROKERAGE REVENUES	\$2,463,000,000	↑ 5.8%

ance survey. The HRH acquisition would essentially double the number of offices London-based Willis has in the United States, greatly expand its employee benefits segment, boost its middle-market efforts, while bringing Willis' expertise in expense reduction and margin expansion to a company that has at time struggled with both, analysts say.

Willis and HRH senior executives embarked in June on the three-week, 17-city road trip to meet with employees all over the country to answer questions about what the transaction means for them and get to know the HRH people who will become part of Willis.

"Uncertainty is not something you want in a people-based business, so we're working very hard to take as much uncertainty off the table as possible," said Don Bailey, chief executive officer of Willis North America. The road trip "was a lot of fun, and we learned a lot about both organizations as we go forward."

Alleviating concerns employees may have is important given the potential for defections of key producers and clients due to HRH's sizable presence in the middle market,

where personal relationships play a major role, said Meyer Shields, a principal with Stifel, Nicolaus & Co. Inc. in Baltimore. "Given HRH's focus on the middle market, it's going to be critical to retain as much of the talent as it can," he said.

Joe Plumeri, Willis' chairman and CEO, though, has an "outstanding" reputation for reducing expenses and making acquisitions, so if anyone can make the HRH acquisition work, he can, said Cliff Gallant, managing director of insurance research with Keefe, Bruyette & Woods Inc. in New York.

Given the HRH acquisition that is to be finalized by year-end, Willis is unlikely to pursue other sizable deals—such as the rumored possible purchase of Marsh & McLennan Cos. Inc.

However, the acquisition of HRH would not preclude Willis from examining much smaller-scale deals if the opportunity arises, Mr. Plumeri said.

"When you spend a couple of billion bucks...you certainly have to watch your money and cash flow," Mr. Plumeri said. "But more impor-

tantly, I think it takes up a lot of time and you don't want to be distracted, certainly not in North America. One of the beauties about the transaction is that 70% of our company is unaffected because only



'Uncertainty is not something you want in a people-based business.'

Don Bailey, Willis North America

while commercial retail brokerage revenues rose 10.5% to \$1.45 billion. Adding in HRH's roughly \$780 million in 2007 brokerage revenues gives the combined company pro forma brokerage revenues of \$3.24 billion.

Although Willis has consistently achieved organic growth in the past few years, it stalled in the fourth quarter of 2007. Willis reported a 7.0% drop in its North America segment's organic growth and zero organic growth overall in the quarter.

"That shocked a lot of people because Willis has pretty consistently ground out higher sales to offset the impact of the soft market," Mr. Shields said.

In addition to shortfalls in its North American operations, reinsurance brokerage revenues were "significantly affected" by declining premium rates and higher retentions taken by insurers throughout 2007, Willis said. Willis Re reported a 4.0% decline in organic growth for the year.

"I would say it's mostly due to current market conditions as well as the increasing pace of their peers" such as Marsh and Aon Corp., said Tracy Dolin, credit analyst with Standard & Poor's Corp. in New York.

The soft market, though, cannot

30% of our business comes from North America."

With the completion of the HRH transaction, that balance will shift. The combined company will draw 45% of total revenues from North America, according to Willis executives.


During the past year, Willis also increased its share of Paris-based Gras Savoye & Cie to 42% from 38% and will own at least 50.1% by early 2010. The company does not have a time frame for when it might own all of Gras Savoye, according to a Willis spokeswoman.

Willis reported 2007 brokerage revenues of \$2.46 billion, up 5.8%,

Continued on page 38

Willis Group Holdings Ltd.'s version of a Best of Both Worlds tour aims to demonstrate the advantages of the latest blockbuster brokerage industry transaction: Willis' \$2.1 billion acquisition of Hilb Rogal & Hobbs Co.

The name chosen by executives for the Willis/HRH tour refers to the benefits of combining the third- and eighth-largest brokers, as ranked in the latest *Business Insur-*



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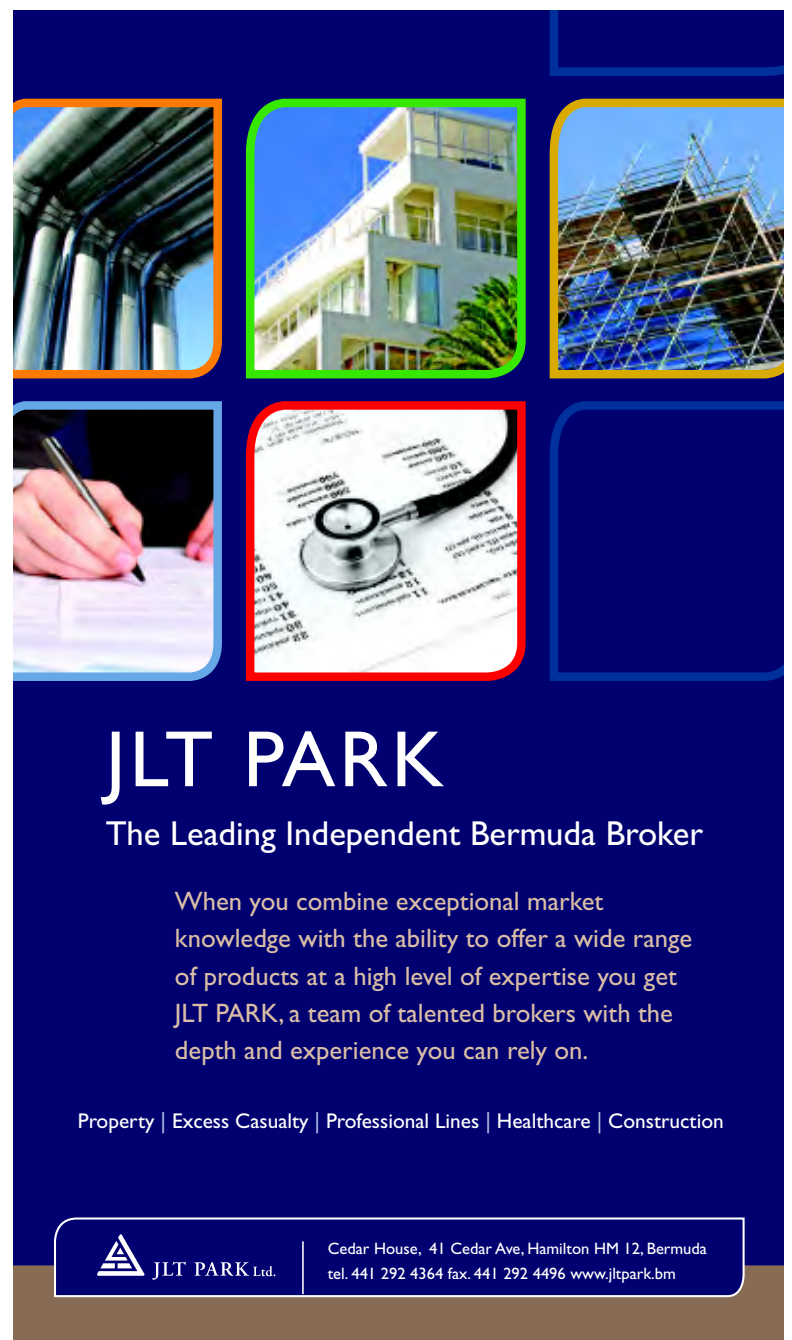
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TOP BROKERS 2008


RANK 4



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

ARTHUR J. GALLAGHER & CO.

2007 GROSS REVENUES  **10.4%**
\$1,623,300,000

2007 BROKERAGE REVENUES  **10.8%**
\$1,457,241,000

kerage business we are retail property/casualty and benefits, and we're wholesale and MGAs in the U.S. and the U.K. Every one of those businesses did well last year, with the benefits business just having a really outstanding year," Mr. Gallagher said. The brokerage has retail offices in 35 states and eight countries and does business in more than 100 countries through relationships with independent brokers.

While organic growth during the soft market has been difficult for brokers generally, Arthur J. Gallagher reported 2% organic growth in commissions and fees in 2007. Employee benefits revenues jumped 22.5% last year, to \$236.6 million. Wholesale operations grew almost 7%, to \$192.0 million, of which

'Now, facing a soft market, instead of having one trick, we literally have five strategies that will really take us someplace.'

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

wholesale brokerage generated \$125.7 million in revenue, up 5.9%.

The company also reported \$4.1 million in retail contingent commissions last year, up from \$2.5 million in 2006. Under an agreement with

state attorneys general, Arthur J. Gallagher may acquire agencies and brokerages that accept contingents but must phase them out within three years. Contingent income, however, is just a fraction of what it collected three years ago. In 2005, the brokerage had \$28.8 million in retail contingent commissions.

Mr. Gallagher noted that the company has embraced transparency in its compensation practices, a "healthy" development for Arthur J. Gallagher and its clients. As a result, fee-based brokerage revenue increased 16% last year, compared with 9% growth in commissions, though about one-fourth of Arthur J. Gallagher's brokerage revenues come from fees.

Acquisitions of people and other

firms have been highlights, Mr. Gallagher said. "I think probably the thing I'm most proud of is I truly believe our team is getting stronger all the time. It's all about the people who are part of our company and the new people who are joining our company."

"When you step back and look at 2007 and into 2008, it was the best merger and acquisition year we've ever had. We did 21 deals for \$100 million in revenue. We're not trying to do jumbo deals. This is truly as close to organic hiring as you can get and still call it a merger. These are \$5 million on average. We're getting incredible entrepreneurs that are just so turned on to be part of

Continued on next page

As a brokerage with diverse business areas and a deeply embedded sales culture, Arthur J. Gallagher & Co. has unlimited potential to grow, its top executive says.

Itasca, Ill.-based Gallagher remains the fourth-largest insurance brokerage in the world, with 2007 brokerage revenues of nearly \$1.46 billion, up 10.8% from \$1.32 billion in 2006.

"It's very obvious we're toiling in a difficult market. When you're in a soft market, my analogy is you're running up a down escalator. That's truly a head wind and it's difficult for our team," said J. Patrick Gallagher Jr., chairman, president and chief executive officer.

Despite market conditions that pressured insurance rates, the company managed to grow in 2007, both organically and through acquisitions, Mr. Gallagher said.

Arthur J. Gallagher comprises three segments: brokerage, including retail and wholesale; risk management, which includes property/casualty third-party administration services for self-insured clients and insurers; and financial services, which encompass interests in clean-energy and other investment fund entities. The brokerage segment accounted for almost 90% of the company's 2007 revenues. The company has been winding down its financial services business over the past several years and intends to sell most of the remaining business this year. Last year, the financial services division generated about 4% of the company's total business.

"A highlight for us last year with the TPA business was international growth. If you look at us, in the bro-



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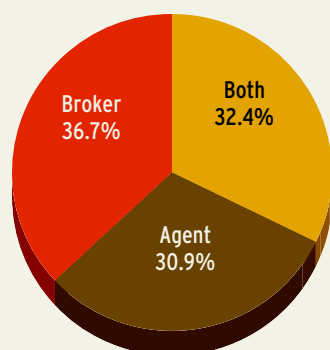
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Source: BI survey



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our team," he said.

He said Arthur J. Gallagher has attracted seasoned professionals as well as young graduates from its internship program. More than 170 "bright, intelligent, hard-working" college students participated in the brokerage's summer program, learning the insurance business, he said.

"The whole people engine is working for us well, even in the soft market. And the people we're bringing on are coming in really excited. I think that pumps up our existing people. They look at that and say, 'These people are joining us. We must be doing something right.'"

Other significant events in 2007 included raising \$400 million of debt, which Mr. Gallagher said will be used to continue its acquisition strategy as well as buy back shares. The company also divested Gallagher Re, its London-based reinsurance intermediary. Aon Re Global, a division of Chicago-based Aon Corp., purchased Gallagher Re's operations in February in a deal valued at up to \$45 million.

Gallagher Re was formed following an acquisition to handle large treaty reinsurance business after Arthur J. Gallagher saw an opportunity to compete in that area, Mr. Gallagher said. But as catastrophe bonds, sidecars and capital management became more important, Gallagher Re was forced to "bulk up our resources and get all the tools that

allow you to compete. It was very expensive on our revenue base. Then carriers in many instances were buying much less reinsurance, and that reinsurance that did get sold was selling for less than we sold it the year before," he said.

The company decided to "put our resources and our time where we know we can win, day in and day out," he said.

Since the last soft market, in the 1990s, Gallagher has added operations. "Now we've got multiple opportunities to grow the business. We've got the biggest and best TPA in the business, the highest-quality provider in the business. We've been the fastest-growing Lloyd's broker the last six years. Our property/casualty retail business has gotten stronger. Our benefits business has really caught fire. Our wholesaling/MGA business, which we weren't even in 11 years ago, is just doing great. So now, facing a soft market, instead of having one trick, we literally have five strategies that will really take us someplace," Mr. Gallagher said.

The brokerage business generally "is so fragmented. When you look at the entire business, look at the top 10 and step back and look at the premium we touch. Then look at the global premium. There's almost no market share. What that tells you is the ability to grow is virtually unlimited," he said.

Mark Dwelle, insurance equity research analyst at RBC Capital Mar-

kets in Richmond, Va., agrees that Gallagher "is very well positioned" and "has a lot of opportunity, but all brokers are feeling pressure in the crummy pricing environment." The pending acquisition of Hill Rogal & Hobbs Co. by Willis Group Holdings Ltd. may both challenge Gallagher's strong presence in the middle-market and present additional opportunities for growth, he said.

Arthur J. Gallagher's growth strategy is based on five elements, Mr. Gallagher said: increase organic growth through sales and service, get paid appropriately for the services it provides, improve productivity and operate more efficiently, hire and retain the right people and "continue to drive the company forward by picking up the best acquisitions."

"Sales and service of our clients is absolutely A-No. 1. It comes from the fact that the company is run by salespeople. That's where I started. That's where my love is. I view myself as sales and service support. I don't view myself as the CEO of a diversified financial organization. This is all about taking care of clients and getting new ones. In this market, many times you'll get a client by price, but you'll keep the client by servicing the heck out of the account."


Gallagher shares closed July 11 at \$25.27. Its 52-week high was \$31.83 and its 52-week low was \$22.40.

—By Regis Coccia

TOP BROKERS 2008

RANK

5



David J. Zuercher,
chairman/president/CEO

WELLS FARGO INSURANCE SERVICES INC.

2007 GROSS REVENUES \$1,481,870,000	24.8%
2007 BROKERAGE REVENUES \$1,282,130,000	27.1%

based on 2007 brokerage revenue.

While revenue overall rose significantly, WFIS' wholesale and reinsurance segments—American Excess & Surplus and Wells Fargo Re, respectively—posted declines in 2007.

Scott Isaacson, executive vp for WFIS, said American E&S "is facing the same challenging market as all wholesalers. Because of the soft market, much of the E&S business can now be placed in the standard market. What remains in the E&S market is priced 20% to 25% lower than a year ago."

As for Wells Fargo Re, "falling reinsurance rates, insurance company consolidations and higher retention levels have all had a major effect on revenue," Mr. Isaacson said in an e-mail response.

Among insurance-related acquisitions that WFIS and banking parent Wells Fargo & Co. made during the past year, the largest was Greater Bay Bancorp, parent of Redwood City, Calif.-based brokerage ABD Insurance & Financial Services Inc., which closed in October 2007. Adding ABD brought about \$174 million in revenue to the company, according to WFIS executives.

The ABD acquisition also boosted WFIS' position in the western United States and in several specialty areas, such as life sciences and technology, construction and real estate, and municipalities and other public entities, said David J. Zuercher, chair-

Continued on next page

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2.	Hales & Company Inc.	26	\$30
3.	Marsh, Berry & Company, Inc.	23	\$78

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HKMB International
Insurance Brokers
Toronto, ON



financial advisor to
HUB International
December 2007



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has provided equity and
debt capital to
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man, president and chief executive officer of WFIS.

In addition, ABD has a strong benefits and risk management practice, said Mr. Isaacson. WFIS' risk management practice brings in approximately \$100 million in revenue a year from about 500 customers. Approximately 200 of these customers have full-time risk managers, Mr. Isaacson said.

"It's helped us quite a bit," Mr. Zuercher said of the ABD acquisition. "We're looking forward to all the good things going forward.

While ABD currently is a separate entity, Mr. Zuercher said the name will be retired at the end of this year and operations will be integrated under WFIS on Jan. 1, 2009. Integration efforts have been fairly seamless and turnover has been modest, he said.

Fallout wasn't entirely avoided, however. ABD President and CEO Dan R. Francis resigned just a few days after Wells Fargo announced the Greater Bay acquisition. Mr. Francis later co-founded Edgewood Partners Insurance Center, a San Mateo, Calif.-based property/casualty and employee benefits brokerage, with John G. Hahn, former president of BISYS Commercial Insurance Services Inc. in San Francisco.

Other leadership changes related to the ABD acquisition included Sam Jones being named executive vp and West regional managing director at WFIS and Bruce Basso being appointed to vice chairman, president and CEO of the Wells Fargo Global Broker Network from their previous ABD posts.

In addition, WFIS has grown through cross-selling initiatives, which Mr. Zuercher said have been successful because cross-selling is part of the company's culture and valued from the top of the organization on down.

"It's an important part of our DNA," he said.

John Wicher, principal at John Wicher & Associates Inc. in San Francisco, said he sees an insurance brokerage being complementary to any bank, but integrating the two is not an easy task.

"It's a great strategy on paper,"

Mr. Wicher said. "Execution is a lot more difficult. Historically, it's been tough to get those cultures to work together."

Mr. Zuercher said cross-selling has been effective for Wells Fargo, and the company has no intention of divesting its insurance brokerage services as many other banks have done. Instead, the brokerage business is poised for growth and acquisitions will continue to be a major means of growth, he said. Geographical expansion is also critical, but he would not specify areas where the brokerage will seek to expand.

Rob Lieblein, a Harrisburg, Pa.-based managing partner of Hales & Co., an advisory and investment banking firm, said he expects Wells

Fargo to be a leading acquirer of insurance services firms this year.

"The bank itself has indicated there is a real commitment to the insurance practice," Mr. Lieblein said.

While the bank appears to be staying the course with its insurance brokerage, it has made one change recently. In mid-July, WFIS became the exclusive manager of the HLA Global Network, which was established in 2001 though a joint venture. It has been renamed the Wells Fargo Global Broker Network to deliver international insurance and risk management services and solutions and extend the Wells Fargo brand, Mr. Isaacson said.

Like many middle-market brokers, WFIS continues to accept contingent

commissions, though it discloses all of the payments to its clients. Customers can elect to eliminate their premiums from any contingent or supplemental commission calculations, and most risk management accounts are excluded from the calculations. Approximately 2.5% of the company's revenue is attributed to contingent and supplemental commissions, Mr. Isaacson said.

Mr. Zuercher would not comment on the status of lawsuits filed by attorneys general in various states in 2006 against Acordia Inc., the previous name of WFIS, and Wells Fargo for allegedly accepting nearly \$200 million in undisclosed commissions from insurers between 2000 and 2005.

Nor would he comment on the

2005 lawsuit filed by West Virginia Attorney General Darrell V. McGraw Jr. against Acordia and Acordia of West Virginia Inc. for allegedly violating state antitrust and consumer protection laws by also accepting contingent commissions from insurers for sending business their way. The West Virginia Attorney General's office could not be reached to determine the status of the case.

"We are all about transparency and enhancing that bond of transparency between our customer and us," Mr. Zuercher said.

On July 11, Wells Fargo & Co.'s stock closed at \$23.00 a share, with a 52-week high of \$37.99 and a 52-week low of \$22.30.

—By Kristin Gunderson Hunt

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TOP BROKERS 2008

RANK 6



Dominic Burke, group chief executive

JARDINE LLOYD THOMPSON GROUP P.L.C.

2007 GROSS REVENUES \$992,791,800 ▲ 12.5%

2007 BROKERAGE REVENUES \$947,346,400 ▲ 11.8%

2007 was a period of solid growth for London-based Jardine Lloyd Thompson Group P.L.C. despite continued weakness of the U.S. dollar against the British pound.

JLT, which derives a large portion of its revenue in dollars but faces a mostly pound-denominated cost base, saw gross revenues rise to \$495.9 million in 2007 from \$478.9 million the previous year, and an 8% increase in profit.

The company saw good growth "given the market conditions that we had and the head winds we faced such as the U.S. dollar, which last year impacted our profits by some £2 million," said Dominic Burke, group chief executive of JLT.

With \$473.2 million in 2007 brokerage revenue, JLT is the sixth-largest broker worldwide in *Business Insurance's* 2008 ranking.

"We had good performances from our retail businesses, which saw their top lines grow by 8%, while our London-market businesses, where the impact of the dollar is more clearly felt, had growth of 2% or 3% at constant rates of exchange," Mr. Burke said.

Against a soft market and economic uncertainty, JLT has strong capabilities in areas that are still showing solid growth and demand for insurance brokerage services, including oil and gas, marine, pharmaceutical and telecommunications, he said.

"The natural resources boom that continues around the world because of demand from the emerging economies of Brazil, Russia, India and China is such that we are still seeing significant growth opportunities in certain areas as our clients are continuing to invest in infrastructure spend, particularly in the oil and gas industry," Mr. Burke said. "Those sectors are good sectors to be in right now."

"We have also got a growing aviation business around the world. That is an area of activity that is seeing continued growth opportunities," he said.

JLT "spent a great deal of time in 2007 seeing how we could better

Continued on next page

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— Mark Fidishun
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position our businesses given the opportunities that are out there," Mr. Burke said. Among other activities, JLT expanded internationally, moved to grow its employee benefits and reinsurance businesses and entered ventures to serve small to midsize accounts.

The company, which has had an office in China since 2006, opened offices in Beijing and Shanghai at the end of 2007. "We also have been granted our license in Vietnam," he said.

"New territories will continue to be a feature. We are very keen on expanding in Brazil and we are hopefully nearing the ability to deliver on our plans in Brazil," said Mr. Burke.

Another growth area in recent months for JLT has been online development. "We have created a basket of products for the micro-small-to-medium-enterprises market. Working with Brit Insurance P.L.C., we launched in May this year *Insurantz.com* and we are ambitious for that business," Mr. Burke said. JLT continues to serve large risk management accounts, but the small-business online venture is an opportunity for growth, he said.

'We have got great footprint, a great infrastructure, a great brand.'

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

In December, JLT said it had formed underwriter Thistle Underwriters Ltd., "a vehicle for a new, systematic, ambitious approach to the operation of binding authorities and the conduct by JLT of underwriting activities generally," Mr. Burke said. JLT does not plan to "become a provider of risk capital," but believes it can manage binding authority to "better serve our clients' needs and enable us to remove duplication in process and delivery," he said.

JLT last year continued its focus on wholesale business, acquiring Bermuda-based independent brokerage Park (Bermuda) Ltd. in July. The Park acquisition underlines JLT's commitment to its "wholesale heritage," Mr. Burke said. The company believes it is "re-establishing its reputation in North America as a quality wholesaler," he said.

JLT in late 2006 disposed of its North American retail business.

"We have a clear strategy now where we only retail in the countries where we have established and strong operations. And outside of that, we will wholesale in a country where we don't have retail capabilities," he said.

Last month, JLT said it had made an acquisition intended to boost its reinsurance capabilities. It bought London-based HWS Holdings Ltd. and its Lloyd's of London-based subsidiaries, reinsurance broker Harman Wickes & Swayne Ltd. and small-to-medium enterprise insurance product wholesaler Harman Wickes & Swayne International Ltd.

"We have clearly set out our stall to build a reinsurance business, and under (JLT Reinsurance Brokers Chief Executive Officer) Alan Griffin's leadership, we have made a great deal of progress," Mr. Burke said.

"As we came out of 2007 and entered 2008, we were very much on track in terms of what we were hoping to have achieved, but we did feel that we still had weakness in the long-term leadership of our nonmarine treaty account, and also did not have the scale or the size that we aspired to have in this area. We felt that if we could identify leadership and a business with similar culture and ethos, then that is something

Continued on next page



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we should target. This really came through our strategic planning of 2007," Mr. Burke said.

"So, with that in mind, we looked at the market and then we approached HWS. It was not a case that they were on the market for sale. This is not a business that was auctioned off; this is a business we approached, spoke with their leadership and they felt that the approach made a great deal of sense to JLT and made a great deal of sense to them."

JLT also continues to see growth from its employee benefits business, which represents about 20% of the company's overall revenue, Mr. Burke said. In the pension arena, particularly in the United Kingdom,

there is a lot of activity, he noted.

The continued demise of the defined benefit pension plan in the United Kingdom as well as extensive government legislation have led to large demand for consulting services, he explained.

"Also, we have taken a very strong position in the new area of (pension) buyout," he said. "That is certainly helping us to grow our business." Increasingly, U.K. insurance companies are purchasing the pension plan assets of employers, taking over their administration and liabilities.

JLT sees opportunities to grow its benefits business in the United Kingdom as well as in Asia, Mr. Burke said. "In the emerging economies throughout Asia, including China, there is a growing enfranchisement

as more people move into employment. And therefore savings and protection policies are going to be an ever-increasingly important part of their financial planning and therefore there are obviously opportunities for JLT. We are in some 11 countries and two provinces, so we have got great footprint, a great infrastructure, a great brand," he said.

"And I think we should utilize that, and that's what we have done. We acquired a small employee benefits business last year in Singapore and Hong Kong now called JLT Private Client Services, and that is the start of what I would hope will be a series of acquisitions that will build out our employee benefits business around the group," Mr. Burke said.

—By Sarah Veysay

TOP BROKERS 2008

RANK
7

H. Wade Reece,
chairman/CEO

BB&T INSURANCE SERVICES INC.

2007 GROSS REVENUES	↑ 11.0%
2007 BROKERAGE REVENUES	↑ 4.2%
\$974,384,500	
\$877,391,500	

increase of almost 4.2% over 2006. That was off from the 11.2% growth in 2006 compared with 2005.

BB&T's 2007 brokerage revenue makes it the seventh-largest insurance brokerage worldwide and the sixth-largest broker of U.S. business in the 2008 *Business Insurance* ranking.

"We view 2007 as a very good year," said H. Wade Reece, chairman and chief executive officer of BB&T Insurance Services. "We had spectacular new business and spectacular retention, but it was significantly masked by the soft market."

BB&T posted a 5% organic growth rate in 2007 and 4% organic growth in the first quarter of this year, he said. "We've always viewed organic growth as supreme," Mr. Reece said.

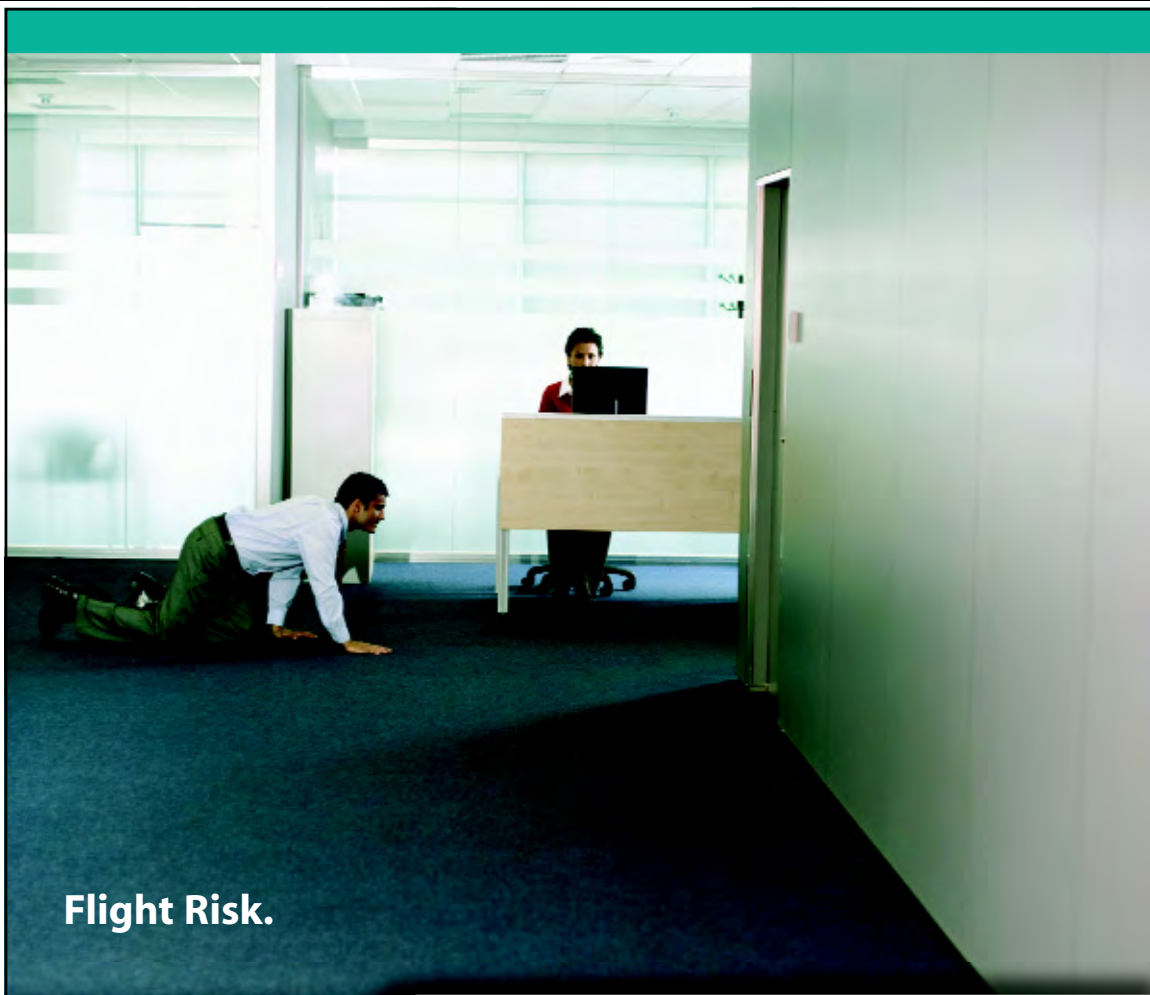
Insurance commissions, which rose 4.9% to \$853 million last year, have risen to \$212 million in the first quarter of 2008, a 7.6% increase compared with the same period in 2007, according to the company. Commissions accounted for 93% of BB&T's 2007 brokerage revenue.

"We are really maturing as an organization and have made a deeper commitment to our core values" of generating strong organic growth, improving profit margins and increasing client retention, Mr. Reece said.

"They are clearly an industry leader and have been remarkably consistent in pursuing their strategy," said Jim Campbell, a principal with Reagan Consulting Inc. in Atlanta.

BB&T's sales culture has been one major factor driving organic

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growth, an issue with ongoing importance given that the market continues to be soft, Mr. Campbell said.

BB&T's ability to leverage cross-sale opportunities from its parent company is another factor in organic growth. In Kentucky, where BB&T is the fourth-largest bank in the state, the insurance unit's two agencies in Lexington have boosted agency sales by 150% since BB&T acquired them in 2003 and 2004, Mr. Reece said.

BB&T will continue to seek acquisitions in geographic locations where its parent has strong banking operations, he said. Four of the six acquisitions completed in the first quarter of this year—Ramsay Title

tions this year already is ahead of last year, and Mr. Reece anticipates BB&T this year will make approximately one acquisition per month.

One of its other acquisitions this year was the insurance unit of rival bank Union Bank of California N.A. The April acquisition of San Diego-based UnionBank Insurance Services Inc. adds to California operations that already include wholesale arm CRC Insurance Services, which BB&T bought in 2002, and large-account commercial broker McGriff, Seibels & Williams, which BB&T bought in 2003.

"This is the purchase that surprised a lot of people," Mr. Reece said. The perception is that BB&T is only a Mid-Atlantic and Southeast regional broker, "but that's just not

true," he said.

While the purchase price was not disclosed, the acquisition of UnionBank is the third-largest in BB&T Insurance Services' more than 80-year history, according to the company. In *BI*'s 2007 ranking, UnionBank was the 31st-largest broker of U.S. business.

"We felt we needed to make a much bigger statement in California on the retail side; and being a player in the state with the largest insurance values in the country creates a lot of opportunity," Mr. Reece said.

"This is a really important transaction for them," Mr. Wicher said. "It demonstrates their willingness to be assertive and step forward when they see an opportunity to

acquire quality operations."

Concentrating on acquisitions that result in better growth, better margins or both is driving the brokers' acquisition strategy, its chief executive said.

"BB&T's acquisition growth strategy is very focused and they look for specific expertise," Reagan Consulting's Mr. Campbell said.

BB&T will face challenges, however, as the competitive acquisition market tightens further, observers say.

"The availability of high-quality acquisition pieces that fit with their strategy may be difficult to find moving forward," Mr. Campbell said.

Aside from acquisitions that would increase BB&T's presence in

major metropolitan areas, it is looking to increase its employee benefits practice as a way to diversify its business, Mr. Reece said.

Employee benefits represent the fastest-growing segment of BB&T Insurance Services, generating more than \$60 million in revenue in 2007. This year's acquisition of Ott & Co. furthers that goal, Mr. Reece said.

"Employee benefits has been a huge success story for us," Mr. Reece said. "We'll continue to look for more opportunities in this line."

At the close July 11, stock of parent BB&T Corp. closed at \$22.12 per share, setting a 52-week low of \$21.06 that same day. Its 52-week high was \$43.00.

—By Colleen McCarthy

'Employee benefits has been a huge success story for us. We'll continue to look for more opportunities in this line,' aided by the recent purchase of Ott & Co.

H. Wade Reece,
BB&T Insurance Services Inc.

Group of Alpharetta, Ga.; Premier Benefits Group of Norcross, Ga.; Ott & Co. of Alpharetta, Ga.; and Burkey Risk Services of Maitland, Fla.—were "in-market" acquisitions geared toward cross-sell opportunities, Mr. Reece said.

Improving its profit margin is an ongoing goal for BB&T Insurance Services. In the past year, BB&T has made a fundamental shift in its operations—moving toward a more centralized approach to service and a very aggressive approach to sales, Mr. Reece said.

"We focus on getting our producers to understand that new-business efforts need to dominate their daily activities," he said.

The company has also evaluated its internal operations to reduce expenses, he said.

Its employee count dropped to 3,947 in 2007 from 3,996 in 2006.

A leadership focused on the goal of retaining clients combined with intense employee training and sharing best practices were major factors in achieving a 93% client retention rate for 2007, Mr. Reece said.

"At the end of the day, we work for our clients. So if they vote for us, that's a huge compliment," Mr. Reece said.

"BB&T continues to be impressive" said John Wicher, a principal at John Wicher & Associates Inc., a San Francisco-based firm that provides merger and acquisition advice and investment banking services to the insurance industry.

After a relatively quiet acquisition period in 2006 "to focus on integration," BB&T made four acquisitions in 2007, purchasing property/casualty agencies and employee benefits operations in Georgia, Florida and South Carolina. The pace of acquisi-

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TOP BROKERS 2008

RANK 8



Martin L. Vaughan III, chairman/CEO

HILB ROGAL & HOBBS CO.

2007 GROSS REVENUES \$799,664,000 ↑ 12.5%

2007 BROKERAGE REVENUES \$779,950,000 ↑ 12.1%

Group Holdings Ltd. for \$2.1 billion in a deal that should be completed by the end of the year (BI, June 16). Ironically, the buyout came after HRH closed its most active year in terms of acquisitions in its history, making 10 acquisitions with more than \$150 million in combined annualized revenue.

HRH's 2007 brokerage revenues reached nearly \$780 million, an increase of 12.1% from 2006. Gross revenues from all sources grew 12.5% from the year earlier to \$799.7 million. Profits, however, dropped 13.2% to \$75.3 million in 2007 from those of a year earlier. Contingent commissions rose 9.6% to \$48.4 million in 2007.

That put HRH in eighth place in *Business Insurance's* 2008 ranking of the world's largest brokers, moving up one spot.

HRH's gross revenues for the first quarter of this year grew 4.4% to \$206.83 million. Profits, however, dropped more than 38% to \$15.5 million for the quarter. Contingent commissions in the first quarter dropped 27% to \$24.2 million.

Assessing last year's performance,

Martin L. Vaughan III, HRH's chairman and chief executive officer, called continued decreases in property/casualty insurance rates "the only big negative." He called the drops unprecedented, adding "there was a huge head wind as far as top-line growth is concerned."

HRH did not expect to be an acquisition itself, according to Mr. Vaughan.

"Until Willis knocked on our door, HRH was not for sale," said Mr. Vaughan.

"We've never had a for-sale sign on the business. But I've known Willis and Joe Plumeri (Willis' CEO) for a long time, and I've watched their success and as we began to talk, it became clear this was a fantastic fit for two companies that would do a lot more together than they could do going it alone," he said.

"The bottom line is that this transaction will double Willis and HRH's size in the U.S.," said Mr. Vaughan.

He said the deal gives Willis three times as many locations as it had previously, "which would probably

take 20 years of hard work to build that out." It gives HRH "an instant global network" that would have taken "decades to build."

"This is the chance to build the best broker in the world, and that's what we intend to do," said Mr. Vaughan. "When I say the chance to build the best broker in the world, I'm talking about enhancing our service to clients, advancing our employees' career opportunities, building value for our shareholders and being able to do all of that now."

HRH clients would not lose their local service, which has traditionally been one of HRH's strong suits, said Michael Crowley, president and chief operating officer of HRH. Mr. Crowley was named COO earlier this year.

Client feedback on the deal with Willis has been positive, he said.

HRH clients want local service and global resources and "with this combination, nobody can out-local Willis and HRH together," Mr. Vaughan said.

He said HRH clients would enjoy local services backed up by Willis resources that they might not have been able to access locally before.

An analyst who has tracked HRH for years said that current clients will probably want to maintain the relationship.

"For the most part, their clients will identify with their local office more so than HRH as a national platform," said Mark Dwelle, an insurance analyst with RBC Capital Markets in Richmond, Va.

"We would think in most cases, customers would want to continue working with those agents and brokers they have relationships with.

Inevitably some would view it as an opportunity to shop their programs," he said.

While HRH executives said it is too early to discuss specific plans regarding the jobs of approximately 4,000 employees, Mr. Crowley said, there is "very little overlap" between HRH and Willis offices in the United States.

"Willis is merging with HRH because of the talent at HRH and they are very focused on retaining the expertise and we think this is a tremendous opportunity for many of our associates going forward," he said.

Mr. Vaughan said that Willis is "vitaly interested" in HRH's international operations, including London-based brokerage Glencairn Group Ltd., which was acquired in January 2007.

In his introduction to the 2007 annual report, Mr. Vaughan said Glencairn was HRH's one "underperforming" acquisition. The unit, however, had a good first quarter this year and "we've made the necessary adjustments there for the company to live up to our expectations."

Mr. Crowley noted that the company added a new power and utility practice, formed a northeast region and continued to expand its capabilities in the employee benefits areas.

"We are continuing all of those efforts as we move forward both now and as we move forward as Willis HRH," he said.

On July 11, HRH's stock closed at \$43.10 a share, with a 52-week high of \$48.60 and a 52-week low of \$26.22.

—By Mark A. Hofmann

The acquirer has become the acquisition.

That pretty much sums up what has happened to Glen Allen, Va.-based Hilb Rogal & Hobbs Co. Known for its aggressive growth by acquisition, HRH announced last month that it had agreed to be acquired by London-based Willis



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Willis Group Holdings Ltd.	\$2,162,000,000 ¹
Wells Fargo Insurance Services Inc.	\$1,033,749,000
BB&T Insurance Services Inc.	\$809,479,100
Arthur J. Gallagher & Co.	\$781,166,000
Jardine Lloyd Thompson Group P.L.C.	\$711,310,600 ²
Brown & Brown Inc.	\$603,067,476
Hilb Rogal & Hobbs Co.	\$593,926,000 ¹
Lockton Cos. L.L.C.	\$585,845,000 ³

*Placement revenue includes commercial retail, wholesale (wholesale brokerage only), reinsurance and personal lines brokerage only, does not include employee benefits, consulting or other income. 1 Willis Group Holdings Ltd. has entered an agreement to purchase Hilb, Rogal & Hobbs Co. The deal is expected to be completed in the fourth quarter of 2008. 2 3 British pound=\$2.0020 (2007) fiscal year ending December 31. 3 Fiscal year ending April 30. Source: BI survey

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TOP BROKERS 2008

RANK
9



J. Hyatt Brown,
chairman/CEO

BROWN & BROWN INC.

2007 GROSS REVENUES ↑
\$959,666,197 9.3%

2007 BROKERAGE REVENUES ↑
\$757,642,624 7.1%

tion, consulting and managed health care business, reported a 9% revenue increase to \$35.5 million.

Despite soft market conditions, the brokerage increased profits 10.8% to nearly \$191 million last year—the 14th consecutive year of profit growth, Mr. Brown said.

“It was a very unusual year,” said Mr. Brown, who is in his last year as CEO. Mr. Brown, 71, plans to hand over his CEO office next July to son J. Powell Brown, the firm’s president.

The elder Mr. Brown, who will remain chairman after next year and concentrate on acquisitions, noted in his annual report to shareholders this spring, “During our combined 78 years in the insur-

ance business, we have never experienced such a precipitous decline in new and renewal P&C premiums, particularly in the middle market,” as the firm did during 2007.

Outside of Florida and coastal Southeastern states, rates fell 15% to 30%, Mr. Brown noted.

In Florida, where Brown & Brown generates about 38% of its revenues, rate pressure was even worse following the governor’s and lawmakers’ decision last summer to reduce commercial and personal property insurance rates in the state’s competitive fund by around 50%. Brown & Brown had to cancel many policies for policyholders who wanted cheaper windstorm coverage and then

rewrite the policies with the state insurer.

Mr. Shields said that, unlike Brown & Brown, some brokers had better organic growth because they competed for large-account business.

Still, the firm had several highlights in 2007, Mr. Brown said.

With \$959.7 million in gross revenues, a 9.3% increase, the firm nearly hit its short-term goal of \$1 billion.

The company did reach its operating margin goal of 40%, as measured by its earnings before income taxes, depreciation and amortization compared with total revenues, though that measure was inflated two percentage points by a one-time \$8.8 million gain

from the sale of a nonbrokerage unit.

But commercial insurance premiums continue to fall 15% to 30% this year, which prevented Brown & Brown during the first quarter from matching its 2007 results, even as the firm was on pace to exceed last year’s acquisitions.

However, excluding last year’s one-time gain from the unit sale, gross revenues during the first quarter increased 2.8%, and commissions and fees edged up nearly 3.3% to \$253.5 million. But net income fell 13.3% to less than \$51.8 million.

In addition, the brokerage’s operating margin slid to around 33.6%

Continued on next page

Unrelenting soft insurance market conditions and a particularly tough Florida market have slowed revenue growth for Brown & Brown Inc. as it heads into its final year before a major change in top management.

Acquisitions accounted for all of Brown & Brown’s brokerage revenue growth in 2007, said J. Hyatt Brown, chairman and chief executive officer.

The lack of organic growth played a critical role in dropping the Daytona Beach, Fla.-based brokerage three rungs to 9th place in the rankings of the world’s 10 largest brokerages, based on 2007 results. Another contributing factor is that *Business Insurance* no longer includes revenues generated by managing general agents or managing general underwriters in brokerage revenues.

Risk management clients, however, have not been hurt by Brown & Brown’s slowing growth, said stock analyst Meyer Shields, a principal with Stifel Nicolaus & Co. Inc. in Baltimore.

Indeed, the brokerage is expanding its capabilities in employee benefits and wholesale brokerage.

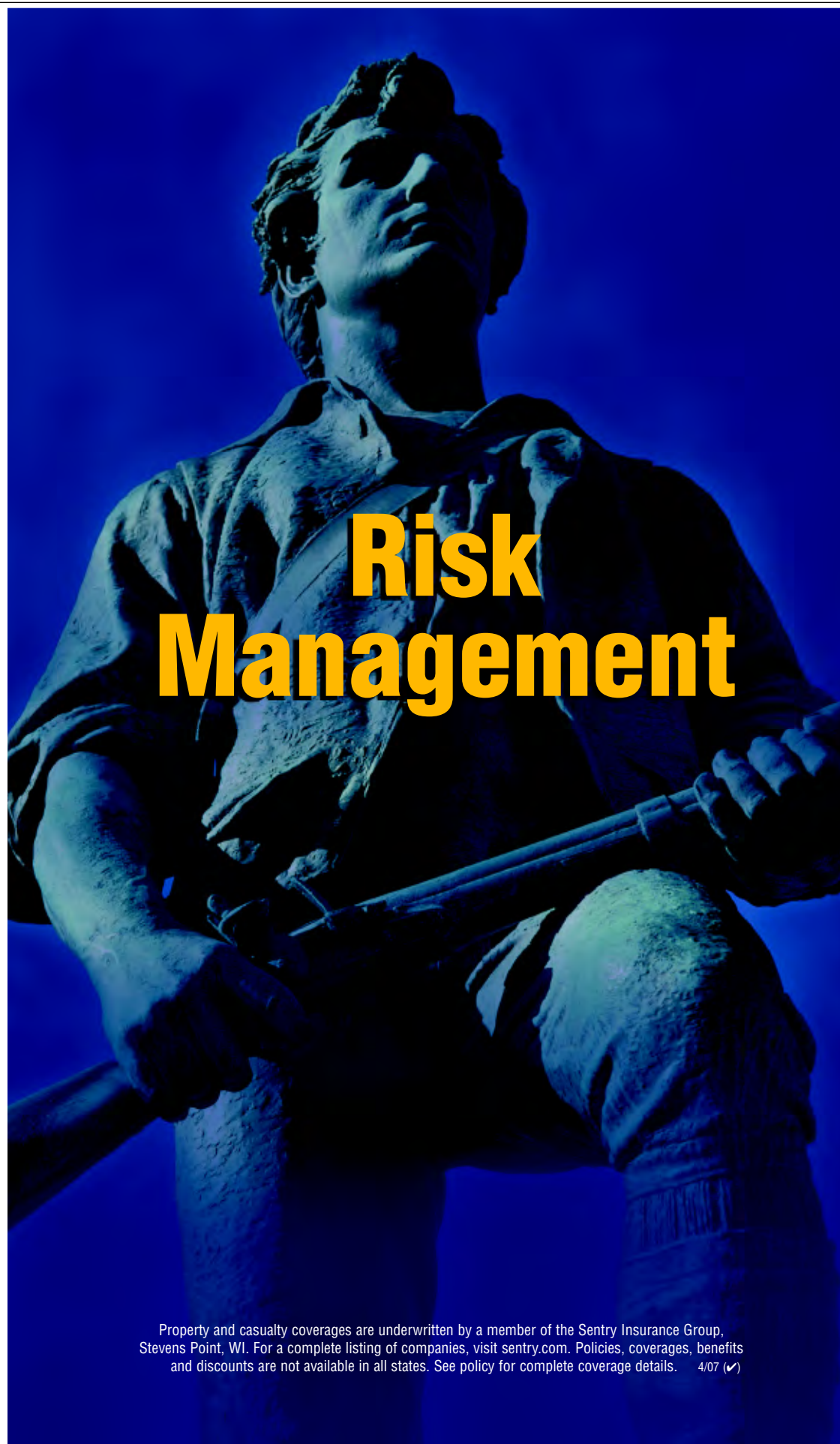
Brown & Brown’s 2007 brokerage revenues grew 7.1% to \$757.6 million. Only three of the top 10 brokers reported a smaller percentage gain.

Commercial retail brokerage revenues in 2007 inched up less than 1% to almost \$369.7 million. Overall, the brokerage’s entire retail division, which includes products and services for both commercial and personal lines customers, fared better. Revenues grew 6.1% to \$548 million, excluding investment income. Nearly three-fourths of that gain was attributable to a \$25.4 million gain in employee benefits business.

Revenues produced by the wholesale brokerage unit, which markets excess and surplus lines for retail agencies as well as reinsurance, grew a more robust 10.1% to almost \$175.3 million, excluding investment income.

Revenues from the next-largest division, national programs business, were flat at \$157 million, excluding investment income. That division sells professional liability and related coverages to various professionals, including dentists, attorneys, insurance agents and real estate agents.

The services division, which consists of third-party administra-



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CONTINUED FROM PREVIOUS PAGE

during the first half this year, Mr. Brown said.

But it remains well ahead of the brokerage industry's average range of the upper teens to mid-20s, Mr. Shields said.

Brown & Brown is looking far ahead of this year.

"We're rounding out our purview of products we're offering our customers," Mr. Brown said.

For example, the company has a goal of beefing up its employee benefits business to 25% of gross revenues. Last year's employee benefits revenue ballooned 27.1% to nearly \$119.1 million, or 12.5% of gross revenues.

Brown & Brown also looks to

continue building its wholesale business. From 2001 through 2007, its wholesale business grew from 14% of gross revenues to 33.3%, according to the firm's figures. During the same period, retail commercial business shrank from 68% of gross revenues to 38.5%.

The firm earlier this year established wholesaler Decus Insurance Brokers Ltd. in London to service its own accounts as well as other retailers'. Various Brown & Brown offices place \$300 million in premiums in the London market annually, Mr. Brown noted.

Decus is Brown & Brown's first international operation.

Still, Brown & Brown targets people rather than areas of business when making acquisitions, Mr.

Brown said. In the first half this year, the firm acquired 17 companies that generate about \$77 million in annualized revenue, he said. Last year, the brokerage acquired 29 companies, which produced \$108 million in annualized revenue, he said.

To ensure it is increasing its employee benefits capabilities, the firm is establishing a new set of schools as part of its Brown & Brown University training center for its producers who are new to the business.

Mr. Brown says the firm also is examining setting up similar wholesale brokerage schools.

Brown & Brown's share price has fallen off to about half of its value from a few years ago, but Mr. Brown attributes that volatility to an investment community that "got ahead of itself a couple years ago" by anticipating a hard insurance market after the 2004 and 2005 hurricane seasons.

Mr. Brown foresees soft market conditions through 2010 but expects rate decreases to stabilize at 8% to 15%. However, persistent tough economic conditions could continue to depress revenue growth by hurting accounts' business, he said.

Mr. Shields of Stifel Nicolaus projected a tough couple years ahead for the brokerage because of the soft market and the firm's upcoming change in management. But, the company is well structured and well run, so "they'll slug through successfully," he said.

Brown & Brown shares closed July 11 at \$18.00. Its 52-week high was \$27.75 and its 52-week low was \$16.66.

—By Dave Lenckus

**TOP BROKERS
2008**

RANK

10



David M. Lockton,
chairman

LOCKTON COS. L.L.C.

2007 GROSS REVENUES	\$742,203,000	▲ 11.3%
2007 BROKERAGE REVENUES	\$728,203,000	▲ 10.8%

ent ways than perhaps normal organic growth of premium," said Mr. Lumelleau.

For its 2007 fiscal year, which ended April 30, Lockton reported \$728.2 million in brokerage revenues, up 10.8% from the previous year. The brokerage retains its No. 10 spot on *Business Insurance's* ranking of the world's largest brokers, which Lockton first achieved last year.

Lockton has maintained 42 straight years of uninterrupted double-digit organic growth.

It's "pretty extraordinary" that Lockton's associates were able to generate the organic growth that it did "in the face of a soft market," said Mr. Lockton. "That's a result of maintaining an extremely high client retention rate, and a lot of companies making the decision to make Lockton their new broker," he said. Lockton has a 95% client retention rate.

"The Lockton value proposition is really what defines Lockton," said Mr. Lumelleau. Being private and independent "is a significant advantage. It allows us to dedicate more of our resources in pursuit of servicing our clients, and bring new initiatives to our clients, enhancing our ability to represent them in the marketplace."

Lockton is highly regarded by its clients, said John Wicher, of John Wicher & Associates Inc. in San Francisco. Lockton is viewed by many middle-market clients as a "reasonable, very satisfactory alternative to one of the big lettered brokers, no question about it, and they've really realized a lot of success."

Continued on next page

The soft market may create some problems for brokerages in terms of revenue growth, but it can also create opportunities, according to executives at Lockton Cos. L.L.C.

Chairman David M. Lockton said during the many insurance and economic cycles in his 32 years at the Kansas City, Mo.-based brokerage the best growth has been "during difficult economic times, when businesses are looking for innovative results and energetic representation."

With the current soft market environment, brokers have the opportunity to engage clients and underwriters in a dialogue, and see coverages that have been "long sought and difficult to achieve" perhaps made more achievable, said John L. Lumelleau, president and chief executive officer.

"We really do see this environment as an opportunity for clients and underwriters to grow in differ-



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As broker trends go, Lockton has not considered going public or being acquired, said Mr. Lockton. "We think we offer a special model to the insurance buying public because our owners all work in the business," he said.

"We therefore don't relegate client service to increased margins. It's especially a big payoff in a soft market, where shareholders are putting a lot of pressure on management of publicly held companies, and we don't have that pressure," Mr. Lockton said.

For fiscal 2007, Lockton's business consisted of U.S. property/casualty at 49%, international business at 30%, U.S. employee benefits at 18%, and U.S. affinity business or program business at 3%.

"The employee benefits will become an increasingly important part of our business over time," said Mr. Lumelleau. Employee benefits business grew by 24.6% in 2007, the brokerage says.

Lockton's commercial retail U.S. business increased 9.9% in 2007 to \$373.3 million. Its non-U.S. commercial retail business reported \$141.8 million, down 14.7%.

"It would appear that retail business went down overseas," said Mr. Lockton. "It actually did not. That was the result of reclassification of business in our first full year in operation," with some retail business reclassified as wholesale business.

Lockton became an international presence in 2006, when it acquired Alexander Forbes International Risk Services for \$170 million.

In addition to offices in 12 states, the brokerage has retail offices in Bermuda, Brazil, China, Hong Kong, Ireland, Malaysia, Mexico, the Philippines, Singapore, Thailand, the United Kingdom and Venezuela.

Lockton's ratio of U.S. clients to international clients remained steady at a 69:31 ratio last year. There is "no reason to believe both operations won't grow at the same rate," said Mr. Lockton.

Lockton recruited 200 new associates to its overseas operations last year, though its total employee numbers increased only to 3,864 employees from 3,825 and its European employee numbers dropped to 850 from 880 in 2006. The drop reflects international employees who "were a legacy of the previous ownership" who left, Mr. Lockton said. Lockton's international revenues grew 8.7% to \$226 million last year, said Mr. Lockton.

Lockton does not plan to make any new international acquisitions

in the near future.

"We're focusing on developing significant organic growth in our international operations as opposed to growing by acquisition," he said.

Meanwhile, acquisitions in the brokerage industry generally have also presented opportunities for recruiting new employees, Mr. Lockton said.

"The continued dislocation of the industry" will give the brokerage the ability to recruit "very talented people," said Mr. Lumelleau.

"We sort of chug along, constantly looking for talented people and adding them routinely at Lockton as we grow our associate base in a very significant fashion every year," he said. According to Lockton, the brokerage added more than 100

employees at the vp level or above in past year. The brokerage has about a 5% turnover rate for "client-



LOCKTON COS. L.L.C.

'The continued dislocation of the industry' will give Lockton the ability to recruit 'very talented people.'

John L. Lumelleau, Lockton

facing" employees.

Lockton has been able to attract some very good talent, said Mr.

Wicher. "They're generally viewed as an attractive place to be, so I give them a lot of credit," he said.

Lockton has also experienced success with the technology capabilities implemented to boost its employee benefits business. In particular, the brokerage offers a suite of tools that allows it to analyze claims trends and incorporate its clients' data and benchmark it with peer groups and broader industry trends.

"We feel we're seeing the rewards of the big investment we made a

couple of years ago in state-of-the-art technology in the employee benefits and health care business," said Mr. Lockton.

Lockton also established a strategic advisory service for risk managers, "which helps clients to articulate their company's risk needs and align those needs with our services," said Mr. Lockton. The goal is align risk management programs with overall strategic goals.

Earlier this year the company also established a financial solutions advisory team to manage the use of credit and capital for clients who are in various retained risk schemes for large casualty risks with significant collateral requirements, Mr. Lockton said.

—By Judy Greenwald



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Comings & Goings

BROKERS

Lockton Affinity, an Overland Park, Kan.-based affiliate of Lockton Cos. L.L.C., has promoted **Joseph Ziegler** to chief operating officer. Previously, he was vp-program executive. Mr. Ziegler succeeds **Marianne Sears** as COO. Ms. Sears will continue with Lockton Affinity as executive vp of operations.

Dallas-based U.S. Risk Insurance Group Inc. has named **Mark J. Sicheloff** as a senior broker of U.S. Risk Brokers. Most recently,

Mr. Sicheloff was the property practice leader with Energy Risk Associates Inc.

Chicago-based Wells Fargo Insurance Services Inc. has named **Cynthia Shafer** Midwest regional business development officer in its national cross-sell practice group. Previously, she was vp for Maximum Independent Brokerage.

Marsh Inc. has appointed **Praveen Sharma** to lead a newly established insurance regulatory and tax consulting practice within the firm's global risk management division in London. Most recently, Mr. Sharma was head of regulatory and compliance for Aon Corp.'s Europe, Middle East and Africa operations.

Willis Group Holdings Ltd. has made several senior-level appointments:

- **Donald G. Harrington** has been named senior vp of Willis of New York Inc. and leader of the employee benefits unit

of Willis' national mergers and acquisition practice. Previously, he was a senior vp of Aon Consulting's private-equity services unit.

- **Gerry McCarthy** has been named senior vp and regional director of the construction and real estate claim teams of Willis of New York Inc. Previously, he was senior vp at Allied North America.

- **Jonathan Prinn** has been named managing director, strategic carrier relationships in Willis' London office. Most recently, he was global chief operating officer at Guy Carpenter & Co. L.L.C.

Edgewood Partners Insurance Centers has appointed **Toni Erickson** as principal in the Newport Beach, Calif., office. Previously, she was senior vp at USI Holdings Corp.

Also at EPIC, **Chris McTigue** has been named managing principal in the Los Angeles office. Previously, he was executive vp at Aon Corp.

Aon Corp. has made several senior-level appointments:

- **Damien Guernonprez** has been named CEO of Aon France in Paris. Most recently, he was CEO of Banque Accord. Mr. Guernonprez replaces **Vincent Redier**, who will continue to serve as executive chairman of Aon France, member of the executive board of Aon Risk Services and chairman of Aon Re Europe-Middle East-Africa.

- **Mark Reagan** has been named managing director of Aon's construction services group in Parsippany, N.J. Previously, he was chairman of Willis' construction practice.

Mike Driscoll has joined Crump Insurance Services' wholesale brokerage division as vp-broker in the Houston property group. Previously, Mr. Driscoll was execu-

tive vp of the property and casualty division of London American Risk Specialists.

Wholesale brokerage All Risks Ltd. has named **Thomas Ciardello** director of operations in its San Francisco office. Previously, he was executive vp with Tri-City Brokerage.

Red Bank, N.J.-based Phoenix Underwriting Managers named **Carole Fleischman** as president of its managed insurance programs division. Previously, she was president of the managed insurance programs division of Arrowhead General Insurance Agency Inc.

INSURERS

Zurich Financial Services Group has named **Lindene Patton** climate product officer in the Washington office. Previously, Ms. Patton was senior vp and counsel at Zurich Commercial Markets.

Theodore A. Majewski has been named president and COO of Harleysville Life Insurance Co. in Harleysville, Pa. Most recently, Mr. Majewski was senior vp and chief underwriting officer of CNA/Encompass Insurance Co.

Bob Erb has joined Boston-based Liberty International Underwriters as executive general adjuster, energy and construction claims. Most recently, he was an independent adjuster with VeriClaim Inc.

New York-based Valiant Insurance Group Inc. said **Jeffrey H. Bossart** has joined its U.S. property and casualty insurance operations as senior vp and chief claims officer. Most recently, he was regional head of claims of the Americas at XL Insurance.

Also at Valiant, **Scott Bayer** has joined its U.S. property/casualty insurance operations as senior vp of the casualty division in New York. Previously, he served as

senior vp and U.S. product line manager-primary casualty at Liberty International Underwriters.

And, **Lori H. Marino** has joined Valiant's U.S. property and casualty insurance operations as senior vp of the management liability division in New York. Prior to joining Valiant, she served as senior vp of ACE USA's professional risk group.

New York-based American International Group Inc. said **Richard H. Booth** has been appointed to the newly created position of senior vp and chief administrative officer in New York. He retains his current responsibilities as chairman of HSB Group Inc. and senior executive of AIG's Deliver the Firm initiative.

Hamilton, Bermuda-based Ironshore Inc. said **Bob Piller** has joined as president of IronSelect, a newly created excess casualty facility. Most recently, he was senior vp at Zurich North America Insurance Co.

Indiana Insurance, a Liberty Mutual Agency Markets regional company, has appointed **Jessica M. Frankovich** to inland marine underwriting manager in the Lisle, Ill., office. Most recently, she was a territory underwriting manager for Hanover Insurance Group.

HCC Insurance Holdings Inc. has named **Thomas G. Kaiser** president of its Houston Casualty Co. and U.S. Specialty Insurance Co. subsidiaries in Houston. Previously, he was executive vp and president at Arch Insurance Group.



Ms. Frankovich

Continued on next page

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REINSURANCE

PartnerRe Ltd. announced three senior-level leadership changes in its Pembroke, Bermuda office:

- **Laura Davis** has been promoted to senior vp, head of catastrophe. Most recently, she was senior underwriter and research manager.

- **Willi Schürch** will retire at the end of November as chief underwriting officer-catastrophe.

- **Brian Secrett** succeeds Mr. Schürch as chief underwriting officer-catastrophe. Previously, he was senior vp, head of reinsurance operations.

John B. Collins and Associates Inc. has appointed **Kristine Westall** as senior vp of brokerage operations in Minneapolis. Most recently, she was senior vp of client claims and accounting services. Ms. Westall assumes her new responsibilities following the departure of **Vibhu Sharma**, chief operating officer of Collins.

New York-based **Guy Carpenter & Co. L.L.C.** has promoted **Don Mango** to chief actuary within its Instrat unit, Guy Carpenter's quantitative and risk modeling group. Previously, Mr. Mango was the head of Guy Carpenter's enterprise risk management advisory practice group.

MANAGED CARE:

Milwaukee-based **Assurant Health** has promoted **Jennifer Kopps-Wagner** to senior vp and general counsel. Most recently, Ms. Kopps-Wagner was vp, legal.

ASSOCIATIONS

ARIAS U.S. board of directors has made several appointments:

- **Daniel Fitzmaurice**, a partner at Day Pitney L.L.P. in Hartford, Conn., has been named first vp.

- **Elaine Caprio Brady**, vp and manager of ceded reinsurance operations for Liberty Mutual Insurance Co. in Boston, has been named second vp.

- **George Cavell**, vp and manager of Munich Reinsurance America Inc. environmental/mass tort claim department and its property and bond/surety departments in Princeton, N.J., has been named second vp.

The Philadelphia Chapter of the **Chartered Property Casualty Underwriting Society** announced its 2008-2009 officers:

- President **Dawn Upperman**, vp of Instrat-Guy Carpenter.

- President-Elect **Kellie Goldfien**, an underwriter for Chubb Commercial Insurance.

- Vp **Shannon Rodgers**, branch sales manager for Amica Mutual Insurance Co.

- Secretary **Cindy Wolkiewicz**, executive vp Cohen-Seltzer Inc.

- Treasurer **Larry White**, director-actuarial services with AmeriHealth Casualty Insurance Co.

OTHER PROVIDERS

Tave Risk Management has appointed **Lisa Hachmann** as director of client services in its Northbrook, Ill., office. She most recently served as leader of professional standards and U.S. compliance monitoring at Marsh Inc.

Parsippany, N.J.-based **GAB Robins Group of Cos.** has named **Paula Mayers**

Styles director of learning and organizational development for North American operations. Previously, she was senior learning consultant for Horizon Blue Cross Blue Shield of New Jersey.

Hogan & Hartson L.L.P. said **Kurt Lawson** has joined the law firm's employee benefits and executive compensation practice group as a partner in its Washington office. Previously, Mr. Lawson was a partner in Pillsbury Winthrop Shaw Pittman L.L.P.

Matthew Grant has been promoted to group executive of global client development at **Risk Management Solutions Inc.** in Newark, Calif. Previously, he was chief markets officer.

Buck Consultants L.L.C. has made several senior-level appointments:

- **Nicole Giantonio** has joined Buck as senior vp of sales in New York. Most recently, she served as senior vp of sales for Ceridian Benefit Services.

- **Michael Lawson** has joined Buck as a director in the firm's Dallas office. Previously, he was an employee benefit consultant with Ernst & Young L.L.P.

- **David Hudecek** has been named director in Buck's Washington office. Previously, he was vp and senior consultant at Wachovia Retirement Services, a unit of Wachovia Corp.

- **Andrew Mandel** joined Buck as a principal in the firm's New York office. Previously, he was an executive director with Ernst & Young.

- **Peter Hess** has joined as a principal in the firm's Pittsburgh office. Most recently, he was senior health and welfare consultant for Aon Consulting.

San Francisco-based **Covington & Burl-**

**Mr. Goodwin**

Heller Ehrman L.L.P.

New York-based **DLA Piper U.S. L.L.P.** said

Lawrence I. Brandes has joined as a partner in the firm's litigation group. Previously,

Mr. Brandes was a partner with Cadwalader, Wickersham & Taft L.L.P.

**Mr. Hobel**

ing L.L.P. said **David Goodwin** and **Lawrence Hobel** have joined the firm's policyholder insurance coverage practice as partners. Previously, both were shareholders at

TO SUBMIT ITEMS

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news of recently promoted, hired or appointed senior-level executives to **Comings & Going Editor Allison Martinat**, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; amartinat@businessinsurance.com.

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The undersigned represented the Rhode Island Insurance Commissioner in this Transaction

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 Daniel R. Judson, Esq.
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 Rachel M. Davison, Esq.

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LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE
 (IN ENGLAND AND WALES)
 CHANCERY DIVISION
 COMPANIES COURT
 No. 9163 of 2007
 IN THE MATTER OF
PACIFIC & GENERAL INSURANCE COMPANY LIMITED
 (IN LIQUIDATION)

AND IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that, by an Order dated 26 June 2008 made in the High Court of Justice of England and Wales in the matter of Pacific & General Insurance Company Limited (in Liquidation) (the "Company") and in the matter of the Companies Act 2006 the scheme of arrangement proposed to be made between the Company and its Scheme Creditors (as defined in the Scheme) pursuant to Part 26 of the Companies Act 2006 (the "Scheme") which was approved by the Scheme Creditors at the Meeting of Creditors held on 9 June 2008, was sanctioned. A copy of the Order was delivered to the Registrar of Companies in England and Wales for registration on 7 July 2008, and the Scheme became effective on that date (the "Effective Date").

Copies of the Scheme and the explanatory statement required to be provided to creditors pursuant to Section 897 of the Companies Act 2006 and of this notice can be downloaded from the Scheme website located at www.pg-andg.com. Alternatively, upon request, these documents may be obtained on CD or in hard copy from Michael Tolhurst or LCL in accordance with the contact details below.

Scheme Creditors that wish to claim in the Scheme MUST complete and return their completed Claim Forms (together with supporting information) in accordance with the instructions accompanying the Claim Forms so as to be received by the Liquidators before 11.59 pm (Greenwich Mean Time) on 9 January 2009, (the "Bar Date"). Scheme Creditors do not need to complete and return their Claim Form (unless they wish to assert Projected Claims) if they ticked the relevant box on the Vote Registration and Proxy Form indicating that they wanted the same value submitted for voting purposes to be also submitted as a Scheme Claim. Scheme Creditors wishing to assert Projected Claims must submit a Claim Form with supporting information by the Bar Date. If a Claim Form is not received by the Liquidators by the Bar Date then, (except in relation to Scheme Claims which have been agreed by the Company and fallen due for payment on or before the Effective Date, which have been included on a Claim Form prepared by the Liquidators, but not returned by the Scheme Creditors and received by the Liquidators before the Bar Date), the Scheme Creditor shall not be entitled to assert, or receive payment in respect of a claim against the Company.

Any person believing himself to be a Scheme Creditor who is unclear about or has any queries regarding the Scheme, the completion of the Claim Form, this Notice, or the action they are required to take, should contact:
 Michael Tolhurst, LCL Insurance Services Limited,
 Cornhill House, London EC3V 3SG, United Kingdom.
 Helpdesk number: 020 7398 5600
 Facsimile: 020 7623 4352
 E-mail: pacific.general@lcl-group.com
 DATED 07 July 2008

LEGAL NOTICE

BLACK SEA AND BALTIC GENERAL INSURANCE COMPANY LIMITED
 ("Black Sea")

Notice of termination of Scheme of Arrangement between Black Sea and its Scheme Creditors ("the Scheme")

NOTICE IS HEREBY GIVEN that the Scheme in relation to Black Sea terminated on 18 July 2008 in accordance with its terms.

Under the Scheme the Scheme Administrators, Dan Schwarzmann and Douglas Nigel Rackham of PricewaterhouseCoopers LLP, declared Scheme Dividends totalling 57.69% in respect of Scheme Creditors' Established Liabilities.

Dated this 18th day of July 2008.

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LEGAL NOTICE

IN THE MATTER OF THE COMPANIES ACT, 1981 AND IN THE MATTER OF
THE KODIAK COMPANY LIMITED
 IN MEMBER'S VOLUNTARY LIQUIDATION

NOTICE IS HEREBY GIVEN that the creditors of the above named Company, which is being voluntarily wound up, are required on or before 15 August 2008, to send their full names, their addresses, full particulars of their debts or claims, and the names and addresses of their attorneys (if any) to the undersigned, at PricewaterhouseCoopers Advisory Limited, P.O. Box HM 1171, Hamilton HM EX, Bermuda, being the Joint Liquidators of the said Company, and if so required by notice in writing from the said Joint Liquidators are personally, or by their attorneys, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.


PETER C B MITCHELL and NIGEL J S CHATTERJEE
 Joint Liquidators
 14 July 2008

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International NEWS

EU-OSHA launches work safety campaign

Program promotes risk assessments among smaller firms

By **RICHARD MILLER**

BILBAO, Spain—A new pan-European health and safety campaign intends to address the problem of work-related accidents and illnesses particularly in small and midsize companies where compliance with the European Union's risk assessment law has been poor compared with larger companies.

The Bilbao, Spain-based European Agency for Safety and Health at Work last month kicked off a two-year campaign titled "Healthy Workplaces. Good for you. Good for business." The campaign is designed to raise awareness of the importance of risk assessment by companies, especially those in high-risk sectors such as construction, health care and agriculture.

EU-OSHA, set up by the European Union, will spend €5 million (\$7.97 million) on the information campaign. Additional resources are coming from within individual E.U. member states, the agency said.

The campaign will focus on the needs of small and midsize enterprises, where the track record of carrying out a health and safety risk assessment has been "relatively poor," according to EU-OSHA Director Jukka Takala.

Under E.U. law, all employers in the European Union are required to carry out risk assessments in order to understand what they need to do to improve workplace health and safety.

"In most countries, big companies are much better (at carrying out risk assessments)," Mr. Takala said. "But, the smaller the company, the less work they do."

Additionally, Mr. Takala says the way certain companies think they should carry out a risk assessment is "often misunderstood." Companies

think it is a complicated process that requires an outside consultant. A final report usually gets put on a bookshelf without any further action, he said.

"This is not what we want," he explained. "Even if a small company owner does not have the capacity, it is more important that he uses his own rational thinking on the key problems in his workplace in terms of safety and health and makes his own simple assessment, rather than hiring a big consultant firm."

'In most countries, big companies are much better (at carrying out risk assessments). But, the smaller the company, the less work they do.'

Jukka Takala, European Agency for Safety and Health at Work

"Risk assessment is not a one time activity; it is continuous activity and not a huge task for experts," Mr. Takala added.

The campaign hopes to encourage businesses to carry out risk assessments properly, with EU-OSHA promoting its own simple five-step check list approach. In the end, making the workplace safer and healthier for employees helps "reduce absenteeism and insurance costs" and "increases worker motivation and productivity," Mr. Takala noted.

As part of the campaign, there will be a series of events during the European Week for Safety and Health at Work this year, Oct. 20-26, and next year Oct. 19-25, 2009.

Statistics cited by EU-OSHA in announcing its campaign illustrate

See **SAFETY** next page

Floods prompt officials to issue guidance on financing losses

U.K. local authorities urged to examine levels of insurance

By **STUART COLLINS**

BIRMINGHAM, England—Local governments in the United Kingdom are under increased pressure to revisit insurance and business continuity arrangements in the wake of last year's floods.

Following last summer's devastating floods, the Audit Commission said it intends to issue guidance to local authorities and auditors about how local governments should mitigate catastrophe exposures, including purchasing insurance.

The Audit Commission, which holds local governments accountable for public spending, has teamed with the U.K.'s public sector risk management association, the Association of Local Authority Risk Managers, and has surveyed its members.

In December 2007, the Audit Commission published "Staying Afloat," an initial report into how local authorities responded to the floods of June and July 2007. "The cost of catastrophes is high and it is our responsibility to look at the value for money of public expenditure," said Peter Wilkinson, managing director of policy, research and



REUTERS

The U.K. Audit Commission is concerned about how local governments mitigate catastrophe exposures and says it plans to issue guidance on financing losses. This was prompted by major flooding that occurred last summer.

studies at the Audit Commission. "Our concern is that the public gets value for money out of what local authorities decide to spend on insurance."

The commission was "struck by how local authorities consider insurance and business continuity planning," he said. The commission also was surprised by the wide range of mitigation choices by local authorities—there were big variations on the amount of insurance, self-insurance, excess levels, types of buildings covered, and definitions of flood and windstorm, he said.

"This raises a raft of questions on insurance cover and what constitutes suitable levels of insurance," said Mr. Wilkinson. "The insurance choices led to a great variation in financial impact."

The commission has completed its second survey of how ALARM members deal with flood risks and is compiling the results. "We are conducting a survey with ALARM members and, after making site visits, we will decide whether to publish a report in the (fall). We will

See **FLOODS** next page

Payment sought over failed insurer

By **SARAH VEYSEY**

LONDON—Ann Abraham, the U.K. parliamentary ombudsman, has called for the government to apologize to policyholders of failed insurer Equitable Life Assurance Society and to establish a compensation fund.

In a report published July 17 and given to both U.K. Houses of Parliament, Ms. Abraham said that there were 10 instances of administrative lapses by regulators of London-based Equitable Life and that there had been a "decade of regulatory failure" with regard to the collapsed insurer.

Equitable Life was forced in 2000 to close its doors to new business, following a court ruling that it had used an improper rate in calculating

annuity payouts and had to pay about £1.5 billion (\$3 billion) to certain policyholders.

In the report, Ms. Abraham said that the Department of Trade and Industry, the Government Actuary's Department and the Financial Services Authority all failed in part in their regulation of Equitable Life in the period before Dec. 1, 2001.

The Ombudsman did not give any indication of how much compensation should be paid or how many policyholders would be eligible.

In a statement, Diana Wallis, rapporteur for the European Parliament's inquiry into the collapse of Equitable Life, called on the U.K. government to respond to Ms. Abraham's report.

"Ms. Abraham's findings of serial maladministration and injustice should trigger more than an apology. This is a damning indictment of U.K. financial regulation throughout the 1990s," she said.

"Her conclusions—similar to the ones drawn in my report adopted by the European Parliament last year—make the case for a comprehensive, transparent and simple compensation scheme irresistible. I also hope that both reports combined will deliver a huge jolt to our institutions about our regulatory and lawmaking processes," she added.

Ms. Wallis invited Ms. Abraham to address the European Parliament's Pensions Committee in October.

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Green: Insurance offerings grow as environmental concerns rise

CONTINUED FROM PAGE 4

at them as also addressing the safety of those systems."

LEED certification generally is more stringent than standard inspections and looks at how systems interact rather than how they function in isolation. It is a collaborative process, said Catha Pavloff, Washington-based senior vp with Marsh Inc.

"In the construction world, many claims are the result of failures to collaborate and poor communication," Ms. Pavloff said. "Because of contracting dynamics, the interests of the architects and design team aren't necessarily aligned with those of the contractors and the construction team."

In addition, the decision to upgrade a building often reflects greater concern with issues that affect loss control, said Mike Reid, Boston-based product line manager for property at Lexington Insurance Co., a unit of American International Group Inc. that offers a green-related coverage.

"If people are taking the step to upgrade their properties, this is a business owner that maybe has a little more commitment to the property, and that's a good risk," Mr. Reid said.

While some insurers see green upgrades as addressing property risk, agreement is not unanimous.

"I don't know whether there's any reduction of risk for going green," Mr. Reid said. "I'm not sure there's any blanket statement you could make about it."

Some expensive projects to upgrade a building to LEED status can present new risks that may not be covered under many property policies, experts say.

For example, rooftop gardens, which are intended to reduce heat and replace some drainage displaced by a building, are among the most prominent green improvements, but they also can present unique risks.

"Fireman's Fund is a little bit wary of adding a vegetated roof to an existing building," Mr. Bushnell said. "We'll want to make sure it can bear the load and that there's no existing mold or leakage before we start."

Matt Patiedl, vp of environmental risk for Lockton Cos. L.L.C. based in Kansas City, Mo., advises that a unified plan is the ideal way to safely integrate green systems.

"Companies will get together a green committee and hope that the little pieces all form together and create a whole," Mr. Patiedl said. "What you're going to get is just fragmentation and chaos."

In addition, some studies have questioned the longevity of certain green building materials, many of which are relatively new to the market. The key to avoiding pitfalls, experts say, is to choose contractors with green-building experience.

"In many cases when you have a new industry—we saw this with asbestos-abatement companies—people will come in and say, 'I'm an expert,'" said Brian Ruane, vp and director of the real estate and hotel group for Willis Group Holdings Ltd. in New York.

"Some people say that there are risks, given the lack of testing of some new technology," said Ann Butterworth, Weston, Mass.-based underwriter for Liberty Mutual Property's Green Select program. "The most important thing is to choose the right project team."

Despite potential pitfalls, insurers generally see environmentally

friendly buildings as a way to reduce risk. With that in mind, insurers that offer green-related commercial property products include ACE Ltd., Fireman's Fund, Liberty Mutual Insurance Co., Travelers Cos. Inc. and AIG, through its Lexington subsidiary, according to a Marsh report (see related story).

While coverage plans vary, they often have similar components.

Green policies often cover expensive systems that are not covered under most property policies.

"The typical property policy has a limitation for trees and plants of maybe \$1,000," Mr. Bushnell said. "That's very small. (Vegetated) roofs can have a value of \$100,000, maybe more."

The same is true for some underground property, which is also exempted from many property policies, Mr. Bushnell said. Facilities with water recycling systems, for example, may have expensive underground cisterns.

So-called green-upgrade insurance covers the cost of replacing damaged or destroyed properties with more environmentally friendly systems, and usually pays to upgrade to the next level of LEED certification. Other policies cover upgrades, certified or not, that use approved green materials.

The coverage varies but can include an agreement to pay a certain percentage above normal replacement costs to cover the additional costs of upgrading to green standards or even have a separate sublimit.

Since the coverage does vary, policyholders should carefully consider their potential exposures, Mr. Ruane said.

"Take a hard look at replacement

costs, a hard look at business interruption. It might take longer to upgrade, so you have to make sure you're comfortable with those things," Mr. Ruane advised.

Green policies also generally provide for additional downtime to build green. However, LEED-quality materials and contractors may not be immediately available.

"As this megatrend is happening, more contractors and more suppliers are able to do it, to the point where there's no shortage of supply in some places," Mr. Ruane said.

LEED-certified construction often requires specially accredited engineers, beyond those involved in

most projects.

"We can cover fees to recertify and recommission the building, including fees to bring in a LEED-accredited professional," Liberty Mutual's Ms. Butterworth said.

Insurers say that, as sustainable buildings become more common, green insurance will become more popular and some of its features might become a standard part of property policies.

"I could see it happening," Mr. Ruane said. "This is being driven by tenants and consumers, and they're putting pressure on building owners, and they in turn are looking to their insurers for answers."

Floods: Insurance examined

CONTINUED FROM PREVIOUS PAGE

decide what guidance to give auditors and local authorities on the thinking about this, whether we publish a report or not," Mr. Wilkinson said.

Lynn Drennan, chief executive of ALARM, said the commission is looking into the financial effect of last year's floods and wants to find the best model for financing losses.

"The Audit Commission wants to find out if there have been changes in local authorities' approach to financing losses and are very interested in whether insurers have reacted to last year's floods by limiting coverage or increasing premiums," Ms. Drennan said. "They are also interested in whether alternative forms of risk financing, such as pools, will have a different outcome."

Ms. Drennan and Mr. Wilkinson said a lack of clarity about government funding in the event of a catastrophe needs to be addressed.

"There are key decision points at

different levels where (government) funding kicks in, and this is important when buying insurance. We would like to see greater clarity in this area—the government needs to be clear what support they provide," Mr. Wilkinson said.

Only 30% of the financial cost to local governments resulting from the 2007 floods was insured, he noted.

The commission's comments came just a week after an influential report called on local authorities to revisit their reserves and insurance arrangements in light of last summer's floods.

"Local organizations must prepare themselves better," stated the report written by Sir Michael Pitt, chairman of the South West Strategic Health Authority. "Most of the losses incurred during the summer were insurable, either through commercial insurance or through self-insurance and use of reserves. Local authorities in particular already have clear direction to build contingency into their financial arrangements."

Report analyzes environmental market

While property insurers have led the way in offering products tailored to environmentally friendly buildings, other markets have taken a wait-and-see approach to the "green" trend, according to a recent Marsh Inc. report

"The Green Built Environment in the United States" report examines how insurers have responded to the boom in green construction. It finds a range of positions, with some markets more responsive than others.

"Underwriters in the environmental market appear to be taking a proactive stance on greening, as do the property underwriters, while the casualty markets are a little more conservative," said Catha Pavloff, Washington-based senior vp with Marsh and leader of the team that produced the market update.

The report says five insurers currently offer policies tailored to green buildings and companies that wish to upgrade to environmentally friendly buildings. The policies address some unique property exposures

associated with green buildings, as well as the time and cost required to build green at the outset.

In the builders risk market, only one insurer—Fireman's Fund Insurance Co.—currently offers a product specifically for green builders, although the report predicts more coverage will appear as the green property market grows.

On the environmental side, green construction still is seen as "more of a property issue," the Marsh report says, but "the initial perception is that, for the most part, green construction ultimately may reduce environmental risks."

That reduction would result from less waste going to outside disposal sites, leading to fewer disposal claims; more attention to health and safety, leading to fewer third-party exposures to construction byproducts; and less risk of fines and penalties due to storm water runoff.

The professional liability market for design firms has introduced no new policies or pricing criteria, but several insurers do

offer risk and contract management advice for clients working on green buildings.

The casualty market also has issued no policies related to green buildings. While the insurers surveyed did not cite potential risk reduction from factors such as improved indoor air quality, they did cite potential risks from new products and technology. The market has "a significant fear of the unknown," according to the Marsh report. "Many of the casualty insurance markets we surveyed appear to be in the early stages of the learning curve," the report says.

Surety markets are scrutinizing green building contracts more closely but generally are waiting for actual experience to dictate their reaction to the green building trend, the report says.

The free report is available by contacting Catha Pavloff, Marsh senior vp, at 202-263-7723 or by e-mail to construction.practice@marsh.com. Requests via e-mail should include the individual's name, title, affiliation and phone number.

—By Nick Whitfield

Safety: Awareness urged

CONTINUED FROM PREVIOUS PAGE

the need for improved health and safety conditions in Europe. Every year, 5,720 people die in the European Union as a consequence of work-related accidents, according to figures from EUROSTAT, a statistical office of the European Commission.

In addition, the International Labour Organization estimates that an additional 159,500 workers in the European Union die every year from occupational diseases.

Taking both figures into consideration, it is estimated that every three-and-a-half minutes somebody in the European Union dies from work-related causes, according to EU-OSHA.

Reaction to the campaign has been positive from organizations representing both employers and workers.

BUSINESSEUROPE, a Brussels, Belgium-based federation of European businesses, has been "deeply involved" in the work of EU-OSHA and "supports its campaign on risk assessment," said

Rebekah Smith, the group's adviser on social affairs.

"Through the agency's campaign, BUSINESSEUROPE will highlight examples of good practice in combating risks at the workplace in individual companies," she said in an e-mail comment. "BUSINESSEUROPE will be pleased to support the campaign to assist companies...in analyzing and dealing with workplace risks in a nonburdensome way."

Denis Gregoire, an information officer in the health and safety department at the European Trade Union Institute in Brussels, said he was pleased that the campaign was focusing on both occupational illnesses and workplace accidents. The broader organization, the European Trade Union Confederation, has previously been critical of E.U. initiatives that focused largely on reducing accidents.

Occupational illnesses, such as cancer, have been most acute in the building sector where there is exposure to dust and chemicals, he said.

Massachusetts: Proposal seeks more employer funds

CONTINUED FROM PAGE 1

Fair Share Contribution rule is intended to raise \$33 million in new revenue, up from the roughly \$7 million that was generated during the first fiscal year that the tests were imposed.

If, however, revenue produced from the Fair Share tests falls short of \$38 million, the governor is proposing that the Division of Health Care Finance and Policy should have the authority to raise the \$295 assessment to a level it projects would meet the revenue target. Such a change, though, would require legislative approval.

Tightening the Fair Share rules is one of several proposals Gov. Patrick presented last week to state legislators to generate more than \$100 million in new revenues to pay for increasing costs of subsidizing health insurance coverage for the uninsured. Those costs are projected at \$869 million for fiscal 2009, up from \$647 million in fiscal 2008. Other proposals would impose new assessments on health insurers and hospitals.

'If you offer a financial incentive for people to get coverage, don't be surprised if they take you up on it.'

J.D. Piro, Hewitt Associates Inc.

Those increased contributions—which Gov. Patrick described in remarks he made at a budget signing ceremony as “modest”—from employers, insurers and providers are in the “same spirit of shared responsibility” in which premiums and copayments for enrollees in the state-subsidized health insurance program were boosted. Business groups, though, say the changes are anything but modest.

While slightly more than 1% of employers with at least 11 full-time employees paid the assessment during the first year the assessment was in effect, business lobbyists say that percentage will climb, though it isn't known by exactly how much.

“Some employers are really going to be hit,” said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

The industries most likely to be affected are retailers and restaurants, which because of high turnover often impose waiting periods well in excess of three months for new employees, said J.D. Piro, an attorney with Hewitt Associates Inc. in Norwalk, Conn.

Some business groups view the Fair Share test tightening as a betrayal, in which the rules are being changed in midstream.

“This is bait and switch,” said Bill Vernon, state director of the National Federation of Independent Business in Boston. “We're stunned that this would be proposed a couple of years down the road.”

Other business leaders say employers have done more than their fair share in helping Massachusetts achieve its goal of near-universal health insurance coverage.

For example, of the roughly 350,000 individuals who were uninsured prior to law's enactment and now have coverage, about 85,000 are in employer-sponsored plans. That increase, observers say, is largely the result of employees opting for coverage to avoid a state penalty as high as \$900. The penalty is imposed on individuals who are not enrolled in a health plan.

“Employers definitely are doing

their part,” said Richard Lord, president and CEO of the Associated Industries of Massachusetts in Boston.

While employers are upset about the proposals, they will continue to support the health care reform law, some state observers say.

“Business understands that the law is a good thing for Massachusetts,” said Phil Edmundson, chief executive officer of Boston-based William Gallagher Associates Insurance Brokers Inc.

State officials attribute revenue shortfalls to underestimating the number of lower-income uninsured. As a result, more people than

originally projected received state-subsidized coverage. For example, about 175,000 state residents currently receive coverage through Commonwealth Care, the state-subsidized program for the low-income uninsured. That compares with earlier projections of about 136,000 by Sept. 30. Gov. Patrick's proposed budget for fiscal 2009 anticipates enrollment hitting 225,000, and some state observers say the number could go even higher.

“If you offer a financial incentive for people to get coverage, don't be surprised if they take you up on it,” Hewitt's Mr. Piro said.

THE PRICE OF REFORM

How Massachusetts employers would pay more under Gov. Deval Patrick's proposal:

- To avoid a \$295 per employee assessment, employers would have to enroll at least 25% of full-time employees in their health plans and pay at least 33% of premiums for individual coverage.
- If revenue from Fair Share assessments does not generate \$38 million a year, the per employee assessment would be increased.
- Fair Share assessments would be paid quarterly.



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Compensation: Intermediaries deeply divided on contingents

CONTINUED FROM PAGE 3

brokers from accepting contingents but also when he allowed insurers to continue paying contingents to part of the market.

The imbalance is further compounded, he said, by annual compliance costs borne by Willis and the other major brokers but not by other brokers in the industry.

While Willis is a "strong proponent" of full transparency in compensation, transparency "isn't enough," Mr. Bailey said. It doesn't "honor the spirit of making clients' interests paramount."

"We think that clients across the industry would benefit from

phasing out contingent commissions over a reasonable period of time," he said. "If contingent commissions are bad for clients of large brokers because they may pose a conflict of interest, how can they be good for the clients of smaller brokers?"

In contrast, Mr. Gelia, who is past president of the Independent Insurance Agents Assn. of Western New York Inc. and was the next to testify, told the panel that contingent commissions not only are a legal form of compensation but that competition restrains insurance agents from steering business to certain underwriters.

Holding up the local Yellow

Pages, Mr. Gelia said there are hundreds of agents and brokers in the greater Buffalo area with whom customers can do business, in addition to Internet-based options and direct sales companies. "For these reasons, it is not logical to assume that incentive compensation leads to a conflict of interest for producers," he said. Rather, "competition dictates where a customer will choose to purchase their insurance and it is our agency's mission to provide outstanding customer service to sway their decision in our favor."

Mr. Gelia also said mandatory disclosure would be "less effective" than voluntarily providing com-

penetration information when requested. He noted that in his 24 years of experience, his firm has been asked for compensation information only "a handful of times."

"Very few customers are interested in this information," Mr. Gelia said.

Willis' Mr. Bailey noted in a question-and-answer period that his comments were "very much focused on brokers" and from the insurance buyers' perspective, there is no line drawn between brokers, who represent buyers, and agents, who represent insurers.

Other testimony was given by F. James Ginnane, president of Planned Futures Financial Group

L.L.C. in Williamsville, N.Y.; and Henry J. Kaye, past president of the Professional Insurance Agents of New York State Inc.

The hearing panel was: Kermit Brooks, first deputy superintendent; Robert Easton, deputy superintendent and general counsel; Steven Nachman, deputy superintendent for fraud and consumer service; Michael Berlin, deputy attorney general for economic justice; and Melvin Goldberg, assistant attorney general.

Panel members questioned the witnesses extensively but also cautioned that no inferences should be made from the questions they asked.

Medicare: Measure dims appeal of managed care, fee-for-service plans

CONTINUED FROM PAGE 3

option of supporting such plans if insurers decide it's no longer profitable to offer them because of the reduced subsidies.

Rick McGill, a consultant in the Atlanta office of Hewitt Associates, said he thinks the financing change will have less effect than the law's provisions concerning fee-for-service Medicare Advantage plans.

Currently, the plans do not require contractual agreements between insurers and doctors or hospitals to establish a provider network, unlike preferred provider or health maintenance organization plans. Enrollees can visit any eligible doctor or hospital nationwide that is willing to provide care and accepts the terms of the private fee-for-service plan. Doctors can turn

patients away on a case-by-case basis.

Starting in 2011, the new law requires plan providers to bring doctors who accept the plans into a network in geographical areas where at least two other Medicare Advantage plans already exist for consumers.

Mr. McGill said employers like the current private fee-for-service plans because enrollees have more flexibility to choose their providers nationwide, regardless of where they retire, and no network restrictions.

Additionally, Mr. McGill said, the simplicity of the current plan appeals to employers because employers avoid managing different networks and rates.

However, Paul Precht, director of public policy and communications

for the Medicare Rights Center in New York, said despite insurers' assertions that current plans offer enrollees more access, enrollees often struggle to find a provider that will accept the private fee-for-service plans. He said having a network in place will give enrollees comfort knowing they are covered by particular doctors.

If insurers are uninterested in establishing networks or struggle to get contracts in place in certain areas of the country, though, Mr. McGill said the plans could fall apart.

He said it's unclear if the changes will keep employers from signing up for the plans, especially since not all employers were interested in the plans initially and retiree benefits in many cases are falling by the way-

"I think there is a lot more activity and noise around (these provisions) than there is substance," Mr. McGill said.

Aside from the Medicare Advantage provisions, the legislation blocks a 10.6% reduction in Medicare fees to physicians. In addition, it reduces coinsurance on mental health care services to Medicare beneficiaries from 50% to 20% effective in 2014.

In addition, the legislation provides coverage for certain anti-anxiety prescription drugs and sleep aids starting in 2013, while giving the Centers for Medicare & Medicaid Services the authority to determine which preventive services can be added to the Medicare program.

In 2009 under the law, new Medicare participants will have one year within joining the program, as

opposed to the current six months, to obtain their so-called welcome-to-Medicare physical. The cost of the physical no longer will count toward the Medicare annual deductible, which typically is \$135 per year.

Retirees: GM eliminates health care coverage

CONTINUED FROM PAGE 4

that the rise in life expectancies would expand their liabilities.

Those factors have led to a sharp decline in employer-sponsored coverage. Last year, just 21% of U.S. employers with at least 500 employees offered a health care plan to Medicare-eligible retirees, down from 40% in 1993, according to a Mercer L.L.C. survey.

GM's move to eliminate coverage for Medicare-eligible salaried retirees is somewhat unusual. More often than not, such a change is imposed on future retirees rather than current retirees.

Such an approach is "less common but not uncommon," said Dave Osterdorf, chief health care actuary in the Milwaukee office of Towers Perrin.

GM's retiree health care approach also differs from competitor Ford Motor Co. While GM is boosting pension benefits by \$300 a month—to partially offset the loss

of coverage—Ford is providing an \$1,800 annual credit for health reimbursement arrangements for Medicare-eligible salaried retirees, while giving another \$1,800 credit to retirees' spouses.

GM has been burning through cash rapidly as the demand for its products has slumped. The automaker's interest in increasing pension benefits—rather than establishing HRAs, for example—has grown as it tries to conserve cash. That is because GM's pension program for salaried employees is overfunded, allowing it, for now, to increase benefits without having to raise contributions, experts say.

In addition, setting up HRAs requires more administrative work than increasing pension benefits, said Rich Stover, a principal at Buck Consultants L.L.C. in Secaucus, N.J. On the other hand, retirees are taxed on pension benefits, while HRA distributions to pay health care expenses are tax-free for retirees.

21%

OF EMPLOYERS
with at least 500
employees offer a
health care plan to
Medicare-eligible
retirees.

Arbitration: Bills set stage for battle in next Congress

CONTINUED FROM PAGE 4

Congress Watch, said in a statement. "Arbitration is fair only when both sides have a choice in the matter. When corporations can force arbitration on consumers, it becomes an abusive weapon."

Mr. Arkush urged Congress "to continue moving these bills toward enactment."

But arbitration proponents say the bills may have a better chance in the next Congress.

"It's important, because I see this year as a trial lawyer probe looking for issues that they may be able to enact into law next year," said Victor Schwartz, general counsel for the American Tort Reform Assn. in Washington. "By having what appears to be a real fight this year, they can start counting votes, get the opposition's best arguments and prepare themselves for potential success on this issue, particularly if they have a president who will not veto those bills."

"They're hopeful that they might be able to pass a more confined and plaintiff-sympathetic bill, such as the bill dealing with long-term care issues. If they can establish the con-

cept that there is overreaching in arbitration agreements in one specific area, it's easier for them in the future to get the whole enchilada, because the concept is the same—which is alleged arbitrariness of arbitration agreements," Mr. Schwartz said.

"We're watching each of those (proposed bills) with concern," said a spokesman for the U.S. Chamber of Commerce's Institute for Legal Reform in Washington. "We believe that the effort is primarily aimed at setting up for the next Congress, but we think that some of these may in fact move during the current Congress."

"I don't think anybody has a reliable crystal ball," said Richard Naimark, senior vp at the New York-based American Arbitration Assn., which firmly supports binding arbitration agreements "But the thinking is things are getting lined up. They marked up the bills, which indicates they have some life to them. What will happen after that is anybody's guess. The speculation is that these bills would likely be vetoed by President Bush, so the guessing is they'll be staged for next year."

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Incentive: Payments remold health care

CONTINUED FROM PAGE 1

founded five years ago.

"We have to fundamentally change the incentives in the system because they do not reward the right things," said Andrew Webber, president and CEO of the National Business Coalition on Health, a consortium of employer coalitions based in Washington. "The system is so focused on paying for downstream acute care illness that we don't pay for prevention, for disease management, for wellness."

Although the idea of paying health care providers based on performance has been around for decades—some say it resembles capitation payment arrangements—it

And Bridges to Excellence's success in Minnesota made it the model for the health care payment reform legislation the state enacted this year (see related story).

Pay for performance "is creating a demand for more fundamental payment reform because the amounts tied to results are still small, and providers are recognizing that they need a different way of being paid if results are going to matter most," said Mr. de Brantes.

Indeed, "the days of making payments without a link to some measure of results are gone," said Steve Raetzman, senior health care consultant at Watson Wyatt Worldwide in Arlington, Va.

Pay-for-performance programs

Among other things, she said pay for performance should take into account potential barriers to physician performance such as patient noncompliance, and that incentive payments should always be new money coming into the health care system, not just a redistribution of payments already being made.

But the proponents of pay-for-performance programs insist that the incentive payments are, in fact, on top of the fees already being paid to providers.

"This is out of our pocket," said Bill Finck, director of network initiatives at Horizon Blue Cross Blue Shield of New Jersey, which launched a pay-for-performance program involving hospitals in 2006. "This is additional dollars for the hospital. It is not related to their reimbursement. It's recognition of the quality of care they provide and the patient safety measures they adhere to."

However, the source of funding is intangible, Mr. Finck said, since it is derived from anticipated reductions in future medical costs as a result of better patient outcomes.

The program, which uses criteria established by the Leapfrog Group, so far has paid a total of \$12.2 million in incentives to more than 60 hospitals operating in New Jersey.

Another criticism often leveled against pay for performance is the fact that the initiatives are mostly regional, and therefore aren't on a large enough scale to impact the health care payment system nationally.

But all that could change with this year's launch of a nationwide pay-for-performance program by the Centers for Medicare and Medicaid Services. Authorized to create the initiative as part of the 2006 Tax Relief and Health Care Act, CMS has set aside \$1.35 billion to pay incentives to physicians that treat Medicare patients.

"When CMS does something, that generally changes the marketplace," said Dr. Michael Cryer, senior medical officer at Hewitt Associates Inc. in Woodlands, Texas.

But even without a push from the federal government, the employers

LEADING PAY-FOR-PERFORMANCE PROGRAMS

Sponsor	Participants	Date started	Incentives paid
CMS/Medicare	Physicians	2008	\$1.35 billion*
Integrated Healthcare Assn.	Physician groups	2003	\$210 million
Horizon BCBS of New Jersey	Hospitals	2006	\$12.2 million
Bridges to Excellence	Physicians	2003	\$12 million

*Budgeted but not yet paid
Source: BI

was not until recently that it gained enough momentum to be considered a change agent.

In fact, Prometheus Payment Inc., a Washington-based nonprofit corporation, developed a payment model created by a group of experts in health care economics and policy, law, health plan operations and performance measurement, that is essentially a product of the current pay-for-performance movement, according to Mr. de Brantes, who was a member of the design team. Its goal is to pay providers based on what it costs to deliver only the care that science has proved to be appropriate for specified conditions, he said. Minneapolis and Rockford, Ill., have been chosen as test sites for the program, which is scheduled to begin in January 2009.

also provide the framework necessary to promote health care consumerism, he said.

"If you're going to have transparency for consumers to make informed decisions, they need the same information that's being used to gauge pay for performance," Mr. Raetzman said. "It's the next obligation that payers and providers have to consumers."

Although pay for performance might be a panacea for what ails America's health care system, it does have its critics, foremost of which are the potential beneficiaries of its rewards: providers.

"The goal has to be quality; it can't be all about costs," said Dr. Nancy Nielson, president of the Chicago-based American Medical Assn.

Studies show incentives lower overall costs, improve quality of care

By JOANNE WOJCIK

In a study of doctors participating in the employer-led Bridges to Excellence pay for performance program in Louisville, Ky., and Cincinnati, endocrinologists that were paid incentives had significantly lower average costs—\$770 vs. \$1,140—for treating an episode of diabetes than those that were not paid incentives.

Meanwhile, in California, physician groups' clinical performance has improved by 2.6% between 2005 and 2006, the latest year their performance was assessed, the Integrated Healthcare Assn. reported in February.

BTE and IHA are considered the two leading players in the pay-for-performance movement.

BTE, which started in 2003 by a group of large employers, currently operates in 17 states, and has paid a total of \$12 million in incentives to physicians since its inception.

IHA, which was created by California's largest health maintenance organizations, has paid \$210 million to physician groups in that state since the program was launched in 2003.

Charles Montreuil, vp of human resources at Minnetonka, Minn.-based Carlson Cos., said BTE's incentive payments to physicians and clinics treating his company's

employees with diabetes have led to 50% reductions in the cost of care for those employees.

"We've seen lower overall costs in diabetes treatment," he said. "We know on average it costs \$8,000 a year for a Type 2 diabetic. That can drop to \$4,000 a year by channeling our people to the right practitioners, getting them towards the best outcomes."

An analysis of the BTE program also found that when larger incentives are offered, doctors are more willing to participate, Francois de Brantes, BTE's chief executive officer, reported at a recent meeting of the Colorado Business Group on Health in Denver. However, the

incentives have to be on par with the extra work that they are being asked to do, he noted.

For example, "typically, when the diabetes incentive was \$2,000 per physician, we could get 10% to participate, but they're usually those who are already doing well. But when you ask them to change a function," such as meeting the requirements of BTE's Physician Office Link, "the reward has to be much greater," Mr. de Brantes said.

BTE's Physician Office Link focuses on the medical practice's use of information systems to enhance quality of patient care. It's requirements range from using evidence-based standards of care to

using electronic systems to maintain patient records and enter orders of prescriptions and lab tests.

Doctors are "not stupid. If you want them to spend \$30,000 or \$40,000 to transform their practice, \$5,000 is not enough of an incentive," he said. "We need to lay out \$30,000 to \$40,000 in incentives."

A complete assessment of BTE's first five years is available in a report that can be downloaded at no cost from the organization's Web site at www.bridgestoexcellence.org.

IHA's results are regularly reported on that organization's Web site at www.ihc.org.

Minnesota follows BTE's lead

ST. PAUL, Minn.—Bridges to Excellence's pay-for-performance initiative in Minnesota served as the inspiration for health care payment reforms enacted this year by the state Legislature.



Bridges to Excellence and the Buyers Health Care Action Group placed ads in Minnesota newspapers promoting the successes of providers in treating diabetes and cardiovascular disease.

BHCAG

"The BTE presence helped bring to the forefront the need for payment reform in Minnesota," said Charles Montreuil, vp-human resources at Minnetonka, Minn.-based Carlson Cos.

Mr. Montreuil served on the governor's health reform task force that wrote the legislation. Carlson and several other members of the Buyers Health Care Action Group, a Minneapolis-based employer coalition, have been participating in BTE for

the past four years.

The initiative is "a very important component to the reforms in Minnesota. It's a real cornerstone. It's hard to divorce BTE and BHCAG from the Minnesota reforms," Mr. Montreuil said.

"We looked at it as being transitional. First, let's start paying for quality of care vs. quantity of care. That's Phase I. Ultimately, we want to create competition in the marketplace; we want providers bidding for the services of employees based on cost, quality and efficiency and creating outcomes," he said.

In May, Minnesota Gov. Tim Pawlenty signed the Omnibus Health Care Bill, which would permit employers in the state to pay providers based on episodes of care rather than on a fee-for-service basis. Under the new law, for example, employers could pay providers a package price for a year's worth of care delivered to a diabetic.

The measure also establishes a pay-for-performance program for Medicaid; a certification program for medical homes, where a single physician coordinates all the care for an individual; gives consumers online access to provider price and quality information; and requires that all prescription orders be made electronically by Jan. 1, 2011.

Different components of the legislation have different effective dates, beginning on Jan. 1, 2009 and concluding on Jan. 1, 2011.

—By Joanne Wojcik

and insurers whose initiatives encompass only a few thousand to several hundred thousand people in communities across the country are having an impact, says Leah Binder, chief executive officer of the Leapfrog Group.

"They're having more of an influence on payment reform than we anticipated. Just the idea of P4P has been such a powerful notion in the health care system that we see reso-

nance all over the place. Like at CMS," she said.

"But it isn't the dollars that's creating the impact," Ms. Binder said. "It's the common-sense truth behind the P4P movement: that we ought to pay for the best, and we should pay less when it's not the best. These are fundamental concepts of business, so it's no wonder it's the business community that's driving this."

News In Brief

CONTINUED FROM PAGE 1

seriously ill college students to continue coverage under their parents' health insurance even if they can't maintain status as full-time students. The measure, H.R. 2851 would let college students retain coverage for up to 12 months after they take a leave of absence. Coverage would continue on the same basis as prior to the student going on leave.

Group seeks repeal of Maine tax hikes

Fed Up with Taxes, a business coalition fighting recent tax hikes intended to support Maine's struggling program to provide state-subsidized health care coverage, says it has gathered nearly double the number of signatures needed to put a repeal measure on the November ballot. The new taxes replaced a controversial assessment on health insurers that hasn't come close to providing the revenue needed to fund DirigoChoice, the state program offered to small employers and individuals. The secretary of state has until mid-August to review and validate the signatures.

Hewitt sees double-digit HMO premium hikes

Health maintenance organization premium rates will increase by an average of 11.8% nationally in 2009, preliminary data from Hewitt Associates Inc. shows. The projection is down from the 13.2% increase projected for 2008 and a slight increase over the 11.7% estimate for 2007. The projection continues to outpace inflation and underlying medical cost increases, Hewitt said. However, employers likely can reduce these overall increases through aggressive negotiations with HMOs, by switching from fully insured to self-insured arrangements, and by emphasizing wellness and prevention, Hewitt said.

PBGC could face staff shortage: GAO

The Pension Benefit Guaranty Corp. could lose up to one-quarter of its staff within the next four years due to retirements. This comes as the agency is facing problems retaining

and recruiting staff due to a compensation structure lower than some other executive branches, according to a Government Accountability Office report. The PBGC is experiencing higher attrition rates for certain staff positions, such as financial analysts, than other federal executive office branch agencies, the GAO found. The PBGC has about 800 employees and uses the services of about 1,500 private-sector employers under contract.

AIG acquires Ascot at Lloyd's

American International Group Inc. said it has acquired the remaining shares of Ascot Underwriting Holdings Ltd., a Lloyd's of London managing agency. New York-based AIG previously held a 40% minority interest in Ascot. Terms were not disclosed. Ascot manages AIG's Lloyd's Syndicate 1414. This latest deal between Ascot and AIG was an acceleration of AIG's option to purchase the agency in 2012.

Liberty to open branch in Beijing

Liberty Insurance Co. Ltd. received approval from the China Insurance Regulatory Commission to establish a branch in Beijing. It will be the first branch in China for Liberty Insurance Co., a subsidiary of Boston-based Liberty Mutual Group Inc. It will offer commercial and personal lines insurance to small to midsize businesses.

Noted

Willis Group Holdings Ltd. appointed Gary Schmalzriedt as chairman of Willis Re. Mr. Schmalzriedt has 40 years of insurance management experience. Before joining London-based Willis Re, he oversaw ACE's international operations as chairman and chief executive officer of ACE Overseas General...**Broker Apex Global Partners** has named two executives to newly created positions. Scott Brock was named partner and chief operating officer of the Dallas-based insurance broker and employee benefits and human resource consultant. Also, Ian Packer has been named partner and chief financial officer. Both were partners in Dallas-based Tobat Capital L.L.C....**Fitch Ratings** downgraded **Cincinnati Financial Corp.**'s property/casualty subsidiaries' financial strength ratings to AA- from AA. Fitch said its rating action is "primarily driven by a significant decrease in shareholders' equity, in 2008 as a result of a decline" in its investment portfolio's value.

Kinloch: Agrees to settle lawsuit brought by HRH

CONTINUED FROM PAGE 1

Genatt, a principal with the firm, will now serve as its CEO.

An attorney for Kinloch said last week that the company would not comment on the settlement agreement.

The pact reached between HRH and Kinloch in Massachusetts Superior Court does not mention Mr. Lockhart. But it states that the agreement applies to the litigation HRH filed against Kinloch in New York as well as Boston. The settlement documents name as defendants units of Kinloch as well as nine individuals listed as "Boston Individual Defendants" and three people, including former HRH executive Mark Englert, labeled "New York Individual Defendants."

The lawsuit HRH filed in New York claims that Mr. Lockhart recruited Mr. Englert and Mr. Englert's client service team at HRH, among other allegations.

Mr. Englert was a former HRH president for northern New Jersey and New York operations, the record states. Days after his resignation from HRH, he solicited HRH clients through an e-mail that contained his contact information at Kinloch, HRH charged in the suit.

Concerned clients immediately contacted HRH to determine how they should proceed, the lawsuit

states.

The lawsuit also describes how another departing producer "brazenly" e-mailed an HRH client list from his work computer to his home. He also telephoned two longstanding clients that left HRH and joined Kinloch two days later, according to the suit.

HRH and Kinloch entered the settlement agreement to avoid further cost and uncertainty of litigation, court documents state.

HRH and one of its attorneys declined to comment.

In May 2005, Mr. Lockhart resigned from HRH after a review of the company's business practices found that an employee in HRH's Hartford, Conn., office in 1998 had arranged for potentially improper payments in connection with professional liability insurance placements (*BI*, May 30, 2006). Mr. Lockhart headed the Hartford office at the time.

Mr. Lockhart then sued HRH in October 2006, alleging that his former employer improperly terminated him over the alleged illegal payments and then made him a scapegoat in its separate \$30 million settlement of contingent commission charges with Connecticut officials in August 2005.

That suit was settled in March 2007, according to HRH's Securities and Exchange Commission filings.

Former official sentenced

By MEG FLETCHER

ALBUQUERQUE, N.M.—A federal judge has sentenced Joseph Ruiz, a former deputy superintendent of insurance in New Mexico, to 48 months in prison and ordered him to pay \$105,000 for coercing charitable contributions from companies he regulated while in office from 2001 to 2006.

Specifically, the judge ordered Mr. Ruiz to pay restitution of \$102,000 and a special penalty of \$3,000, which was calculated at \$100 for each of the 30 counts for which a jury convicted him in January. The federal charges included mail and wire fraud, corrupt solicitation and violations of the Hobbs Act, an anti-racketeering statute.

Mr. Ruiz was convicted for soliciting charitable contributions

between 2002 and 2005 from 11 insurers or insurance service companies primarily in exchange for reducing or eliminating regulatory fines. He sought donations for two nonprofit agencies—Con Alma Health Foundation Inc. and the Southwestern Arts Institution—in which he and his then-supervisor had "a personal interest," according to the indictment.

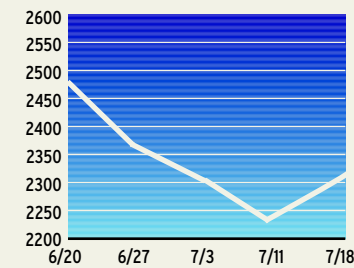
Former New Mexico Insurance Superintendent Eric Serna helped create Con Alma, which distributed money to health care providers with funds from the sale of Blue Cross & Blue Shield of New Mexico. The arts council primarily received donations for the purchase of bilingual children's books, almost all of which were written by Mr. Ruiz, court papers said. Mr. Serna has not been charged.

Stock Index

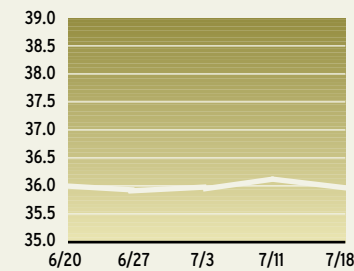
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

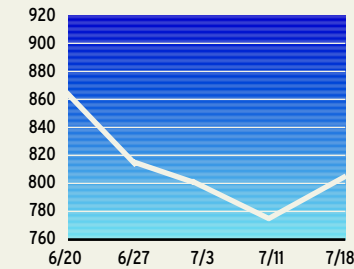
BI STOCK INDEX



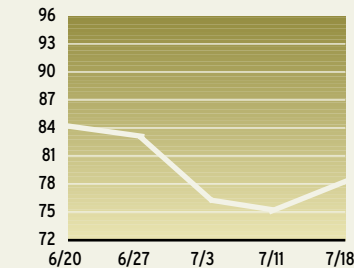
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

Indicator	Value	Change
BI STOCK INDEX	2314.74	▲ 3.10%
DOW JONES	11496.57	▲ 3.57%
S&P 500	1260.68	▲ 1.71%

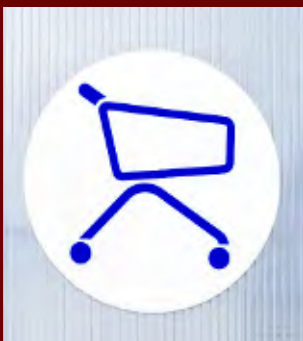
LARGEST GAINS

MBIA Inc.	38.97%
Ambac Financial Group	30.41%
XL Capital Ltd.	22.34%
Citigroup Inc.	19.52%
Old Republic International	13.42%

LARGEST LOSSES

Navigators Group Inc.	-7.94%
Tower Group Inc.	-6.10%
Fairfax Financial Holdings	-5.42%
NYMAGIC Inc.	-4.63%
Brown & Brown Inc.	-4.50%

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Contributing: Jeff Casale,
Roberto Cenicerós, Colleen McCarthy,
Joanne Wojcik

Worker says bonding exercise was torture

Many corporate motivational exercises have ranged from walking barefoot across hot coals to swallowing goldfish. "Waterboarding" employees to motivate them might be problematic, however.

In a lawsuit filed earlier this year, former Prosper Inc. employee Chad Hudgens said that his team leader at the personal motivation firm marched him and co-workers to the top of a hill outside their Provo, Utah, office and asked for volunteers for a motivational exercise.

Mr. Hudgens, who in the suit says he volunteered, alleges team members then held him with his head facing downhill while his supervisor slowly poured a gallon of water over his mouth and nostrils, urging them to work as hard as Mr. Hudgens did to breathe.

The exercise is waterboarding, "a controversial coercive interrogation technique which some people and governments consider torture," the lawsuit states.

Among other claims, the suit that seeks damages alleges battery, inflicting emotional distress and wrongful termination.

Prosper Inc. does not deny that the exercise occurred, but does take exception to the waterboarding label, a company spokesman said.

Last week, Prosper asked Judge Gary D. Stott to dismiss the case, arguing that the exclusive remedy in Utah's Workers' Compensation Act bars civil lawsuits for employee injuries. The Provo-based judge took the dismissal motion under advisement.

While the incident split Mr. Hudgens and the company, it "solidified some of the morale on the team," Prosper President Dave Ellis reportedly said.

Business Insurance END PAGE



Designer had own designs on Hartford's furniture

Schemes to defraud insurers run the gamut, but they usually don't involve stealing an insurer's furniture.

Terrance Healy, 63, was sentenced in U.S. District Court in Connecticut on July 10 to four years of probation for conspiracy to transport Hartford Financial Services Group Inc.'s stolen furniture.

Mr. Healy will spend the first 12 months in home confinement with electronic monitoring, according to a statement released by Nora Dannehy, acting U.S. Attorney for the District of Connecticut. He also must complete 300 hours of community service and pay restitution of \$71,854.

Mr. Healy admitted he was part of a scheme to defraud Hartford by conspiring to steal furniture from one of the insurer's Massachusetts offices in exchange for cash. Mr. Healy was the owner and operator of Sundrop Corp., an interior design and furniture installation company that worked primarily in Massachusetts and Connecticut.

According to the U.S. Attorney's office, Mr. Healy and Todd Olynciw, who was a project manager for the Hartford, Conn.-based insurer and was responsible for its office renovations, stole furniture that belonged to the insurer and sold it or transferred it in exchange for cash. On several occasions, Mr. Healy paid Mr. Olynciw over \$70,000 for the furniture to be transported from Massachusetts to Connecticut.

In January, Mr. Olynciw pleaded guilty to one count of mail fraud and one count of tax evasion, admitting that he was receiving kickbacks from the deal, according to the U.S. Attorney's office, and was sentenced to 28 months' imprisonment. The Hartford lost \$876,437 as a result of the scheme.



Donnie Wahlberg, a singer for New Kids on the Block, will be the front man for a media campaign to raise awareness about the need for life insurance.

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Singer set to headline life insurers' campaign

It appears that former boy-band singer, Donnie Wahlberg, has "The Right Stuff" for the life insurance industry.

When he's not touring this fall with the reunited New Kids on the Block, Mr. Wahlberg will serve as the front man for a national campaign to educate Americans about life insurance.

As the spokesperson for the Arlington, Va.-based Life and Health Insurance Foundation for Education's fifth annual Life Insurance

Awareness Month this September, Mr. Wahlberg will encourage millions of Americans to consider life insurance.

To raise consumer awareness, he will share his story about his sister who died at the age of 44 and didn't have life insurance. She left behind a 16-year-old son, according to LIFE.

Mr. Wahlberg is also scheduled to deliver a speech at the National Assn. of Insurance and Financial Advisors annual convention in San Diego this September.

Docs face steep rise in golf ball budgets

Doctors and their office staffs may soon be facing a shortage of pens, scratchpads, coffee cups and golf balls.

The Pharmaceutical Research and Manufacturers of America has determined that such items, which typically carry a company or product logo, might give doctors and patients the wrong impression about drug makers' intentions.

"The information is meant to educate physicians and patients, but not influence prescribing," said a spokesman for the Washington-based drug industry trade group.

So PhRMA's voluntary code of conduct for pharmaceutical sales reps has been amended to ensure the right message is being conveyed, the spokesman said.

The new code, which takes effect in



January 2009, replaces a 2002 version that banned activities such as those Wednesday morning golf outings drug reps once were so famous for hosting.

Fortunately, the code contains no restrictions on handing out free-samples, a longstanding sales tactic appreciated by many patients.

Separately, a PhRMA study found that only 11% of physicians say pharmaceutical company information greatly affects their prescribing decisions. But 90% of physicians say once that decision is made, they use samples to allow patients to try or start taking a medication before buying a prescription, PhRMA said in a statement.

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